NORTH AMERICAN DEVELOPMENT BANK

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (UNAUDITED)

SEPTEMBER 30, 2017

North American Development Bank (NADB)

Consolidated Financial Statements and Supplementary Information (Unaudited)
September 30, 2017

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North American Development Bank
Consolidated Balance Sheets
September 30, 2017 and December 31, 2016

	(Unaudited) September 30, 2017	(Audited) December 31, 2016
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	$ 118,047	$ 193,964
Held at other financial institutions in interest bearing accounts	43,067,147	28,833,505
Repurchase agreements	128,700,000	122,700,000
	171,885,194	151,727,469
Held-to-maturity investment securities, at amortized cost	53,838,417	53,782,155
Available-for-sale investment securities, at fair value	605,077,218	306,562,226
Loans outstanding	1,383,539,868	1,411,625,673
Allowance for loan losses	(21,200,808)	(25,075,659)
Unamortized loan fees	(10,938,351)	(10,682,210)
Foreign currency exchange rate adjustment	(41,656,853)	(55,027,169)
Hedged items, at fair value	(90,233,193)	(151,854,451)
Net loans outstanding	1,219,510,663	1,168,986,184
Interest receivable	28,919,011	26,806,845
Grant and other receivable	5,889,363	7,320,234
Furniture, equipment and leasehold improvements, net	365,072	461,759
Other assets	72,129,660	98,029,324
Total assets	$ 2,157,614,598	$ 1,813,676,196
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 11,614,758	$ 7,456,087
Accrued liabilities	532,783	441,447
Accrued interest payable	24,429,491	16,593,968
Undisbursed grant funds	1,515	6,328
Short-term debt	5,262,000	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	1,484,484,279	1,176,158,912
Hedged items, at fair value	7,110,492	2,931,548
Net long-term debt	1,491,594,771	1,179,090,460
Total liabilities	1,533,435,318	1,208,850,290
Equity:		
Paid-in capital	415,000,000	415,000,000
General Reserve:		
Allocated paid-in capital	2,338,897	2,460,790
Retained earnings:		
Designated	12,684,207	11,780,134
Reserved	116,840,251	114,553,374
Undesignated	67,027,235	45,058,709
Accumulated other comprehensive income	10,283,156	15,967,278
Non-controlling interest	5,534	5,621
Total equity	624,179,280	604,825,906
Total liabilities and equity	$ 2,157,614,598	$ 1,813,676,196

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

North American Development Bank
Consolidated Statements of Income (Unaudited)
For the Nine Months Ended September 30, 2017 and 2016

	For the Nine Months Ended September 30,	
	2017	**2016**
Interest income:		
Loans	$ 42,499,624	$ 38,447,762
Investments	7,778,829	4,894,694
Total interest income	50,278,453	43,342,456
Interest expense	22,634,394	14,433,090
Net interest income	27,644,059	28,909,366
Operating expenses:		
Personnel	5,498,136	6,007,712
General and administrative	1,086,719	1,046,506
Consultants and contractors	1,089,502	1,622,016
Provision for loan losses	(3,874,851)	2,071,664
Other	(118,594)	109,209
Depreciation	123,585	96,387
U.S. Domestic Program	157,505	199,366
Total operating expenses	3,962,002	11,152,860
Net operating income	23,682,057	17,756,506
Non-interest income and non-operating expenses:		
Gain on sales of available-for-sale securities	37,247	137,284
Income (expense) from hedging activities, net	1,920,066	6,633,622
Income (expense) from foreign exchange activities, net	314,938	(464,304)
Fees and other income	301,828	200,000
Total non-interest income and non-operating expenses	2,574,079	6,506,602
Income before program activities	26,256,136	24,263,108
Program activities:		
U.S. Environmental Protection Agency (EPA) grant income	497,774	652,304
EPA grant administration expense	(497,774)	(652,304)
Technical Assistance Program expense	(509,154)	(396,542)
Community Assistance Program expense	(549,677)	(325,249)
Water Conservation Investment Fund expense	(37,916)	(120,808)
Net program expenses	(1,096,747)	(842,599)
Income before non-controlling interest	25,159,389	23,420,509
Net loss attributable to non-controlling interest	(87)	(92)
Net income attributable to NADB	$ 25,159,476	$ 23,420,601

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

North American Development Bank
Consolidated Statements of Comprehensive Income
For the Nine Months Ended September 30, 2017 and Year Ended December 31, 2016

	(Unaudited) Nine Months Ended September 30, 2017	(Audited) Year Ended December 31, 2016
Income before non-controlling interest	$ 25,159,389	$ 19,406,044
Net loss attributable to non-controlling interest	(87)	(142)
Net income attributable to NADB	25,159,476	19,406,186
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	76,968	15,481
Reclassification adjustment for net (gains) losses included in net income	(37,247)	(137,177)
Total unrealized gain (loss) on available-for-sale investment securities	39,721	(121,696)
Foreign currency translation adjustment	(118,014)	158,889
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	13,370,316	(11,580,208)
Fair value of cross-currency interest rate swaps, net	(18,976,145)	20,324,726
Total unrealized gain (loss) on hedging activities	(5,605,829)	8,744,518
Total other comprehensive income (loss)	(5,684,122)	8,781,711
Total comprehensive income	$ 19,475,354	$ 28,187,897

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

North American Development Bank
Consolidated Statement of Changes in Equity
For the Nine Months Ended September 30, 2017 and Year Ended December 31, 2016

		General Reserve		Accumulated		
	Paid-In Capital	Allocated Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2016	$ 405,000,000	$ 3,027,256	$ 151,986,031	$ 7,185,567	$ 5,763	$ 567,204,617
Capital contribution	10,000,000	-	-	-	-	10,000,000
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(566,466)	-	-	-	(566,466)
Net income	-	-	19,406,186	-	-	19,406,186
Other comprehensive income	-	-	-	8,781,711	-	8,781,711
Non-controlling interest	-	-	-	-	(142)	(142)
Ending balance, December 31, 2016 (audited)	415,000,000	2,460,790	171,392,217	15,967,278	5,621	604,825,906
Capital contribution	-	-	-	-	-	-
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(121,893)	-	-	-	(121,893)
Net income	-	-	25,159,476	-	-	25,159,476
Other comprehensive income	-	-	-	(5,684,122)	-	(5,684,122)
Non-controlling interest	-	-	-	-	(87)	(87)
Ending balance, September 30, 2017 (unaudited)	$ 415,000,000	$ 2,338,897	$ 196,551,693	$ 10,283,156	$ 5,534	$ 624,179,280

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

North American Development Bank
Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2017 and 2016

