North American Development Bank

Consolidated Financial Statements And Supplementary Information (Unaudited)

December 31, 2019

North American Development Bank (NADB)

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North American Development Bank
Consolidated Balance Sheets
As of December 31, 2019 and 2018

	(Unaudited) December 31, 2019	(Audited) December 31, 2018
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	$ 406,916	$ 374,898
Held at other financial institutions in interest bearing accounts	45,890,923	48,419,515
Repurchase agreements	75,300,000	126,300,000
	121,597,839	175,094,413
Held-to-maturity investment securities, at amortized cost	4,038,722	3,335,360
Available-for-sale investment securities, at fair value	627,900,720	620,823,835
Loans outstanding	1,301,746,523	1,284,477,904
Allowance for loan losses	(19,216,845)	(19,154,507)
Unamortized loan fees	(12,284,799)	(12,685,298)
Foreign currency exchange rate adjustment	(33,301,924)	(40,516,565)
Hedged items, at fair value	(62,856,585)	(155,900,516)
Net loans outstanding	1,174,086,370	1,056,221,018
Interest receivable	15,987,916	15,941,621
Grant and other receivable	1,310,349	1,499,144
Furniture, equipment and leasehold improvements, net	167,710	251,731
Other assets	62,393,503	85,890,652
Total assets	$ 2,007,483,129	$ 1,959,057,774
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 814,012	$ 1,064,675
Accrued liabilities	1,921,177	2,560,410
Accrued interest payable	17,487,066	18,367,661
Undisbursed grant funds	9,880	1,002
Other liabilities	1,466,112	7,257,372
Short-term debt, net of discounts and unamortized debt issuance costs	255,238,795	5,263,000
Hedged item, at fair value	357,621	-
Net short-term debt	255,596,416	5,263,000
Long-term post-retirement benefits payable	2,481,519	-
Long-term debt, net of discounts and unamortized debt issuance costs	1,050,594,907	1,304,721,548
Hedged items, at fair value	(5,851,918)	(33,204,590)
Net long-term debt	1,044,742,989	1,271,516,958
Total liabilities	1,324,519,171	1,306,031,078
Equity:		
Paid-in capital	415,000,000	415,000,000
General Reserve:		
Retained earnings:		
Designated	10,613,305	10,988,220
Reserved	159,763,504	162,065,724
Undesignated	88,221,692	55,843,436
Accumulated other comprehensive income	9,360,292	9,124,014
Non-controlling interest	5,165	5,302
Total equity	682,963,958	653,026,696
Total liabilities and equity	$ 2,007,483,129	$ 1,959,057,774

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

North American Development Bank
Consolidated Statements of Income
For the Years Ended December 31, 2019 and 2018

	(Unaudited) Year Ended December 31, 2019	(Audited) Year Ended December 31, 2018
Interest income:		
Loans	$ 65,635,241	$ 61,981,255
Investments	18,667,228	16,938,554
Total interest income	84,302,469	78,919,809
Interest expense	44,647,559	47,242,402
Net interest income	39,654,910	31,677,407
Operating expenses:		
Personnel	14,846,765	12,839,428
General and administrative	2,285,686	2,404,145
Consultants and contractors	1,834,600	2,175,543
Provision for loan losses	62,338	(1,953,438)
Other	(9,572)	(4,506)
Depreciation	129,862	156,798
U.S. Domestic Program	-	230,535
Total operating expenses	19,149,679	15,848,505
Net operating income	20,505,231	15,828,902
Non-interest income and non-operating (expenses):		
U.S. State Department contribution	2,902,000	2,902,000
Ministry of Environment and Natural Resources (SEMARNAT) contribution	1,793,750	1,793,750
Gain on securities	90,325	5,111
Income (expenses) from hedging activities, net	4,437,134	2,566,698
Income (expenses) from foreign exchange activities, net	-	213,393
Fees and other income (expenses), net	645,378	642,284
Loss on other real estate owned	-	(290,300)
Total non-interest income and non-operating income (expense)	9,868,587	7,832,936
Income before program activities	30,373,818	23,661,838
Program activities:		
Border Environmental Infrastructure Fund (BEIF):		
U.S. Environmental Protection Agency (EPA) grant income	997,312	772,003
EPA grant administration expense	(997,312)	(772,003)
Community Assistance Program expense	(252,438)	(2,284,995)
Technical Assistance Program:		
EPA grant income	2,330,796	1,872,834
EPA grant administration expense	(970,502)	(844,211)
Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income	-	10,621
Technical assistance expenses	(1,780,690)	(1,290,290)
Other grant income	32,687	13,776
Other grant administration	(32,687)	(13,776)
Net program expenses	(672,834)	(2,536,041)
Income before non-controlling interest	29,700,984	21,125,797
Net loss attributable to non-controlling interest	(137)	(173)
Net income attributable to NADB	$ 29,701,121	$ 21,125,970

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

North American Development Bank
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018

