NORTH AMERICAN DEVELOPMENT BANK

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (UNAUDITED)

JUNE 30, 2019

North American Development Bank (NADB)

Consolidated Financial Statements and Supplementary Information (Unaudited)
June 30, 2019

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North American Development Bank
Consolidated Balance Sheets
As of June 30, 2019 and December 31, 2018

	(Unaudited) June 30, 2019	**(Audited) December 31, 2018**
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	$ 411,264	$ 374,898
Held at other financial institutions in interest bearing accounts	46,640,700	48,419,515
Repurchase agreements	85,600,000	126,300,000
	132,651,964	175,094,413
Held-to-maturity investment securities, at amortized cost	3,992,158	3,335,360
Available-for-sale investment securities, at fair value	633,265,961	620,823,835
Loans outstanding	1,298,761,422	1,284,477,904
Allowance for loan losses	(18,645,375)	(19,154,507)
Unamortized loan fees	(12,175,429)	(12,685,298)
Fc Total unrealized gain on available-for-sale investment securities	(36,835,451)	(40,516,565)
Hedged items, at fair value	(97,964,910)	(155,900,516)
Net loans outstanding	1,133,140,257	1,056,221,018
Interest receivable	26,623,502	15,941,621
Grant and other receivable	4,401,541	1,499,144
Furniture, equipment and leasehold improvements, net	202,477	251,731
Other assets	82,716,463	85,890,652
Total assets	$ 2,016,994,323	$ 1,959,057,774
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 7,102,180	$ 1,064,675
Accrued liabilities	2,295,146	2,560,410
Accrued interest payable	19,484,406	18,367,661
Undisbursed grant funds	35,117	1,002
Other liabilities	896,687	7,257,372
Short-term debt, net of discounts and unamortized debt issuance costs	255,124,730	5,263,000
Hedged item, at fair value	1,773,285	-
Net short-term debt	256,898,015	5,263,000
Long-term debt, net of discounts and unamortized debt issuance costs	1,052,782,467	1,304,721,548
Hedged items, at fair value	5,541,052	(33,204,590)
Net long-term debt	1,058,323,519	1,271,516,958
Total liabilities	1,345,035,070	1,306,031,078
Equity:		
Paid-in capital	415,000,000	415,000,000
General Reserve:		
Retained earnings:		
Designated	10,926,382	10,988,220
Reserved	162,103,858	162,065,724
Undesignated	71,853,419	55,843,436
Accumulated other comprehensive income	12,070,353	9,124,014
Non-controlling interest	5,241	5,302
Total equity	671,959,253	653,026,696
Total liabilities and equity	$ 2,016,994,323	$ 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 (Unaudited)
For the Six Months Ended June 30, 2019 and 2018

	For the Six Months Ended June 30, 2019	2018
Interest income:		
Loans	$ 34,046,500	$ 29,431,142
Investments	9,532,956	7,467,534
Total interest income	43,579,456	36,898,676
Interest expense	23,817,604	21,822,970
Net interest income	19,761,852	15,075,706
Operating expenses:		
Personnel	6,152,743	6,023,963
General and administrative	1,023,787	1,057,767
Consultants and contractors	778,468	757,731
Provision for loan losses	(509,132)	(1,915,322)
Other	(26,450)	(74,426)
Depreciation	68,705	88,951
U.S. Domestic Program	-	93,395
Total operating expenses	7,488,121	6,032,059
Net operating income	12,273,731	9,043,647
Non-interest income and non-operating (expenses):		
U.S. State Department contribution	1,200,000	881,411
Ministry of Environment and Natural Resources (SEMARNAT) contribution	661,750	1,793,750
Gain on securities	3,569	4,980
Income (expenses) from hedging activities, net	2,023,590	667,458
Income from foreign exchange activities, net	-	213,393
Fees and other income	23,280	428
Loss on other real estate owned	-	(289,775)
Total non-interest income	3,912,189	3,271,645
Income before program activities	16,185,920	12,315,292
Program activities:		
Border Environmental Infrastructure Fund (BEIF):		
U.S. Environmental Protection Agency (EPA) grant income	448,098	495,243
EPA grant administration expense	(448,098)	(495,243)
Community Assistance Program expense	(10,312)	(1,138,478)
Technical Assistance Program:		
EPA grant income	749,187	859,032
EPA grant administration expense	(451,648)	(424,390)
Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income	-	10,621
Technical assistance expenses	(486,929)	(589,769)
Other grant income	28,570	-
Other grant administration	(28,570)	-
Net program expenses	(199,702)	(1,282,984)
Income before non-controlling interest	15,986,218	11,032,308
Net loss attributable to non-controlling interest	(61)	(78)
Net income attributable to NADB	$ 15,986,279	$ 11,032,386