	For the Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities		
Net income	$ 25,159,476	$ 23,420,601
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	123,585	96,387
Amortization of net premiums (discounts) on investments	(127,226)	819,219
Change in fair value of swaps, hedged items and other non-cash items	(49,848,783)	50,694,727
Non-controlling interest	(87)	(92)
Gains on sales of available-for-sale investment securities, net	(37,247)	(137,284)
Provision for loan losses	(3,874,851)	2,071,664
Change in other assets and liabilities:		
Increase in interest receivable	(2,112,166)	(2,462,888)
(Increase) decrease in receivable and other assets	1,115,933	(144,392)
Increase (decrease) in accounts payable	4,158,671	(1,555,160)
Increase in accrued liabilities	91,336	52,234
Increase in accrued interest payable	7,835,523	3,751,663
Net cash provided by (used in) operating activities	(17,515,836)	76,606,679

1. Organization and Purpose

The North American Development Bank (NADB or the Bank) was established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance 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). On March 16, 1994, the President of the United States issued an Executive Order designating the Bank an international organization under the International Organization Immunities Act.

The Bank is governed by a Board of Directors appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter, as amended on August 6, 2004. The geographic jurisdiction of the International Progrh.S.

2. Summary of Significant Accounting Policies (continued)

amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments 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.

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

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

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

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

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

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

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

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 in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired as of September 30, 2017 and December 31, 2016.

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.

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.

2. Summary of Significant Accounting Policies (continued)

Loans and Allowance for Loan Losses

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

Credit Quality

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

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

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

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

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

Program Activities

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

Program expenses include grant disbursements made by the Bank and administrative costs associated with EPA grant activities. Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are

2. Summary of Significant Accounting Policies (continued)

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

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of September 30, 2017, the Bank had entered into swap counterparty agreements with *Fondo de Apoyo a Estados y Municipios* (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, *Banco Nacional de Obras y Servicios Publicos, S.N.C.* (Banobras); directly with Banobras outside the FOAEM arrangement; and with six other financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of September 30, 2017 and December 31, 2016 was $(41,656,853) and $(55,027,169), 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.

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.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

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

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of September 30, 2017 and December 31, 2016.

		Gross Unrealized		Fair
	Amortized Cost	Gains	Losses	Value
September 30, 2017!		!	!	
. . !		!	!	
/ /! ! !	$ 3,904,396	$ 1,		

3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of September 30, 2017 and December 31, 2016.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2017						
. . !						
/ /! ! !	$ 3,251,054	$ 20,946	$ –	$ –	$ 3,251,054	$ 20,946
!						
. . !						
/ /! ! !	237,134,246	487,505	–	–	237,134,246	487,505
/ /! ! !	100,862,143	255,596	–	–	100,862,143	255,596
! ! !	75,470,867	162,037	–	–	75,470,867	162,037
! . ! !	39,114,362	43,336	–	–	39,114,362	43,336
! ! !) !!	1,047,000	3,854	–	–	1,047,000	3,854
! . . ! ! !	453,628,618	952,328	–	–	453,628,618	952,328
! ! ! !	$456,879,672	$ 973,274	$ –	$ –	$456,879,672	$ 973,274
December 31, 2016						
. . !						
/ /! ! !	% 3- -2 !	% 34- 1 !	% !	% !	% 3- -2 !	% 34- 1 !
!						
. . !						
/ /! ! !	- - 21!	3 - 14!	!	!	- - 21!	3 - 14!
/ /! ! !	2 -4 4-1 2!	343-41 !	!	!	2 -4 4-1 2!	343-41 !
! ! !	3-333-1 3!	3 1-22 !	!	!	3-333-1 3!	3 1-22 !
! . ! !	2 - 2-4 !	4 -211!	!	!	2 - 2-4 !	4 -211!
! ! !) !!	- 2 - 3 !	221- 4 !	!	!	- 2 - 3 !	221- 4 !
! . . ! ! !	2 - 42- 3 ! !	2 - !	!	!	2 - 42- 3 ! !	2 - !
! ! ! !	%2 2-3 - 1 !	% 1- 3!	% !	% !	%2 2-3 - 1 !	% 1- 3!

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary since, as of September 30, 2017, the Bank did not have the intent to sell any of these securities and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

3. Investments (continued)

Contractual maturities of investments as of September 30, 2017 and December 31, 2016 are summarized in the following tables.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
September 30, 2017	!	!	!	!
! !2 !	$ 541,925	$ 543,000	$ 326,700,728	$ 326,849,152
2 ! !	57,018,507	53,295,417	278,376,490	278,735,907
21! !	–	–	–	–
! !21! !	–	–	–	–
. ! !	–	–	–	–
!	$ 57,560,432	$ 53,838,417	$ 605,077,218	$ 605,585,059
!!	!	!	!	!
December 31, 2016	!	!	!	!
! !2 !	% 4- !	% - ! !	% 2 - 21-14 !	% 2 - - !
2 ! !	- - !	3- 1 - 1!	24 - 3-2 2	24 -2 3-141!
21! !	!	!	!	!
! !21! !	!	!	!	!
. ! !	!	!	!	!
!	% - 34- 43!	% 4- 3-2 ! !	% 41 - 3-33 !	% 41 -21 - !

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

The following table summarizes sale, call, and maturity activity of investment securities for the nine months ended September 30, 2017 and 2016.

	Nine Months Ended September 30,	
	2017	2016
. . ! ! !	!	!
! ! !	$ 973,000	% 3-34 -111!
!!		!
. . ! ! !		!
! ! ! ! !	162,730,351	34 -4 4- !
! ! !	37,534	24 -3 1!
! ! !	287	!

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the nine months ended September 30, 2017 and the year ended December 31, 2016.

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
[illegible]	$ (547,562)	[illegible]
[illegible]	76,968	[illegible]
[illegible]	(37,247)	[illegible]
[illegible]	$ (507,841)	[illegible]

4. Loans

The following schedule summarizes loans outstanding as of September 30, 2017 and December 31, 2016.

	International Program	U.S. Domestic Program	Total
September 30, 2017			
[illegible]	$ 1,383,539,868	$ –	$ 1,383,539,868
[illegible]			
[illegible]	(18,531,261)	–	(18,531,261)
[illegible]	(2,669,547)	–	(2,669,547)
[illegible]	(10,938,351)	–	(10,938,351)
[illegible]	(41,656,853)	–	(41,656,853)
[illegible]	(90,233,193)	–	(90,233,193)
[illegible]	$ 1,219,510,663	$ –	$ 1,219,510,663
December 31, 2016			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]	[illegible]		[illegible]
[illegible]	[illegible]		[illegible]
[illegible]	[illegible]		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

4. Loans (continued)

At September 30, 2017 and December 31, 2016, the International Program had outstanding loan commitments on signed loan agreements totaling $226,881,330 and $58,518,271, 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 $126,093,334 as of September 30, 2017.