	(Unaudited) Year Ended December 31, 2019	(Audited) Year Ended December 31, 2018
Income before non-controlling interest	$ 29,700,984	$ 21,125,797
Net loss attributable to non-controlling interest	(137)	(173)
Net income attributable to NADB	29,701,121	21,125,970
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	4,336,628	96,684
Reclassification adjustment for net gains included in net income	(87,852)	(2,611)
Total unrealized gain on available-for-sale investment securities	4,248,776	94,073
Foreign currency translation adjustment	(32,997)	3,803
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	7,214,641	5,480,786
Fair value of cross-currency interest rate swaps, net	(11,194,142)	(8,221,092)
Total unrealized loss on hedging activities	(3,979,501)	(2,740,306)
Total other comprehensive income (loss)	236,278	(2,642,430)
Total comprehensive income	$ 29,937,399	$ 18,483,540

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 Years Ended December 31, 2019 and 2018

		General Reserve		Accumulated Other		
	Paid-In Capital	Allocated Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 2018	$ 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 (audited)	415,000,000	-	228,897,380	9,124,014	5,302	653,026,696
Net income	-	-	29,701,121	-	-	29,701,121
Other comprehensive income	-	-	-	236,278	-	236,278
Non-controlling interest	-	-	-	-	(137)	(137)
Ending balance, December 31, 2019 (unaudited)	$ 415,000,000	$ -	$ 258,598,501	$ 9,360,292	$ 5,165	$ 682,963,958

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 Years Ended December 31, 2019 and 2018

	(Unaudited) Year Ended December 31, 2019	(Audited) Year Ended December 31, 2018
Cash flows from operating activities		
Net income	$ 29,701,121	$ 21,125,970
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	129,862	156,798
Amortization of net premiums (discounts) on investments	(4,590,154)	(3,026,257)
Change in fair value of swaps, hedged items and other non-cash items	(58,143,283)	(17,976,051)
Non-controlling interest	(137)	(173)
Gains on securities, net	(87,852)	(5,111)
Provision for loan losses	62,338	(1,953,438)
Long-term postretirement benefits payable	2,481,519	-
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	(46,295)	12,840,026
Decrease in receivable and other assets	188,795	6,129,434
Decrease in accounts payable	(250,663)	(5,684,431)
Increase (decrease) in accrued liabilities	(639,233)	1,174,621
Decrease in accrued interest payable	(880,595)	(3,330,007)
Net cash provided by (used in) operating activities	(32,074,577)	9,451,381
Cash flows from lending, investing, and development activities		
Capital expenditures	(45,791)	(53,534)
Loan principal repayments	147,024,725	176,337,591
Loan disbursements	(164,293,344)	(165,984,284)
Purchase of held-to-maturity investments	(2,969,362)	(610,000)
Purchase of available-for-sale investments	(459,209,582)	(905,827,329)
Proceeds from maturities of held-to-maturity investments	2,266,000	1,178,000
Proceeds from sales and maturities of available-for-sale investments	461,059,479	1,075,412,149
Net cash provided by (used in) lending, investing, and development activities	(16,167,875)	180,452,593
Cash flows from financing activities		
Proceeds from note issuances	-	126,415,858
Principal repayment of other borrowings	(5,263,000)	(5,262,000)
Principal repayment of notes payable	-	(300,000,000)
Grant funds from the Environmental Protection Agency (EPA)	11,607,674	26,340,883
Grant funds from other sources	119,708	-
Grant disbursements - EPA	(11,607,674)	(26,340,883)
Grant activity - U.S. Domestic Program	-	(250,000)
Grant disbursements from other sources	(110,830)	-
Net cash used in financing activities	(5,254,122)	(179,096,142)
Net increase (decrease) in cash and cash equivalents	(53,496,574)	10,807,832
Cash and cash equivalents at January 1, 2019 and 2018	175,094,413	164,286,581
Cash and cash equivalents at December 31, 2019 and 2018	$ 121,597,839	$ 175,094,413
Supplemental cash information		
Cash paid during the year for interest	$ 28,707,051	$ 35,424,793
Significant non-cash transactions		
Foreign currency translation adjustment	$ 7,214,641	$ 5,480,786
Change in fair value of cross-currency interest rate swaps, net	(11,194,142)	(8,221,092)
Change in fair value of available-for-sales investments, net	4,248,776	94,073

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

1. Organization and Purpose

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

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

The Bank provides loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board, as appropriate, and administers grant funding provided by other entities. In accordance with the Charter, the Bank also made available limited funds from its equity to establish the domestic program of each country and administered 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, 2019, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany accounts and transactions are eliminated in the consolidation. The non-controlling interest reflected in the consolidated balance sheets and consolidated statements of income represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates in Financial Statements

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are presented in a manner consistent with that of an international organization. The preparation of financial statements in conformity with

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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, 2019 and 2018.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A general allowance is established for all loans. In 2019 the Bank improved the way in which it calculates the general allowance by estimating default rates for each loan using internal credit risk methodologies, along with statistical cumulative recovery rates for each sector. Additional details about these methodologies are provided below.

2. Summary of Significant Accounting Policies (continued)

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

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

Loan Portfolio Risk Rating

During 2019, the Bank enhanced the way in which it assesses the quality of its loan portfolio by introducing internal credit risk methodologies. As a result, the risk categories expanded to nine from four (Pass, Special mention, Substandard, and Doubtful).

The internal portfolio risk methodologies are tailored to the characteristics of each transaction and project sector and were developed using both quantitative and qualitative variables to address both project and borrower risks. The analysis includes all financial and operating metrics relevant to the overall performance of the project, as well as any relevant credit risk mitigating measures. The variables are well defined and consistently applied to each individual loan. For each loan, the probability of default is estimated using the corresponding methodology and mapped onto the credit risk rating scale. The rating scale used in 2018 is shown for comparative purposes.