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

North American Development Bank
Consolidated Statements of Comprehensive Income
For the Six Months Ended June 30, 2019 and Year Ended December 31, 2018

	(Unaudited) Six Months Ended June 30, 2019	(Audited) Year Ended December 31, 2018
Income before non-controlling interest	$ 15,986,218	$ 21,125,797
Net loss attributable to non-controlling interest	(61)	(173)
Net income attributable to NADB	15,986,279	21,125,970
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	4,525,832	96,684
Reclassification adjustment for net gains included in net income	(1,073)	(2,611)
Total unrealized gain on available-for-sale investment securities	4,524,759	94,073
Foreign currency translation adjustment	(39,477)	3,803
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	3,681,114	5,480,786
Fair value of cross-currency interest rate swaps, net	(5,220,057)	(8,221,092)
Total unrealized loss on hedging activities	(1,538,943)	(2,740,306)
Total other comprehensive income (loss)	2,946,339	(2,642,430)
Total comprehensive income	$ 18,932,618	$ 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 Six Months Ended June 30, 2019 and Year Ended December 31, 2018

		General Reserve		Accumulated		
	Paid-In Capital	Allocated Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
Beginning balance, January 1, 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	-	-	15,986,279	-	-	15,986,279
Other comprehensive income	-	-	-	2,946,339	-	2,946,339
Non-controlling interest	-	-	-	-	(61)	(61)
Ending balance, June 30, 2019 (Unaudited)	$ 415,000,000	$ -	$ 244,883,659	$ 12,070,353	$ 5,241	$ 671,959,253

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 Six Months Ended June 30, 2019 and 2018

	For the Six Months Ended June 30,	
	2019	**2018**
Cash flows from operating activities		
Net income	$ 15,986,279	$ 11,032,386
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	68,705	88,951
Amortization of net premiums (discounts) on investments	(2,442,505)	(924,405)
Change in fair value of swaps, hedged items and other non-cash items	(25,818,975)	(20,487,015)
Non-controlling interest	(61)	(78)
Gains on securities, net	(1,073)	(4,980)
Provision for loan losses	(509,132)	(1,915,322)
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	(10,681,882)	451,731
(Increase) decrease in receivable and other assets	(2,902,397)	2,851,950
Increase (decrease) in accounts payable	6,037,505	(148,416)
Decrease in accrued liabilities	(265,264)	(522,337)
Increase in accrued interest payable	1,116,745	212,458
Net cash used in operating activities	(19,412,055)	(9,365,077)
Cash flows from lending, investing, and development activities		
Capital expenditures	(19,405)	(36,673)
Loan principal repayments	24,916,014	71,199,537
Loan disbursements	(39,199,532)	(64,021,412)
Purchase of held-to-maturity investments	(1,200,000)	-
Purchase of available-for-sale investments	(138,752,866)	(305,075,865)
Proceeds from maturities of held-to-maturity investments	543,000	-
Proceeds from sales and maturities of available-for-sale investments	133,279,280	292,915,566
Net cash used in lending, investing, and development activities	(20,433,509)	(5,018,847)
Cash flows from financing activities		
Principal repayment of other borrowings	(2,631,000)	(2,631,000)
Grant funds from the Environmental Protection Agency (EPA)	4,282,650	13,902,290
Grant funds from other sources	100,659	-
Grant disbursements - EPA	(4,282,639)	(13,896,376)
Grant activity - U.S. Domestic Program	-	(250,000)
Grant disbursements from other sources	(66,555)	-
Net cash used in financing activities	(2,596,885)	(2,875,086)
Net decrease in cash and cash equivalents	(42,442,449)	(17,259,010)
Cash and cash equivalents at January 1, 2019 and 2018	175,094,413	164,286,581
Cash and cash equivalents at June 30, 2019 and 2018	$ 132,651,964	$ 147,027,571
Supplemental cash information		
Cash paid during the year for interest	$ 16,355,607	$ 19,952,384
Significant non-cash transactions		
Foreign currency translation adjustment	$ 3,681,114	$ 1,669,490
Change in fair value of cross-currency interest rate swaps, net	(5,220,057)	(6,918,454)
Change in fair value of available-for-sales investments, net	4,524,759	(1,543,147)

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) and the Border Environment Cooperation Commission (BECC) were established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance infrastructure projects in the U.S.-Mexico border region and support domestic programs for community adjustment and investment projects throughout the U.S. and Mexico (the Domestic Programs). BECC was created to review the environmental aspects of projects seeking financing from the Bank and to recommend their certification to the Board of Directors. On March 16, 1994, the President of the United States issued an Executive Order designating the Bank as an international organization under the International Organization Immunities Act.

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

The Bank provides loan and grant financing and technical assistance for infrastructure projects certified by the Board, as appropriate, and administers grant funding provided by other entities. The Bank also contributed 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 June 30, 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include the valuation of investments, allowance for loan losses, the fair value of derivative instruments and other real estate owned included in other assets, and the fair value of derivative instruments included in other liabilities and in long-term debt. Actual results could differ from those estimates.