The Bank under certain circumstances offered below-market-rate loans. As of September 30, 2017 and December 31, 2016, the Bank had below-market-rate loans outstanding for the International Program of $36,558,895 and $39,675,001, respectively. At those same dates, the U.S. Domestic Program did not have any below-market-rate loans.

The following table presents the loan portfolio by sector September 30, 2017 and December 31, 2016.

		September 30, 2017		December 31, 2016
! !		!		!
! !	$	**97,626,671**	%	214- 2- 22!
! ! !		**35,954,134**		4 -4 1- !
! !				!
!		**292,987,207**		3 2- 43-411!
!		**698,128,169**		1 -331- 1!
!		**4,396,903**		- 34- 3 !
! !		**27,610,178**		42- - 12!
! !		**53,030,265**		-3 1- !
! ! !		**173,806,341**		2 3-2 2- !
! !				-4 -311!
! ! !		**1,383,539,868**		2- 22-3 - !
/ /! ! !				43 - 3 !
!	$	**1,383,539,868**	%	2- 22- 3 - 4!

4. Loans (continued)

The following table presents the loan portfolio by risk category as of September 30, 2017 and December 31, 2016. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

		September 30, 2017		December 31 2016
International Program		!		!
!	$	**1,369,160,660**	%	2-4 -1 4-424!
! !		**–**		!
!		**14,379,208**		2 -343- 44!
!		**–**		!
! ! !		**1,383,539,868**		2- 22-3 - !
!				!
U.S. Domestic Program				!
!		**–**		!
! !		**–**		43 - 3 !
!		**–**		!
!		**–**		!
! / /! ! !		**–**		43 - 3 !
!	$	**1,383,539,868**	%	2- 22- 3 - 4!

There was one loan under the International Program on nonaccrual as of September 30, 2017 with an outstanding balance of $14,379,208 and no loans on nonaccrual as of December 31, 2016. As of September 30, 2017 and December 31, 2016, the Bank had collateral from foreclosed loans reported as other assets of $3,293,245 and $2,978,307, respectively.

Under the U.S. Domestic Program, there were no loans outstanding as of September 30, 2017 and one loan was on non-accrual as of December 31, 2016 with an outstanding balance of $329,827.

The average impaired loan balance for the nine months ended September 30, 2017 and the year ended December 31, 2016 total $7,414,613 and $343,043, respectively.

4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of September 30, 2017 and December 31, 2016, is shown in the following table.

	Loans 30–89 Days Past Due	Loans 90 or More Days Past Due	Total Past-due Loans
September 30, 2017	!	!	!
! !	$ –	$ 14,379,208	$ 14,379,208
/ /! ! !	–	–	–
!	$ –	$ 14,379,208	$ 14,379,208
!!	!	!	!
December 31, 2016	!	!	!
! !	% !	% !	% !
/ /! ! !	!	43 - 3 !	43 - 3 !
!	% !	% 43 - 3 !	% 43 - 3 !

There were no loans past due 90 or more days accruing interest as of September 30, 2017 and December 31, 2016.

The following table summarizes the allowance for loan losses by classification as of September 30, 2017 and December 31, 2016.

!	Allowance for Loan Losses			
!	General Allowance	Specific Allowance	Total	Total Loans Outstanding
September 30, 2017				
! !				
!				
!	$ 343,428	$ 2,669,547	$ 3,012,975	$ 24,355,924
!	16,373,078	–	16,373,078	996,232,856
!	1,328,062	–	1,328,062	265,612,460
. !	486,693	–	486,693	97,338,628
! ! !	18,531,261	2,669,547	21,200,808	1,383,539,868
/ /! ! !	–	–	–	–
!	$ 18,531,261	$ 2,669,547	$ 21,200,808	$ 1,383,539,868
December 31, 2016				
! !				
!				
!	% 21- 2 - 1 !	% !	% 21- 2 - 1 !	% 33 -32 -41 !
!	23- 2- !	!	23- 2- !	1 - 3- !
!	2- 2- 4 !	!	2- 2- 4 !	3 -41 - 3!
. !	2-24 !	!	2-24 !	1-33 - 1!
! ! !	3 -1 3- 2!	!	3 -1 3- 2!	2- 22-3 - !
/ /! ! !	34-2 !	!	34-2 !	43 - 3 !
!	% 3 -1 - !	% !	% 3 -1 - !	% 2- 22- 3 - 4!

4. Loans (continued)

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

The following schedule summarizes the allowance for loan losses for the nine months ended September 30, 2017 and the year ended December 31, 2016.

	Allowance for Loan Losses				
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
September 30, 2017					
! !					
!					
!	$ 10,417,904	$ 2,669,547	$ (10,074,476)	$ –	$ 3,012,975
!	12,741,894	–	3,631,184	–	16,373,078
!	1,441,539	–	(113,477)	–	1,328,062
. !	451,134	–	35,559	–	486,693
! ! !	25,052,471	2,669,547	(6,521,210)	–	21,200,808
/ /! ! !	23,188	–	(23,188)	–	–
!	$ 25,075,659	$ 2,669,547	$ (6,544,398)	$ –	$ 21,200,808
!	!	!	!	!	!
December 31, 2016	!	!	!	!	!
! !	!	!	!	!	!
!	!	!	!	!	!
!	% 21-411-433!	% !	% 22 - 3!	% !	% 21- 2 - 1 !
!	- 2 - 23!	!	4-234- 3!	!	23- 2- !
!	!	!	2- 2- 4 !	!	2- 2- 4 !
. !	!	!	2-24 !	!	2-24 !
! ! !	2 - 2 - 4 !	!	-244- 4 !	!	3 -1 3- 2
/ /! ! !	34-2 !	!	!	!	34-2 !
!	% 2 - 2- 33!	% !	% -244- 4 !	% !	% 3 -1 - !

5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at September 30, 2017 and December 31, 2016.

	Gross Amount	Master Netting Arrangements	Net Amount
September 30, 2017			
Other assets			
[illegible]	$ 179,597,098	$ (25,601,733)	$ 153,995,365
[illegible]	8,592,417	(6,359,700)	2,232,717
[illegible]	(86,750,000)	–	(86,750,000)
[illegible]	(641,667)	–	(641,667)
[illegible]	3,293,245	–	3,293,245
[illegible]	$ 104,091,093	$ (31,961,433)	$ 72,129,660
Other liabilities			
[illegible]	$ –	$ –	$ –
[illegible]	–	–	–
[illegible]	$ –	$ –	$ –
December 31, 2016			
Other assets			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]		[illegible]
[illegible]	[illegible]		[illegible]
[illegible]	[illegible]		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Other liabilities			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]

6. Debt

The following table summarizes the notes payable and other borrowings as of September 30, 2017 and December 31, 2016.