2019 Rating Scale			2018 Rating Scale
Borrower Rating	**Scale**	**Risk Grade**	
1		A-1	
2	A	A-2	
3		A-3	Pass
4		B-1	
5	B	B-2	
6		B-3	
7	C	C	Special mention
8	D	D	Substandard
9	E	E	Doubtful

Government Contributions

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

2. Summary of Significant Accounting Policies (continued)

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. In addition, the Bank may receive and administer grants from other entities undercooperative agreements for the financing of joint projects. Reimbursed administrative expenses are 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.

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, 2019, 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, 2019 and 2018 was $(33,301,924) and $(36,843,368), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

2. Summary of Significant Accounting Policies (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

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 long-term post-retirement benefits payable where independent pricing information is not available for a significant portion of the underlying assets or liabilities. For these consolidated financial statements, the Bank also obtains dealer quotations for comparative purposes to assess the reasonableness of the pricing models.

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

Reclassifications

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

3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2019 and 2018.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Held-to-maturity:				
U.S. government securities	$ 3,575,722	$ 15,800	$ (5,670)	$ 3,585,852
U.S. agency securities	463,000	–	(32)	462,968
Total held-to-maturity investment securities	4,038,722	15,800	(5,702)	4,048,820
Available-for-sale:				
U.S. government securities	431,399,709	1,070,888	(57,102)	432,413,495
U.S. agency securities	65,065,747	89,882	(32,206)	65,123,423
Corporate debt securities	89,491,507	559,199	(8,410)	90,042,296
Other fixed-income securities	25,931,037	77,166	(13,054)	25,995,149
Mexican government securities (UMS)	14,093,290	251,701	(18,634)	14,326,357
Total available-for-sale investment securities	625,981,290	2,048,836	(129,406)	627,900,720
Total investment securities	$ 630,020,012	$ 2,064,636	$ (135,108)	$ 631,949,540
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

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, 2019 and 2018.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
Held-to-maturity:						
U.S. government securities	$ 1,763,893	$ 5,670	$ –	$ –	$ 1,763,893	$ 5,670
U.S. agency securities	462,968	32	–	–	462,968	32
Total held-to-maturity securities	2,226,861	5,702	–	–	2,226,861	5,702
Available-for-sale:						
U.S. government securities	3,822,874	245	21,249,428	56,857	25,072,302	57,102
U.S. agency securities	–	–	8,765,302	32,206	8,765,302	32,206
Corporate debt securities	3,122,705	1,186	4,992,000	7,224	8,114,705	8,410
Other fixed-income securities	2,664,488	1,339	3,754,812	11,715	6,419,300	13,054
Mexican government securities (UMS)	3,605,000	18,634	–	–	3,605,000	18,634
Total available-for-sale investment securities	13,215,067	21,404	38,761,542	108,002	51,976,609	129,406
Total temporarily impaired securities	$ 15,441,928	$ 27,106	$38,761,542	$ 108,002	$ 54,203,470	$ 135,108
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

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, 2019. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

3. Investments (continued)

Contractual maturities of investments as of December 31, 2019 and 2018 are summarized in the following tables.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
December 31, 2019				
Less than 1 year	$ 1,729,878	$ 1,718,471	$ 512,521,292	$ 512,218,478
1–5 years	2,318,942	2,320,251	115,379,428	113,762,812
5–10 years	–	–	–	–
More than 10 years	–	–	–	–
	$ 4,048,820	$ 4,038,722	$ 627,900,720	$ 625,981,290
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

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

The following table summarizes sale, call, and maturity activity of investment securities for the years ended December 31, 2019 and 2018.

	Year Ended December 31,	
	2019	2018
Held-to-maturity investment securities:		
Proceeds from maturities	$ 2,266,000	$ 1,178,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	461,059,479	1,075,412,149
Gross realized gains	102,627	4,980
Gross realized losses	14,775	2,369

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2019 and 2018.

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net unrealized losses on investment securities available-for-sale, beginning of year	$ (2,329,346)	$ (2,423,419)
Net unrealized gains on investment securities available-for-sale, arising during the year	4,336,628	96,684
Reclassification adjustments for net (gains) losses on investment securities available-for-sale included in net income	(87,852)	(2,611)
Net unrealized gains (losses) on investment securities available-for-sale, end of period	$ 1,919,430	$ (2,329,346)

4. Loans

The following schedule summarizes loans outstanding as of December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Loan balance	$ 1,301,746,523	$ 1,284,477,904
Allowance for loan losses:		
General	(16,834,062)	(16,827,406)
Specific	(2,382,483)	(2,327,101)
Unamortized loan fees	(12,284,799)	(12,685,298)
Foreign currency exchange rate adjustment	(33,301,924)	(40,516,565)
Fair value of hedged items	(62,856,585)	(155,900,516)
Net loans outstanding	$ 1,174,086,370	$ 1,056,221,018

At December 31, 2019 and 2018, outstanding unfunded loan commitments on signed loan agreements totaled $99,857,959 and $150,637,189, respectively. As of December 31, 2019, the Bank had loan agreements under development for an additional $128,846,885.