Asset Acquisition: Border Environment Cooperation Commission (BECC) Integration

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

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

2. Summary of Significant Accounting Policies (continued)

Repurchase Agreements

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

Investment Securities

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

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

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

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

The accretion of discounts and the amortization of premiums are computed using the interest method. Realized gains and losses are determined using the specific identification method. Investments in a loss position are reviewed to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the credit component of the loss would be included in current earnings. The Bank had no securities classified as other-than-temporarily impaired June 30, 2019 and December 31, 2018.

Taxation

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

Furniture, Equipment, and Leasehold Improvements

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

2. Summary of Significant Accounting Policies (continued)

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.

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).

2. Summary of Significant Accounting Policies (continued)

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan losses incurred as of the financial statement date. Determining the appropriate allowance for loan losses involves significant judgment about when a loss has been incurred and the amount of that loss. A general allowance for all loans is established based on statistical cumulative default and recovery rates for project finance loans. A specific allowance is established for impaired loans when it is probable that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate or the fair value of the collateral, if the loan is collateral-dependent.

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

Credit Quality

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

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

Program Activities

Grant income 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 under cooperative 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.

2. Summary of Significant Accounting Policies (continued)

Foreign Currency

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

The lending activities of the Bank include making loans that are denominated in Mexican pesos. For such loans, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of June 30, 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 June 30, 2019 and December 31, 2018 was $(36,835,451) and $(40,516,565), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

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

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.

2. Summary of Significant Accounting Policies (continued)

Fair Value

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

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

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

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

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

Accumulated Other Comprehensive Income

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

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 June 30, 2019 and December 31, 2018.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2019				
Held-to-maturity:				
U.S. government securities	$ 1,806,158	$ 17,686	$ –	$ 1,823,844
U.S. agency securities	2,186,000	–	(4,020)	2,181,980
Total held-to-maturity investment securities	3,992,158	17,686	(4,020)	4,005,824
Available-for-sale:				
U.S. government securities	306,438,482	1,468,476	(174,806)	307,732,152
U.S. agency securities	93,835,026	175,462	(97,428)	93,913,060
Corporate debt securities	153,103,620	638,651	(66,601)	153,675,670
Other fixed-income securities	60,423,955	113,217	(30,248)	60,506,924
Mexican government securities (UMS)	17,269,464	184,397	(15,706)	17,438,155
Total available-for-sale investment securities	631,070,547	2,580,203	(384,789)	633,265,961
Total investment securities	$ 635,062,705	$ 2,597,889	$ (388,809)	$ 637,271,785
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 June 30, 2019 and December 31, 2018.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2019						
Held-to-maturity:						
U.S. agency securities	$ 2,181,980	$ 4,020	$ –	$ –	$ 2,181,980	$ 4,020
Available-for-sale:						
U.S. government securities	35,882,218	174,806	–	–	35,882,218	174,806
U.S. agency securities	24,177,714	97,429	–	–	24,177,714	97,429
Corporate debt securities	19,899,786	66,600	–	–	19,899,786	66,600
Other fixed-income securities	5,378,737	30,247	–	–	5,378,737	30,247
Mexican government securities (UMS)	3,471,424	15,707	–	–	3,471,424	15,707
Total available-for-sale investment securities	88,809,879	384,789	–	–	88,809,879	384,789
Total temporarily impaired securities	$ 90,991,859	$ 388,809	$ –	$ –	$ 90,991,859	$ 388,809
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 June 30, 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 June 30, 2019 and December 31, 2018 are summarized in the following tables.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
June 30, 2019				
Less than 1 year	$ 2,793,767	$ 2,792,360	$ 500,817,997	$ 499,865,641
1–5 years	1,212,057	1,199,798	132,447,964	131,204,906
5–10 years	–	–	–	–
More than 10 years	–	–	–	–
	$ 4,005,824	$ 3,992,158	$ 633,265,961	$ 631,070,547
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 six months ended June 30, 2019 and 2018.

	Six Months Ended June 30,	
	2019	2018
Held-to-maturity investment securities:		
Proceeds from maturities	$ 543,000	$ –
Available-for-sale investment securities:		
Proceeds from sales and maturities	133,279,280	292,915,566
Gross realized gains	1,073	4,980
Gross realized losses	–	–

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 six months ended June 30, 2019 and the year ended December 31, 2018.

	Six Months Ended June 30, 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	4,525,833	96,684
Reclassification adjustments for net (gains) losses on investment securities available-for-sale included in net income	(1,073)	(2,611)
Net unrealized gains (losses) on investment securities available-for-sale, end of period	$ 2,195,414	$ (2,329,346)

4. Loans

The following schedule summarizes loans outstanding as of June 30, 2019 and December 31, 2018.