Issue Date	Maturity Date	Fixed Rate	Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
			September 30, 2017				
Notes Payable							
13022021!	13022031!	/4 !	$ 250,000,000	$ (154,244)	$ (382,046)	$ 8,592,417	$ 258,056,127
21 03 023!	21 03 033!	3/ 11!	250,000,000	(436,211)	(754,308)	(2,557,222)	246,252,259
2302 023!	21 03 033!	3/ 11!	180,000,000	(1,919,462)	(477,797)	(3,289,932)	174,312,809
2302 023!	2302 041!	4/411!	50,000,000	–	(227,134)	(384,210)	49,388,656
21021024!	2102102 !	3/411!	300,000,000	(356,241)	(345,080)	(128,336)	299,170,343
1 04102 !	1 04103 !	1/3 1!	128,706,754	610,062	(629,933)	1,809,613	130,496,496
1 03 02 !	21 03 03 !	1/311!	124,443,117	387,277	(624,727)	1,197,153	125,402,820
1402102 !	14021043!	3/ 1!	173,448,566	19,608	(576,642)	1,871,009	174,762,541
			1,456,598,437	(1,849,211)	(4,017,667)	7,110,492	1,457,842,051
Other Borrowings							
1 02 024!	2304102 !	2/ 11!	2,631,000	–	–	–	2,631,000
1 02 024!	1 04102 !	2/ 11!	2,631,000	–	–	–	2,631,000
1 02 024!	2304102 !	2/ 11!	600,467	–	–	–	600,467
1 02202 !	2304102 !	2/ 11!	2,030,533	–	–	–	2,030,533
1 02202 !	1 04102 !	2/ 11!	2,631,000	–	–	–	2,631,000
1 02202 !	2304102 !	2/ 11!	2,632,000	–	–	–	2,632,000
1 02202 !	1 041031!	2/ 11!	526,785	–	–	–	526,785
1 02 02 !	1 041031!	2/ 11!	2,105,215	–	–	–	2,105,215
1 02 02 !	23041031!	2/ 11!	2,632,000	–	–	–	2,632,000
1 02 02 !	1 04103 2!	2/ 11!	1,008,985	–	–	–	1,008,985
1302402 !	1 04103 2!	2/ 11!	1,623,015	–	–	–	1,623,015
1302402 !	2304103 2!	2/ 11!	1,470,635	–	–	–	1,470,635
1 03 02 !	2304103 2!	2/ 11!	1,161,365	–	–	–	1,161,365
1 03 02 !	1 041033!	2/ 11!	266,455	–	–	–	266,455
1 02 02 !	1 041033!	2/ 11!	2,216,528	–	–	–	2,216,528
1402 02 !	1 041033!	2/ 11!	149,017	–	–	–	149,017
1402 02 !	23041033!	2/ 11!	2,632,000	–	–	–	2,632,000
1402 02 !	1 041034!	2/ 11!	2,632,000	–	–	–	2,632,000
1402 02 !	23041034!	2/ 11!	2,632,000	–	–	–	2,632,000
1402 02 !	1 04103 !	2/ 11!	2,632,000	–	–	–	2,632,000
1402 02 !	2304103 !	2/ 11!	2,170,721	–	–	–	2,170,721
			39,014,721	–	–	–	39,014,721
			$ 1,495,613,158	$ (1,849,211)	$ (4,017,667)	$ 7,110,492	$ 1,496,856,772

6. Debt (continued)

Issue Date	Maturity Date	Fixed Rate	December 31, 2016 Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	Fair Value of Hedged Items	Net Debt
Notes Payable							
13022021!	13022031!	/4 !	% 3 1-111-111!	%)314-111 !	%) 13- 22 !	% 22- - 3 !	% 3 2-24 -1 2 !
210B 023!	210B 0B3!	3/ 11!	3 1-111-111!	) 11- 3 !	) - 41 !	)4- 3 -1 !	3 -31 -1 1!
2302 023!	210B 0B3!	3/ 11!	2 1-111-111!	)3-313-341 !	) -2 !	) -241 - 24 !	2 4-22 -2 3!
2302 023!	2302 041!	4/411!	1-111-111!	!	)34 - !	) -11 !	- 3-1 2 !
21021024!	2102102 !	3/411!	411-111-111!	) 11- 13 !	) - 3 !	- 1 !	3 - 3-1 2!
1 04102 !	1 0410B !	1/3 1!	23 - 1 - !	- 1!	) 3-34 !	)2-24 -32 !	23 - -2 2!
! !	!	!	2-2 - 1 - !	)3- 4 -33 !	)4- - 1 2 !	3- 42- !	2-2 - - !
Other Borrowings							
1 02 024!	1 04102 !	2/ 11!	3- 42-111!	!	!	!	3- 42-111!
1 02 024!	2304102 !	2/ 11!	3- 42-111!	!	!	!	3- 42-111!
1 02 024!	1 04102 !	2/ 11!	3- 42-111!	!	!	!	3- 42-111!
1 02 024!	2304102 !	2/ 11!	11- !	!	!	!	11- !
1 02202 !	2304102 !	2/ 11!	3-141 - 44!	!	!	!	3-141 - 44!
1 02202 !	1 04102 !	2/ 11!	3- 42-111!	!	!	!	3- 42-111!
1 02202 !	2304102 !	2/ 11!	3- 43-111!	!	!	!	3- 43-111!
1 02202 !	1 041031!	2/ 11!	3 - !	!	!	!	3 - !
1 02 02 !	1 041031!	2/ 11!	3-21 -32 !	!	!	!	3-21 -32 !
1 02 02 !	23041031!	2/ 11!	3- 43-111!	!	!	!	3- 43-111!
1 02 02 !	1 0410B2!	2/ 11!	2-11 - !	!	!	!	2-11 - !
1302402 !	1 0410B2!	2/ 11!	2- 34-1 2 !	!	!	!	2- 34-1 2 !
1302402 !	230410B2!	2/ 11!	2- 1- 4 !	!	!	!	2- 1- 4 !
1 0B 02 !	230410B2!	2/ 11!	2-2 2-4 !	!	!	!	2-2 2-4 !
1 0B 02 !	1 0410B3!	2/ 11!	3 - !	!	!	!	3 - !
1 02 02 !	1 0410B3!	2/ 11!	3-32 - 3 !	!	!	!	3-32 - 3 !
! !	!	!	3 - - 4!	!	!	!	3 - - 4!
!	!	!	% 2-2 - 1 - 4 !	%)3- 4 -33 !	%)4- - 1 2 !	% 3- 42- !	% 2-2 -4 3- 1!