The Bank under certain circumstances offered below-market-rate loans. As of December 31, 2019 and 2018, the Bank had below-market-rate loans outstanding of $27,438,337 and $31,504,406, respectively.

4. Loans (continued)

The following table presents the loan portfolio by sector as of December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Air quality	$ 78,483,962	$ 86,833,221
Basic urban infrastructure	34,525,116	36,005,319
Clean energy:		
Solar	429,095,367	312,603,682
Wind	590,585,436	644,675,776
Other	2,945,529	3,552,841
Public transportation	42,004,524	38,390,399
Solid waste	2,845,000	–
Storm drainage	10,713,740	11,974,394
Water and wastewater	110,547,849	150,442,272
	$ 1,301,746,523	$ 1,284,477,904

The following table presents the loan portfolio by borrower type as of December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Private:	$ 1,062,617,460	$ 996,974,427
Public	180,595,606	195,216,867
Public-private	58,533,457	92,286,610
	$ 1,301,746,523	$ 1,284,477,904

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

4. Loans (continued)

The following table presents the loan portfolio by risk category as of December 31, 2019 and 2018. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	December 31, 2019	December 31, 2018[1]
A-1	$ 34,593,756	$ 53,797,752
A-2	353,059,478	323,118,217
A-3	510,206,818	567,893,919
B-1	276,452,024	313,855,929
B-2	9,529,283	9,872,898
B-3	932,135	1,304,571
C	–	–
D	14,128,029	14,634,618
E	–	–
Not Rated	102,845,000	–
	$ 1,301,746,523	$ 1,284,477,904

[1] The 2018 figures are presented for comparative purposes since the rating methodology became effective during 2019. Loans rated as A1 – B3 above were classified as "Pass" as of December 31, 2018 and totaled $1,269,843,286. The loan rated as "D" was classified as "Special Mention" as of December 31, 2018. Pass rated loans were not considered to have a greater than normal credit risk. Special Mention rated loans exhibited potential weaknesses that deserved the Bank's close attention.

The category "not rated" refers to recently disbursed loans that have not yet been rated.

As of December 31, 2019 and 2018, the Bank had one non-accrual loan with an outstanding balance of $14,128,029 and $14,634,618, respectively.

In July 2018, the Bank restructured a non-accrual loan as a "troubled debt restructuring" 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 $2,382,783 and $2,327,101 as of December 31, 2019 and 2018, respectively.

No non-accrual loans were restructured during the year ended December 31, 2019.The average impaired loan balance for the years ended December 31, 2019 and 2018 totaled $14,300,091 and $14,407,620, respectively.

An age analysis of past-due loans, including both accruing and non-accruing loans, as of December 31, 2019 and 2018, 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, 2019	$ –	$ –	$ –
December 31, 2018	–	–	–

4. Loans (continued)

There were no loans past due 90 or more days accruing interest as of December 31, 2019 and 2018.

The following table summarizes the allowance for loan losses by classification as of December 31, 2019 and 2018.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
December 31, 2019				
Mexico:				
Construction	$ 4,877,573	$ –	$ 4,877,573	$ 282,303,028
Operation	8,032,616	2,382,783	10,415,399	692,724,906
Total Mexico	12,910,189	2,382,783	15,292,972	975,027,934
United States:				
Construction	47,926	–	47,926	2,845,000
Operation	3,875,947	–	3,875,947	323,873,589
Total United States	3,923,873	–	3,923,873	326,718,589
	$ 16,834,062	$ 2,382,783	$ 19,216,845	$ 1,301,746,523
December 31, 2018				
Mexico:				
Construction	$ 6,240,336	$ –	$ 6,240,336	$ 176,609,937
Operation	7,113,342	2,327,101	9,440,443	755,324,716
Total Mexico	13,353,678	2,327,101	15,680,779	931,934,653
United States:				
Construction	251,799	–	251,799	9,264,133
Operation	3,221,929	–	3,221,929	343,279,118
Total United States	3,473,728	–	3,473,728	352,543,251
	$ 16,827,406	$ 2,327,101	$ 19,154,507	$ 1,284,477,904

In 2019, the Bank redefined the manner in which it calculates the general allowance for loan losses as described in Note 2. For the year ended December 31, 2019, the general allowance calculated under the previous methodology would have totaled $17,103,121.

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the years ended December 31, 2019 and 2018.

	Allowance for Loan Losses				
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
December 31, 2019					
Mexico:					
Construction	$ 6,240,336	$ –	$ (1,362,763)	$ –	$ 4,877,573
Operation	9,440,443	55,682	919,274	–	10,415,399
Total Mexico	15,680,779	55,682	(443,489)	–	15,292,972
United States:					
Construction	251,799	–	(203,873)	–	47,926
Operation	3,221,929	–	654,018	–	3,875,947
Total United States	3,473,728	–	450,145	–	3,923,873
	$ 19,154,507	$ 55,682	$ 6,656	$ –	$ 19,216,845
December 31, 2018					
Mexico:					
Construction	$ 1,770,577	$ –	$ 4,469,759	$ –	$ 6,240,336
Operation	14,833,449	(342,446)	5,050,560	–	9,440,443
Total Mexico	16,604,026	(342,446	(580,801)	–	15,680,779
United States:					
Construction	90,335	–	161,464	–	251,799
Operation	4,413,695	–	(1,191,655)	–	3,221,929
Total United States	5,503,919	–	(1,030,191)	–	3,473,728
	$ 21,107,945	$ (342,446)	$ (1,610,992)	$ –	$ 19,154,507

5. Other Assets

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, 2019 and 2018.

	Gross Amount	Master Netting Arrangements	Net Amount
December 31, 2019			
Assets			
Cross-currency interest rate swaps	$ 151,519,713	$ (47,186,907)	$ 104,332,806
Interest rate swaps	3,168,171	(249,065)	2,919,106
Collateral from swap counterparty	(43,950,000)	–	(43,950,000)
Credit valuation adjustment for swaps	(908,410)	–	(908,410)
Total other assets	$ 109,829,474	$ (47,435,972)	$ 62,393,502
Liabilities			
Cross-currency interest rate swaps	$ 1,000,876	$ –	$ 1,000,876
Interest rate swaps	465,236	–	465,236
Total other liabilities	$ 1,466,112	$ –	$ 1,466,112
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 counterparty	(100,360,000)	–	(100,360,000)
Credit valuation adjustment for swaps	(1,310,316)	–	(1,310,316)
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

6. Debt

The following tables summarize the notes payable and other borrowings as of December 31, 2019 and 2018.

			December 31, 2019				
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	$ (7,250)	$ (17,955)	$ 357,621	$ 250,332,416
10/26/12	10/26/22	2.400	250,000,000	(242,472)	(419,289)	794,892	250,133,131
12/17/12	10/26/22	2.400	180,000,000	(1,066,952)	(265,588)	(249,065)	178,418,395
12/17/12	12/17/30	3.300	50,000,000	–	(188,411)	2,015,659	51,827,248
CHF Issuance							
04/30/15	04/30/25	0.250	128,706,754	437,476	(443,029)	1,857,340	130,558,541
04/26/17	10/26/27	0.200	124,443,117	301,186	(559,473)	2,644,695	126,829,525
07/24/18	07/24/26	0.300	126,415,858	122,647	(668,432)	6,293,435	132,163,508
NOK Issuance							
03/10/17	03/10/32	2.470	173,448,566	–	(483,051)	(19,208,874)	153,756,641
Total notes payable			1,283,014,295	(455,365)	(3,045,228)	(5,494,297)	1,274,019,405
Other Borrowings							
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			26,320,000	–	–	–	26,320,000
			$ 1,309,334,295	$ (455,365)	$ (3,045,228)	$ (5,494,297)	$ 1,300,339,405

6. Debt (continued)

			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

Notes Payable

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

6. Debt (continued)

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, 2019 as other assets of $2,919,106 and other liabilities of $0 and at December 31, 2018 as other assets of $(5,904,367) and other liabilities of $7,257,372. 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, 2019 and 2018 as other assets of $(3,394,273) and $(15,958,507), respectively. 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 31, 2015 and final principal payment due on December 31, 2024. As of December 31, 2019 and 2018, the outstanding balance was $26,320,000 and $31,583,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Less than 1 year	$ 255,264,000	$ 5,263,000
1–2 years	5,264,000	255,264,000
2–3 years	435,264,000	5,264,000
3–4 years	5,264,000	435,264,000
4–5 years	5,264,000	5,264,000
5–10 years	379,565,729	384,829,729
More than 10 years	223,448,566	223,448,566
Total	$ 1,309,334,295	$ 1,314,597,295

The following table summarizes short-term and long-term debt as of December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Short-term debt:		
Notes payable	$ 250,000,000	$ –
Other borrowings	5,264,000	5,263,000
Total short-term debt	255,264,000	5,263,000
Long-term debt:		
Notes payable	1,033,014,295	1,283,014,295
Other borrowings	21,056,000	26,320,000
Total long-term debt	1,054,070,295	1,309,334,295
Total debt	$ 1,309,334,295	$ 1,314,597,295

7. Equity

Subscribed Capital

At December 31, 2019 and 2018, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at December 31, 2019 and 2018 as shown in the following table (in USD Thousands).

	Mexico		United States		Total	
	Shares	USD Thousand	Shares	USD Thousand	Shares	USD Thousand
Subscribed capital	300,000	$ 3,000,000	300,000	$ 3,000,000	600,000	$ 6,000,000
Less:						
Qualified callable capital	(121,833.3)	(1,218,333)	(127,500)	(1,275,000)	(249,333.3)	(2,493,333)
Unqualified callable capital	(133,166.6)	(1,331,666)	(127,500)	(1,275,000)	(260,666.6)	(2,606,666)
Qualified paid-in capital	(21,500)	(215,000)	(22,500)	(225,000)	(44,000)	(440,000)
Total funded paid-in capital	23,500	235,000	22,500	225,000	46,000	460,000
Less transfer to General Reserve for Domestic Programs	–	(22,500)	–	(22,500)	–	(45,000)
Total paid-in capital	23,500	$ 212,500	22,500	$ 202,500	46,000	$ 415,000

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

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.

In 2015, Mexico and the United States each agreed to subscribe 150,000 additional shares. With this new capital subscription, each government has subscribed 300,000 shares of capital with a par value of $10,000 per share or $3,000,000,000 for a total of $6,000,000,000 as of December 31, 2019 and 2018.

7. Equity (continued)

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 budget allocations. 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 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.