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 was reported at September 30, 2017 as other assets of $2,232,717 and other liabilities of $0 and at December 31, 2016 as other assets of $4,065,766 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 September 30, 2017 as other assets of $6,835,449 and at December 31, 2016 as other assets of ($2,309,109). For additional information on the fair value of financial instruments and derivatives, see Notes 11 and 12.

6. Debt (continued)

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of September 30, 2017 and December 31, 2016, the outstanding balance was $39,014,721 and $28,797,983, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016
!!	!	!
! !2! !	$ 5,262,000	% -3 3-111!
2 3! !	305,262,000	41 -3 3-111!
3 4! !	255,264,000	-3 4-111!
4 ! !	5,264,000	3 -3 -111!
! !	5,264,000	-3 -111!
21! !	571,405,475	2-2 - 4 !
! !21! !	347,891,683	1-111-111!
!	$ 1,495,613,158	% 2-2 - 1 - 4 !

The following table summarizes short-term and long-term debt as of September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016
. ! !	!	!
! !	$ –	% !
! !	5,262,000	-3 3-111!
! . ! !	5,262,000	-3 3-111!
!		!
. ! !		!
! !	1,456,598,437	2-2 - 1 - !
! !	33,752,721	34- 4 - 4!
! . ! !	1,490,351,158	2-2 3-3 3- 4 !
! !	$ 1,495,613,158	% 2-2 - 1 - 4 !

7. Equity

Subscribed Capital

At September 30, 2017 and December 31, 2016, the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at September 30, 2017 and December 31, 2016 as follows:

	Mexico		United States		Total	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
September 30, 2017	!	!	!	!	!	!
! !	300,000	$ 3,000,000,000	300,000	$ 3,000,000,000	600,000	$ 6,000,000,000
!						
!						
! ! !	(121,833.3333)	(1,218,333,333)	(127,500)	(1,275,000,000)	(249,333.3333)	(2,493,333,333)
! !						
!	(133,166.6667)	(1,331,666,667)	(127,500)	(1,275,000,000)	(260,666.6667)	(2,606,666,667)
! . ! !	(21,500)	(215,000,000)	(22,500)	(225,000,000)	(44,000)	(440,000,000)
! ! . ! !	23,500	235,000,000	22,500	225,000,000	46,000	460,000,000
! ! ! !						
! ! !						
!	–	(22,500,000)	–	(22,500,000)	–	(45,000,000)
! . ! !	23,500	$ 212,500,000	22,500	$ 202,500,000	46,000	$ 415,000,000
	!	!	!		!	!
December 31, 2016	!	!	!		!	!
! !	411-111!	% 4-111-111-111!	411-111!	%4-111-111-111	11-111!	% -111-111-111!
!	!	!	!		!	!
!	!	!	!		!	!
! ! !	)232- 44/4444 !	)2-32 -444-444 !	)23 - 11 !	)2-3 -111-111	)3 -444/4444	)3- 4-444-444 !
! !						
!	)244-2 / !	)2-442- - !	)23 - 11 !	)2-3 -111-111	)3 1- /	)3- 1 - - !
! . ! !	)32- 11 !	)32 -111-111 !	)33- 11 !	)33 -111-111	) -111 !	) 1-111-111 !
! ! . ! !	34- 11!	34 -111-111!	33- 11!	33 -111-111	-111!	1-111-111!
! ! ! !						
! ! !						
!	!	)33- 11-111 !	!	)33- 11-111	!	) -111-111 !
! . ! !	34- 11!	% 323- 11-111!	33- 11!	% 313- 11-111	-111!	% 2 -111-111!

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

On September 1, 2016, the United States submitted its letter of subscription to conditionally subscribe to 150,000 additional shares of capital stock with a par value

7. Equity (continued)

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.

Retained Earnings

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

	September 30, 2017	December 31, 2016
Designated retained earnings		
	$ 881,004	% 2 - 31
	3,332,148	4- 3 -1
	10,261,793	- 22- 1
	14,474,945	24- -
	(1,790,738)	)2- -424
	12,684,207	22- 1-24
Reserved retained earnings		
	30,800,868	41- 11-
	15,669,072	24-4 3-411
	30,000,000	41-111-111
	40,370,311	1-4 1-422
	116,840,251	22 - 4-
	–	-
	116,840,251	22 - 4-4
Undesignated retained earnings		
	60,977,261	1- 3- 4
	6,049,974	- -22
	67,027,235	-1 - 1
	$ 196,551,693	% 2 2-4 3-32
Retained earnings by program		
	$ 198,342,431	% 2 4-1 1- 4
	(1,790,738)	)2- - 2
	$ 196,551,693	% 2 2-4 3-32

7. Equity (continued)

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

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for nine months ended September 30, 2017 and the year ended December 31, 2016.

	Beginning Balance	Period Activity	Ending Balance
September 30, 2017			
! !) ! ! . . ! !			
!	$ (547,561)	$ 39,721	$ (507,840)
! ! ! !	373,108	(118,014)	255,094
! !) ! ! ! !			
! ! ! !	(55,027,169)	13,370,316	(41,656,853)
! ! ! . ! ! ! !	71,168,900	(18,976,145)	52,192,755
! ! !) ! ! ! !	16,141,731	(5,605,829)	10,535,902
! ! ! ! !) !	$ 15,967,278	$ (5,684,122)	$ 10,283,156
!	!	!	!
December 31, 2016			
! ! ! . . ! ! !	%) 3 - !	%)232- !	%) - 2!
! ! ! !	32 -32 !	2 - !	4 4-21 !
! !) ! ! ! !	!	!	!
! ! ! !	) 4- - 2!	)22- 1-31 !	) -13 -2 !
! ! ! . ! ! ! !	1- -2 !	31-43 - 3 !	2-2 - 11!
! ! ! ! ! !	-4 -324!	- - 2 !	2 -2 2- 42!
! ! ! ! !) !	% -2 - !	% - 2- 22!	% 2 - -3 !