On September 26, 2016, Mexico made its first contribution of the additional paid-in capital of $10,000,000 or 1,000 shares and unqualified $56,666,667 or 5,666.6667 of callable capital in accordance with Board Resolution (BR) 2015-24.

In accordance with BR 2015-24, the remaining subscriptions shall be made in several installments by 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, or undesignated by program, as shown in the following table.

	December 31, 2019	December 31, 2018
Designated retained earnings		
Water Conservation Investment Fund (WCIF)	$ 95,594	$ 95,594
Technical Assistance Program (TAP)	2,802,305	2,924,782
Community Assistance Program (CAP)	7,715,406	7,967,844
Total designated retained earnings	10,613,305	10,988,220
Reserved retained earnings		
Debt Service Reserve	38,290,000	49,200,000
Operating Expenses Reserve	21,812,376	21,774,242
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	69,661,128	61,091,482
Total reserved retained earnings	159,763,504	162,065,724
Undesignated retained earnings		
Operations	81,145,125	51,178,760
Mark-to-Market Hedge Valuations	7,076,567	4,664,676
Total undesignated retained earnings	88,221,692	55,843,436
Total retained earnings	$ 258,598,501	$ 228,897,380

7. Equity (continued)

Additional information regarding the reserve 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 years ended December 31, 2019 and 2018.

	Beginning Balance	Period Activity	Ending Balance
December 31, 2019			
Net unrealized gain (loss) on available-for-sale investment securities	$ (2,329,346)	$ 4,248,776	$ 1,919,430
Foreign currency translation adjustment	337,247	(32,997)	304,250
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(40,516,565)	7,214,641	(33,301,924)
Fair value of cross-currency interest rate swaps	51,632,678	(11,194,142)	40,438,536
Net unrealized gain (loss) on hedging activities	11,116,113	(3,979,501)	7,136,612
Total accumulated other comprehensive gain (loss)	$ 9,124,014	$ 236,278	$ 9,360,292
December 31, 2018			
Net unrealized gain (loss) 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

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,

8. Domestic Programs (continued)

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 or the U.S. Community Adjustment and Investment Program (U.S. Domestic Program). The Bank provided financing endorsed by the Finance Committee appointed by the U.S. Government for that purpose. The funds set aside for the U.S. Domestic Program were recorded as allocated paid-in capital within the General Reserve of the Bank.

For the years ended December 31, 2019 and 2018, the U.S. Domestic Program had total interest income of $0 and $2,177, respectively. Total expenses for the same periods paid from U.S. Domestic Program funds were $0 and $230,535, respectively.

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, 2019 and 2018, $0 and $250,000, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

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 was 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. As of December 31, 2019 and 2018, the outstanding liabilities from this program totaled $51,045 and $107,894, respectively.

9. Program Activities

Program activities are comprised of the following:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Program income:		
Border Environment Infrastructure Fund (BEIF)		
EPA grant income	$ 997,312	$ 772,003
Technical Assistance Program:		
EPA grant income		
Project Development Assistance Program (PDAP)	1,652,132	1,368,628
U.S. Mexico Border 2020 Program (Border 2020)	678,664	504,206
IDB Multilateral Investment Fund (MIF) grant income	–	10,621
Other grant income	32,687	13,776
Total program income	3,360,795	2,669,234
Program expenses:		
BEIF:		
EPA grant administration	997,312	772,003
Community Assistance Program	252,438	2,284,995
Technical Assistance Program:		
NADB technical assistance and training expense	261,570	251,046
EPA grant administration	970,502	844,211
EPA grant expense – PDAP	976,694	617,111
EPA grant expense – Border 2020	542,426	411,512
IDB-MIF grant expense	–	10,621
Other grant administration	32,687	13,776
Total program expenses	4,033,629	5,205,275
Net program expenses	$ 672,834	$ 2,536,041

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, 2019, total $721,002,335. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects and they are subsequently certified for financing y the Board of Directors. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of December 31, 2019, EPA has approved project funding proposed by the Bank totaling $672,499,973, of which $649,817,312 has been disbursed through the Bank. The Bank recognized $997,312 and $772,003 as reimbursement of expenses incurred for the years ended December 31, 2019 and 2018, respectively. These funds have been recorded as program revenue and expenses in the consolidated statements of income.

9. Program Activities (continued)

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, 2019 and 2018, no funds were disbursed under this program. As of December 31, 2019, 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, 2019, 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, 2019, a cumulative total of $14,092,840 has been allocated to the CAP. For the years ended December 31, 2019 and 2018, $252,438 and $2,284,995, respectively, were disbursed under this program. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

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. For the years ended December 31, 2019 and 2018, $122,477 and $251,046, 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, 2019 and 2018, $139,092 and $0, respectively were 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 Bank administers 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, 2019 and 2018, the Bank

9. Program Activities (continued)

recognized $976,694 and $617,111, respectively, in technical assistance expenses. as well as $675,438 and $751,517 in grant administrative expenses, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

Border 2020: U.S.-Mexico Environmental Program
The Bank administers grants 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, 2019 and 2018, the Bank recognized $542,426 and $411,512, respectively, in technical assistance expenses, as well as $295,064 and $92,694 in grant administrative expenses, respectively. The Bank recognized $678,664 and $504,206 as reimbursement of expenses incurred for the years ended December 31, 2019 and 2018, respectively. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

Multilateral Investment Fund (MIF) Grant
The Bank administered 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 $0 and $10,621 in technical assistance expense for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, the Bank expended $1,141,074 and $1,143,749, respectively, relating to the plan.

Post-retirement Health Insurance Plan
The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. During 2019, an actuarial study of the plan was performed by a certified third party to estimate the prior, current and long-term benefit obligation as of December 31, 2019. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of $16,481 for the year ended December 31, 2019. The unfunded portion of the plan totaled $2,518,519 and is reflected in the consolidated balance sheet as of December 31, 2019 as a component of accrued liability and long-term liability of $37,000 and $2,481,519, respectively.

10. Employee Benefits (continued)

The following table presents the change in benefit obligations as of December 31, 2019.

	December 31, 2019
Beginning balance	$ –
Prior service expense	2,448,000
Current period service expense	67,000
Interest expense	20,000
Net benefits paid	(16,481)
Ending balance	$ 2,518,519

The following table presents the change in post-retirement health plan assets as of December 31, 2019.

	December 31, 2019
Beginning balance	$ –
Employer contributions	16,481
Net benefits paid	(16,481)
Ending balance	$ –

The following table presents post-retirement health plan liabilities as of December 31, 2019.

	December 31, 2019
Current liabilities	$ 37,000
Non-current liabilities	2,481,519
Total	$ 2,518,519

The following table presents the net periodic benefit cost of the post-retirement health plan for the year ended December 31, 2019.

	December 31, 2019
Service expense	$ 67,000
Interest expense	20,000
	87,000
Prior service expense	2,082,306
Total	$ 2,169,306

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

10. Employee Benefits (continued)

The following table presents the assumptions used to determine the benefit obligations and net periodic post-retirements benefit costs of the plan for the year ended December 31, 2019.

Discount rate	3.22%
Current healthcare cost trend rate	6.30%
Ultimate healthcare cost trend rate	5.00%
Year in which ultimate trend rate is reached	2028

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

Year ended:		
December 31, 2020	$	37,000
December 31, 2021		61,000
December 31, 2022		68,000
December 31, 2023		82,000
December 31, 2024		117,000
December 31, 2025 thru December 31, 2029		990,000

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.

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.

11. Fair Value of Financial Instruments (continued)

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. This valuation does not consider liquidity discounts currently being used by certain market participants, since measuring their impact would not be cost-beneficial for the Bank, given the nature of its loan portfolio. The fair value of nonaccrual loans is estimated to equal the aggregate net realizable value of the underlying collateral and guaranties. The carrying amount of accrued interest approximates its fair value.

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 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.

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.

11. Fair Value of Financial Instruments (continued)

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.

Long-term post-retirement benefits payable

Long-term post-retirement benefits payable are reported at fair value using Level 3 unobservable inputs. The fair value of these liabilities is estimated based on a third-party actuarial study.

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

	December 31, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 121,597,839	$ 121,597,839	$ 175,094,413	$ 175,094,413
Held-to-maturity securities	4,038,722	4,048,820	3,335,360	3,313,703
Available-for-sale securities	627,900,720	627,900,720	620,823,835	620,823,835
Loans, net	1,174,086,370	1,239,969,203	1,056,221,018	1,074,690,417
Interest receivable	15,987,916	15,987,916	15,941,621	15,941,621
Cross-currency interest rate swaps	104,332,806	104,332,806	193,465,335	193,465,335
Interest rate swaps	2,919,106	2,919,106	(5,904,367)	(5,904,367)
Liabilities				
Accrued interest payable	17,487,066	17,487,066	18,367,661	18,367,661
Short-term debt, net	255,238,795	255,238,888	5,263,000	5,263,000
Long-term debt, net	1,050,594,907	1,050,357,445	1,304,721,548	1,304,693,268
Long-term post-retirement benefits payable	2,481,519	2,481,519	–	–
Cross-currency interest rate swaps	1,000,876	1,000,876	–	–
Interest rate swaps	465,236	465,236	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, 2019 and 2018 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
December 31, 2019				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 432,413,495	$ –	$ –	$ 432,413,495
U.S. agency securities	–	65,123,423	–	65,123,423
Corporate debt securities	–	90,042,296	–	90,042,296
Other fixed-income securities	–	25,995,149	–	25,995,149
Mexican government securities (UMS)	–	14,326,357	–	14,326,357
Total AFS securities	432,413,495	195,487,225	–	627,900,720
Cross-currency interest rate swaps	–	–	104,332,806	104,332,806
Interest rate swaps	–	–	2,919,106	2,919,106
Hedged items for loans	–	–	(62,856,585)	(62,856,585)
Total assets at fair value	$ 432,413,495	$ 195,487,225	$ 44,395,327	$ 672,296,047
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ 1,000,876	$ 1,000,876
Interest rate swaps	–	–	465,236	465,236
Hedged item for notes payable	–	–	(5,494,297)	(5,494,297)
Total liabilities at fair value	$ –	$ –	$ (4,028,185)	$ (4,028,185)
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 item 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)

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, 2019 and 2018. Additional information on how the Bank measures fair value is provided in Note 2.