8. Domestic Programs

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

Mexico

The MOU with Mexico specified that 10% of the initial paid-in capital from its initial capital subscription and the related earnings be set aside for the community adjustment and investment program endorsed by Mexico. The Government of Mexico instituted its domestic program, titled *Programa Complementario de Apoyo a Comunidades y*

8. Domestic Programs (continued)

Empresas (Mexican Domestic Program), through the offices of the SHCP. In June 1996, the SHCP entered into a mandate agreement with Banobras to receive and administer the funds allocated for this program. The Mexican Domestic Program funds were fullytransferred to Mexico as of June 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 $548,159 and $792,372 were designated for the U.S. Domestic Program at September 30, 2017 and December 31, 2016, respectively. The revenue related to these amounts for the nine months ended September 30, 2017 and 2016 were $11,997 and $1,103, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of $157,505 and $199,366, are included in the operations of the Bank for the nine months ended September 30, 2017 and 2016, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Deficit retained earnings on the U.S. Domestic Program capital funds as of September 30, 2017 and December 31, 2016, were $1,790,738 and $1,668,418, respectively. Under the U.S. Domestic Program, $568,376 in cash and cash equivalents was available for disbursement as of September 30, 2017.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. As of September 30, 2017 and December 31, 2016, the U.S. Domestic Program's allocated paid-in capital totaled $2,338,897 and $2,460,790, respectively. For the nine months ended September 30, 2017 and for the year ended December 31, 2016, $121,893 and $566,466, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

9. Program Activities

Program activities are comprised of the following:

	Nine Months Ended September 30, 2017	2016
! !	!	!
! !!	$ 497,774	% 3-41 !
! ! !	497,774	3-41 !
!		!
! !		!
! ! !!	(497,774)	) 3-41 !
! ! !	(509,154)	)4 - 3 !
! ! !!	(549,677)	)43 -3 !
! ! ! !!	(37,916)	)231- 1 !
! ! !	(1,594,521)	)2- - 14 !
! ! !	$ (1,096,747)	%) 3- !

EPA Grants

The Bank administers grant funds from EPA through the Border Environment Infrastructure Fund (BEIF). EPA grant awards since the initial grant made in April 1997 to September 30, 2017 total $701,634,331. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of September 30, 2017, EPA has approved project funding proposed by the Bank totaling $659,820,572, of which $609,915,683 has been disbursed through the Bank. The Bank recognized $497,774 and $652,304 as reimbursement of expenses incurred for the nine months ended September 30, 2017 and 2016, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

Technical Assistance Program (TAP)

The Bank uses a portion of its retained earnings as authorized by the Board of Directors to offer technical assistance and training to project sponsors for the purpose of strengthening their financial performance and ensuring the long-term sustainability of their infrastructure. Through the TAP, assistance is provided in three categories: project development, institutional capacity-building measures, and sector studies to identify needs and generate knowledge about a new sector or technology. For the nine months ended September 30, 2017 and 2016, $395,909 and $219,382, respectively, was 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)

As part of its technical assistance program, the Utility Management Institute (UMI) provides water utility managers and their staff with an opportunity for ongoing professional development aimed at enhancing their managerial and financial skills. For the nine months ended September 30, 2017 and 2016, $113,245 and $177,160, respectively, was expended under this program.

Water Conservation Investment Fund (WCIF)
In August 2002, the Board of Directors established the WCIF to finance water conservation projects in the U.S.-Mexico border region and designated $80,000,000 of the Bank's undesignated retained earnings to the program. Of that amount, $40,000,000 was reserved exclusively for water conservation projects in each country. For the nine months ended September 30, 2017 and 2016, $37,916 and $120,808, respectively, were disbursed under this fund. As of September 30, 2017, cumulative disbursements total $38,073,393 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

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

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 September 30, 2017, a cumulative total of $13,473,415 has been allocated to the CAP. For the nine months ended September 30, 2017 and 2016, $549,677 and $325,249, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

10. Employee Benefits

401(a) Retirement Plan
The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the nine months ended September 30, 2017 and 2016, the Bank expended $566,260 and $549,434, respectively, relating to the plan.

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

11. Fair Value of Financial Instruments

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

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

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

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

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

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 three (3) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in

11. Fair Value of Financial Instruments (continued)

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 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.

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

	September 30, 2017		December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets	!	!	!	!
! ! ! !	$ 171,885,194	$ 171,885,194	% 2 2- 3 - !	% 2 2- 3 - !
. . ! !	53,838,417	57,560,432	4- 3-2 !	- 34- 43!
. . ! !	605,077,218	605,077,218	41 - 3-33 !	41 - 3-33 !
-! !!	1,219,510,663	1,264,107,504	2-2 - -2 !	2-311-4 - !
! !	28,919,011	28,919,011	3 - 1 - !	3 - 1 - !
. ! ! ! !	153,995,365	153,995,365	33 - 2 -114!	33 - 2 -114!
! ! !	2,232,717	2,232,717	-1 - !	-1 - !
! ! ! !	3,293,245	3,293,245	3- -41 !	3- -41 !
!!			!	!
Liabilities			!	!
! ! !	24,429,491	24,429,491	2 - 4- !	2 - 4- !
. ! !	5,262,000	5,262,000	-3 3-111!	-3 3-111!
. ! -! !	1,484,484,279	1,485,876,626	2-2 -2 - 23!	2-2 - 4 -3 !

11. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 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			
	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2017	!	!	!	!
Assets	!	!	!	!
. . !) ! !	!	!	!	!
/ /! ! !	$ 255,193,878	$ –	$ –	$ 255,193,878
/ /! ! !	–	125,978,650	–	125,978,650
! ! !	–	154,027,437	–	154,027,437
! . ! !	–	56,245,628	–	56,245,628
! ! !) !	–	13,631,625	–	13,631,625
. ! !	–	–	–	–
! ! !	255,193,878	349,883,340	–	605,077,218
. ! ! ! !	–	–	153,995,365	153,995,365
! ! !	–	–	2,232,717	2,232,717
! ! ! !	–	–	(90,233,193)	(90,233,193)
! ! ! ! !	$ 255,193,878	$ 349,883,340	$ 65,994,889	$ 671,072,107
!!				
Liabilities				
. ! ! ! !	$ –	$ –	$ –	$ –
! ! !	–	–	–	–
! ! ! ! !	–	–	7,110,492	7,110,492
! ! ! ! !	$ –	$ –	$ 7,110,492	$ 7,110,492
December 31, 2016				
Assets	!	!	!	!
. . !) ! !	!	!	!	!
/ /! ! !	% 22 -43 - !	% !	% !	% 22 -43 - !
/ /! ! !	!	3- 43- 4 !	!	3- 43- 4 !
! ! !	!	1-3 1-3 3!	!	1-3 1-3 3!
! . ! !	!	4 - - !	!	4 - - !
! ! !) !	!	22- - !	!	22- - !
. ! !	!	!	!	!
! ! !	22 -43 - !	2 -34 -4 2!	!	41 - 3-33 !
. ! ! ! !	!	!	33 - 2 -114!	33 - 2 -114!
! ! !	!	!	-1 - !	-1 - !
! ! ! !	!	!	)2 2- - 2!	)2 2- - 2!
! ! ! ! !	% 22 -43 - !	% 2 -34 -4 2!	% - 41-42 !	% 4 - 3- !
!!	!	!	!	!
Liabilities	!	!	!	!
. ! ! ! !	% !	% !	% !	% !
! ! !	!	!	!	!
! ! ! ! !	!	!	3- 42- !	3- 42- !
! ! ! ! !	% !	% !	% 3- 42- !	% 3- 42- !