	Fair Value of Level 3 Instruments		
	Cross-currency Interest Rate Swaps	Interest Rate Swaps	Hedged Items
Assets			
Beginning balance, January 1, 2019	$ 187,560,968	$ –	$ (155,900,516)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	(69,989,016)	2,919,106	93,043,931
Included in other comprehensive income (loss)	(11,194,142)	–	–
Purchases	–	–	–
Settlements	(2,045,004)	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2019	$ 104,332,806	$ 2,919,106	$ (62,856,585)
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)
Liabilities			
Beginning balance, January 1, 2019	$ –	$ 7,257,372	$ (33,204,590)
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	1,000,876	(6,792,136)	27,710,293
Included in other comprehensive income	–	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2019	$ 1,000,876	$ 465,236	$ (5,494,297)
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)

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 year ended December 31, 2019. 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 or non-recurring basis of December 31, 2019 and 2018.

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.

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 $43,950,000 and $100,360,000 was posted from counterparties to the Bank as of December 31, 2019 and 2018, respectively. No collateral was posted by the Bank as of those same dates.

12. Derivative Financial Instruments (continued)

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2019 and 2018 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, 2019		December 31, 2018	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	$ 1,018,903,740	$ 103,331,930	$ 1,071,857,976	$ 193,465,335
Interest rate swaps	951,401,589	2,453,870	951,701,197	(13,161,739)

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at December 31, 2019 and 2018 was 5.28% and 5.09%, respectively.

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2019 and 2018.

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 $7,136,612 and $11,116,113 at December 31, 2019 and 2018, 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, 2019 and 2018, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $4,035,953 and $2,009,937, 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, 2019 and 2018, changes in the aforementioned swaps included the accompanying consolidated statements of income were $(725) and $790,508, 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, 2019, 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, 2020. Rent expense totaled $251,196 and $255,444 for the years ended December 31, 2019 and 2018, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

Year ending:		
December 31, 2020	$	233,622
December 31, 2021		223,064
December 31, 2022		229,712
December 31, 2023		232,493
December 31, 2024		239,436
Thereafter		280,853
	$	1,439,180

15. Accounting Standards Updates

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, 2021 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 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, 2023. 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, 2021 and is not expected to have a significant impact on its consolidated financial statements.

15. Accounting Standards Updates (continued)

ASU – 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans,* made minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The new guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. ASU 2018-14 will be effective for the Bank on January 1, 2022. The Bank is evaluating the potential impact of ASU 2018-14 to its consolidated financial statements.

16. Subsequent Events

On January 29, 2020, the U.S. Government signed into law the United States-Mexico-Canada Agreement (USMCA). Within this legislation, the U.S. authorized 22,500 shares of paid in capital with a par value of $10,000 per share or $225,000,000 and appropriations of $215,000,000. Prior to this date, the capital shares were conditionally subscribed subject to the necessary authorizing legislation and availability of appropriations.

Supplementary Information

North American Development Bank
Statement of Income of NADB Office in Juarez, Chihuahua (Unaudited)
For the Year Ended December 31, 2019

	EPA				
	PDAP	**Border 2020**	**Other**	**Operation**	**Total**
Income:					
U.S. State Department contribution	$ -	$ -	$ -	$ 2,902,000	$ 2,902,000
SEMARNAT contribution	-	-	-	1,793,750	1,793,750
U.S. Environmental Protection Agency:					
Project Development Assistance Program (PDAP) grant income	1,652,132	-	-	-	1,652,132
U.S.-Mexico Border 2020 Program grant income	-	678,664	-	-	678,664
Other grant income	-	-	32,687	-	32,687
Interest income	-	-	-	2,622	2,622
Other income	-	-	-	7,327	7,327
Total income	1,652,132	678,664	32,687	4,705,699	7,069,182
Operating expenses:					
Personnel	535,262	224,174	25,050	3,284,626	4,069,112
General and administrative	136,388	52,781	7,637	488,384	685,190
Consultants	3,788	18,109	-	169,376	191,273
Depreciation	-	-	-	11,318	11,318
Total operating expenses	675,438	295,064	32,687	3,953,704	4,956,893
Income before program activities	976,694	383,600	-	751,995	2,112,289
Technical assistance expenses	976,694	542,426	-	257,648	1,776,768
Net income (loss)	$ -	$ (158,826)	$ -	$ 494,347	$ 335,521

North American Development Bank
Border Environment Infrastructure Fund (BEIF) (Unaudited)
As of and for the Year Ended December 31, 2019

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	735,107	262,205	$ 997,312
Total income	735,107	262,205	997,312
BEIF Operating Expenses:			
Personnel	421,761	208,990	630,751
Consultants	291,414	36,718	328,132
General and administrative	10,767	66	10,833
Operational Travel	11,165	16,431	27,596
Total BEIF operating expenses	735,107	262,205	997,312
Net income	$ -	$ -	$ -

STATEMENT OF CASH FLOWS

	Region 6	Region 9	Total
Cash flows from operating activities:			
Net income	$ -	$ -	$ -
Net cash provided by operating activities	-	-	-
Cash flows from financing activities:			
Grant funds - EPA	9,038,385	2,569,289	11,607,674
Grant disbursements - EPA	(9,038,385)	(2,569,289)	(11,607,674)
Net cash provided by financing activities	-	-	-
Net increase in cash and cash equivalents	-	-	-
Cash and cash equivalents at January 1, 2019	501	501	1,002
Cash and cash equivalents at December 31, 2019	$ 501	$ 501	$ 1,002

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