11. Fair Value of Financial Instruments (continued)

The following table summarizes the changes to the financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) during the nine months ended September 30, 2017 and the year ended December 31, 2016. Additional information on how the Bank measures fair value is provided in Note 2.

	Fair Value of Level 3 Instruments		
	Cross-currency Interest Rate Swaps	Interest Rate Swaps	Hedged Items
Assets			
[illegible]	$ 227,719,003	$ 4,065,766	$ (151,854,451)
[illegible]			
[illegible]	(52,592,993)	(1,833,049)	61,621,258
[illegible]	(18,976,145)	–	–
[illegible]	–	–	–
[illegible]	(2,154,500)	–	–
[illegible]	–	–	–
[illegible]	$ 153,995,365	$ 2,232,717	$ (90,233,193)
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]		

11. Fair Value of Financial Instruments (continued)

The Bank entered into four (4) cross-currency interest rate swaps and no interest rate swaps during the nine months ended September 30, 2017. 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 $3,293,245 and $2,978,307 at September 30, 2017 and December 31, 2016, respectively. For the nine months ended September 30, 2017 and 2016, 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 krones. These swaps have been designated as hedging instruments because they hedge the risk of fluctuations in cash flows due to changes in foreign currency exchange rates. The swaps are structured so that the notional amounts mature to match the expected maturity of the loans and the notes payable.

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

12. Derivative Financial Instruments (continued)

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 $86,750,000 and $135,490,000 was posted from counterparties to the Bank as of September 30, 2017 and December 31, 2016, respectively. No collateral was posted by the Bank as of September 30, 2017 and December 31, 2016.

The notional amounts and estimated fair values of the swaps outstanding at September 30, 2017 and December 31, 2016 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	September 30, 2017		December 31, 2016	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
!!				
. ! ! ! !	$ 934,914,803	$ 153,995,365	% - 4 - 4!	% 33 - 2 -114!
! ! !	1,320,716,608	2,232,717	2-43 -3 - 12	-1 - !

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at September 30, 2017 and December 31, 2016 was 5.48% and 4.82%, respectively.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of September 30, 2017 and December 31, 2016.

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 $10,535,902 and $16,141,732 at September 30, 2017 and December 31, 2016, 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 nine months ended September 30, 2017 and 2016, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $1,332,928 and $6,587,162, respectively.

12. Derivative Financial Instruments (continued)

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 nine months ended September 30, 2017 and 2016, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $0 and $394,267, 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 September 30, 2017, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

Lease Commitments

The Bank rents office space under an operating lease that expires on February 28, 2026. Rent expense totaled $153,088 and $80,302 for the nine months ended September 30, 2017 and 2016, respectively. The following schedule summarizes the minimum future expenses for the forgoing lease.

!			!
!2!.!	!42!312 !!	%	2-2 !
. !			!
!42!312 !			322- 3!
!42!312 !			32 -342!
!42!3131!			332- 42!
!42!3132!			334-1 !
!42!3133!			3 2- 23!
!			3- 3!
!		%	2- 2 - 22!

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

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

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

15. Accounting Standards Updates (continued)

or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Bank is evaluating the potential impact of ASU 2016- 02 to its consolidated financial statements and disclosures.

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

16. Other Significant Event

On December 3, 2014, the Board approved a resolution recommending the merger of NADB and Border Environment Cooperation Commission (BECC) into a single institution. Full legal integration will occur on November 10, 2017, upon entry into force of the amended Charter. The integration preserves the current mission, purposes and functions of both organizations, including their environmental mandate and geographic jurisdiction.

Supplementary Information

North American Development Bank
Combining Balance Sheet by Program (Unaudited)
September 30, 2017

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 118,047	$ -	$ -	$ 118,047
Held at other financial institutions in interest bearing accounts	42,898,771	168,376	-	43,067,147
Repurchase agreements	128,300,000	400,000	-	128,700,000
	171,316,818	568,376	-	171,885,194
Held-to-maturity investment securities, at amortized cost	53,838,417	-	-	53,838,417
Available-for-sale investment securities, at fair value	605,077,218	-	-	605,077,218
Loans outstanding	1,383,539,868	-	-	1,383,539,868
Allowance for loan losses	(21,200,808)	-	-	(21,200,808)
Unamortized loan fees	(10,938,351)	-	-	(10,938,351)
Foreign currency exchange rate adjustment	(41,656,853)	-	-	(41,656,853)
Hedged items, at fair value	(90,233,193)	-	-	(90,233,193)
Net loans outstanding	1,219,510,663	-	-	1,219,510,663
Interest receivable	28,918,975	36	-	28,919,011
Grant and other receivable	5,889,363	-	-	5,889,363
Due from U.S. Domestic Program	1,277	-	(1,277)	-
Furniture, equipment and leasehold improvements, net	365,072	-	-	365,072
Other assets	72,129,660	-	-	72,129,660
Total assets	$ 2,157,047,463	$ 568,412	$ (1,277)	$ 2,157,614,598
Liabilities and Equity				
Liabilities:				
Accounts payable	$ 11,614,758	$ -	$ -	$ 11,614,758
Accrued liabilities	513,807	18,976	-	532,783
Due to International Program	-	1,277	(1,277)	-
Accrued interest payable	24,429,491	-	-	24,429,491
Undisbursed grant funds	1,515	-	-	1,515
Short-term debt	5,262,000	-	-	5,262,000
Long-term debt, net of discount and unamortized debt issuance costs	1,484,484,279	-	-	1,484,484,279
Hedged items, at fair value	7,110,492	-	-	7,110,492
Net long-term debt	1,491,594,771	-	-	1,491,594,771
Total liabilities	1,533,416,342	20,253	(1,277)	1,533,435,318
Equity:				
Paid-in capital	415,000,000	-	-	415,000,000
General Reserve:				
Allocated paid-in capital	-	2,338,897	-	2,338,897
Retained earnings:				
Designated	14,474,945	(1,790,738)	-	12,684,207
Reserved	116,840,251	-	-	116,840,251
Undesignated	67,027,235	-	-	67,027,235
Accumulated other comprehensive income	10,283,156	-	-	10,283,156
Non-controlling interest	5,534	-	-	5,534
Total equity	623,631,121	548,159	-	624,179,280
Total liabilities and equity	$ 2,157,047,463	$ 568,412	$ (1,277)	$ 2,157,614,598

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 (Unaudited)
For the Nine Months Ended September 30, 2017

	International Program	U.S. Domestic Program (A)	Total
Interest income:			
Loans	$ 42,490,311	$ 9,313	$ 42,499,624
Investments	7,776,145	2,684	7,778,829
Total interest income	50,266,456	11,997	50,278,453
Interest expense	22,634,394	-	22,634,394
Net interest income	27,632,062	11,997	27,644,059
Operating expenses:			
Personnel	5,498,136	-	5,498,136
General and administrative	1,086,719	-	1,086,719
Consultants and contractors	1,089,502	-	1,089,502
Provision for loan losses	(3,851,663)	(23,188)	(3,874,851)
Other	(118,594)	-	(118,594)
Depreciation	123,585	-	123,585
U.S. Domestic Program	-	157,505	157,505
Total operating expenses	3,827,685	134,317	3,962,002
Net operating income (loss)	23,804,377	(122,320)	23,682,057
Non-interest income and expenses:			
Gains on sales of available-for-sale securities	37,247	-	37,247
Income from hedging activities, net	1,920,066	-	1,920,066
Income from foreign exchange activities, net	314,938	-	314,938
Fees and other income	301,828	-	301,828
Total non-interest income and expenses	2,574,079	-	2,574,079
Income (loss) before program activities	26,378,456	(122,320)	26,256,136
Program activities:			
EPA grant income	497,774	-	497,774
EPA grant administration	(497,774)	-	(497,774)
TAP	(509,154)	-	(509,154)
CAP	(549,677)	-	(549,677)
WCIF	(37,916)	-	(37,916)
Net program expenses	(1,096,747)	-	(1,096,747)
Income (loss) before non-controlling interest	25,281,709	(122,320)	25,159,389
Net loss attributable to non-controlling interest	(87)	-	(87)
Net income (loss)	$ 25,281,796	$ (122,320)	$ 25,159,476
General Reserve, January 1, 2017			
Allocated paid-in capital	$ -	$ 2,460,790	$ 2,460,790
Retained earnings	173,060,635	(1,668,418)	171,392,217
Current Period Activity:			
Net income (loss)	25,281,796	(122,320)	25,159,476
TGP disbursements of the U.S. Domestic Program	-	(121,893)	(121,893)
General Reserve, September 30, 2017			
Allocated paid-in capital	-	2,338,897	2,338,897
Retained earnings	198,342,431	(1,790,738)	196,551,693
	$ 198,342,431	$ 548,159	$ 198,890,590

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 (Unaudited)
For the Nine Months Ended September 30, 2017

	International Program	U.S. Domestic Program (A)	Total
Income (loss) before non-controlling interest	$ 25,281,709	$ (122,320)	$ 25,159,389
Net loss attributable to non-controlling interest	(87)	-	(87)
Net income (loss)	25,281,796	(122,320)	25,159,476
Other comprehensive income (loss):			
Available-for-sale investment securities:			
Change in unrealized gains (losses) during the period, net	76,968	-	76,968
Reclassification adjustment for net (gains) losses included in net income	(37,247)	-	(37,247)
Total unrealized gain on available-for-sale investment securities	39,721	-	39,721
Foreign currency translation adjustment	(118,014)	-	(118,014)
Unrealized gains (losses) on hedging activities:			
Foreign currency translation adjustment, net	13,370,316	-	13,370,316
Fair value of cross-currency interest rate swaps, net	(18,976,145)	-	(18,976,145)
Total unrealized loss on hedging activities	(5,605,829)	-	(5,605,829)
Total other comprehensive income (loss)	(5,684,122)	-	(5,684,122)
Total comprehensive income (loss)	$ 19,597,674	$ (122,320)	$ 19,475,354

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 (Unaudited)
For the Nine Months Ended September 30, 2017

	International Program	U.S. Domestic Program (A)	Total
Cash flows from operating activities			
Net income (loss)	$ 25,281,796	(122,320)	$ 25,159,476
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	123,585	-	123,585
Amortization of net premium (discount) on investments	(127,226)	-	(127,226)
Change in fair value of swaps, hedged items and other non-cash items	(49,848,783)	-	(49,848,783)
Non-controlling interest	(87)	-	(87)
Gain on sales of available-for-sale investment securities, net	(37,247)	-	(37,247)
Provision for loan losses	(3,851,663)	(23,188)	(3,874,851)
Change in other assets and liabilities:			
Increase in interest receivable	(2,112,145)	(21)	(2,112,166)
Decrease in receivable and other assets	1,115,933	-	1,115,933
Decrease in due from U.S. Domestic Program and decrease due to International Program	8,720	(8,720)	-
Increase (decrease) in accounts payable	4,160,319	(1,648)	4,158,671
Increase in accrued liabilities	88,692	2,644	91,336
Increase in accrued interest payable	7,835,523	-	7,835,523
Net cash used in operating activities	(17,362,583)	(153,253)	(17,515,836)
Cash flows from lending, investing, and development activities			
Capital expenditures	(26,898)	-	(26,898)
Loan principal repayments	93,378,653	329,827	93,708,480
Loan disbursements	(65,622,675)	-	(65,622,675)
Purchase of held-to-maturity investments	(1,011,000)	-	(1,011,000)
Purchase of available-for-sale investments	(461,059,411)	-	(461,059,411)
Proceeds from maturities of held-to-maturity investments	973,000	-	973,000
Proceeds from sales and maturities of available-for-sale investments	162,730,351	-	162,730,351
Net cash provided by (used in) lending, investing, and development activities	(270,637,980)	329,827	(270,308,153)
Cash flows from financing activities			
Proceeds from other borrowings	12,847,737	-	12,847,737
Proceeds from note issuances	297,891,683	-	297,891,683
Principal repayment of other borrowings	(2,631,000)	-	(2,631,000)
Grant funds - EPA	7,469,095	-	7,469,095
Grant disbursements - EPA	(7,473,908)	-	(7,473,908)
Grant activity - U.S. Domestic Program	-	(121,893)	(121,893)
Net cash provided by (used in) financing activities	308,103,607	(121,893)	307,981,714
Net increase in cash and cash equivalents	20,103,044	54,681	20,157,725
Cash and cash equivalents at January 1, 2017	151,213,774	513,695	151,727,469
Cash and cash equivalents at September 30, 2017	$ 171,316,818	$ 568,376	$ 171,885,194

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