	June 30, 2019	December 31, 2018
Loan balance	$ 1,298,761,422	$ 1,284,477,904
Allowance for loan losses:		
General	(16,499,410)	(16,827,406)
Specific	(2,145,965)	(2,327,101)
Unamortized loan fees	(12,175,429)	(12,685,298)
Foreign currency exchange rate adjustment	(36,835,451)	(40,516,565)
Fair value of hedged items	(97,964,910)	(155,900,516)
Net loans outstanding	$ 1,133,140,257	$ 1,056,221,018

At June 30, 2019 and December 31, 2018, outstanding unfunded loan commitments on signed loan agreements totaled $98,592,945 and $150,637,189, respectively. As of June 30, 2019, the Bank had loan agreements under development for an additional $138,438,451.

The Bank under certain circumstances offered below-market-rate loans. As of June 30, 2019 and December 31, 2018, the Bank had below-market-rate loans outstanding of $29,803,874 and $31,504,406, respectively.

4. Loans (continued)

The following table presents the loan portfolio by sector as of June 30, 2019 and December 31, 2018.

	June 30, 2019	December 31, 2018
Air quality	$ 83,366,669	$ 86,833,221
Basic urban infrastructure	35,397,981	36,005,319
Clean energy:		
Solar	314,575,051	312,603,682
Wind	654,433,942	644,675,776
Other	3,364,138	3,552,841
Public transportation	50,030,364	38,390,399
Storm drainage	11,449,121	11,974,394
Water and wastewater	146,144,156	150,442,272
	$ 1,298,761,422	$ 1,284,477,904

The following table presents the loan portfolio by risk category as of June 30, 2019 and December 31, 2018. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	June 30, 2019	December 31 2018
Pass	$ 1,284,420,575	$ 1,269,843,286
Special Mention	14,340,847	14,634,618
Substandard	–	–
Doubtful	–	–
	$ 1,298,761,422	$ 1,284,477,904

As of June 30, 2019 and December 31, 2018, the Bank had one non-accrual loan with an outstanding balance of $14,340,847 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 $2,145,965 and $2,327,101 as of June 30, 2019 and December 31, 2018, respectively.

No non-accrual loans were restructured during the six months ended June 30, 2019.

The average impaired loan balance for the six months ended June 30, 2019 and the year ended December 31, 2018 totaled $14,401,214 and $14,407,620, respectively.

4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of June 30, 2019 and December 31, 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
June 30, 2019	$ –	$ –	$ –
December 31, 2018	–	–	–

There were no loans past due 90 or more days accruing interest as of June 30, 2019 and December 31, 2018.

The following table summarizes the allowance for loan losses by classification as of June 30, 2019 and December 31, 2018.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
June 30, 2019				
Private:				
Construction	$ 1,442,125	$ –	$ 1,442,125	$ 43,743,188
Operation	13,664,732	2,145,965	15,810,697	976,507,631
Public	939,800	–	939,800	187,959,992
Public-private	452,753	–	452,753	90,550,611
	$ 16,499,410	$ 2,145,965	$ 18,645,375	$ 1,298,761,422
December 31, 2018				
Private:				
Construction	$ 6,492,135	$ –	$ 6,492,135	$ 185,874,070
Operation	8,897,754	2,327,101	11,224,855	811,100,357
Public	976,084	–	976,084	195,216,867
Public-private	461,433	–	461,433	92,286,610
	$ 16,827,406	$ 2,327,101	$ 19,154,507	$ 1,284,477,904

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

4. Loans (continued)

The following schedule summarizes the allowance for loan losses for the six months ended June 30, 2019 and the year ended December 31, 2018.

	Allowance for Loan Losses				
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
June 30, 2019					
Private:					
Construction	$ 6,492,135	$ –	$ (5,050,010)	$ –	$ 1,442,125
Operation	11,224,855	(181,136)	4,766,978	–	15,810,697
Public	976,084	–	(36,284)	–	939,800
Public-private	461,433	–	(8,680)	–	452,753
	$ 19,154,507	$ (181,136)	$ (327,996)	$ –	$ 18,645,375
December 31, 2018					
Private:					
Construction	$ 1,267,448	$ –	$ 5,224,687	$ –	$ 6,492,135
Operation	18,095,463	(342,446)	(6,528,162)	–	11,224,855
Public	1,262,795	–	(286,711)	–	976,084
Public-private	482,239	–	(20,806)	–	461,433
	$ 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 June 30, 2019 and December 31, 2018.

	Gross Amount	Master Netting Arrangements	Net Amount
June 30, 2019			
Assets			
Cross-currency interest rate swaps	$ 189,007,726	$ (31,800,278)	$ 157,207,448
Interest rate swaps	3,869,023	(605,460)	3,263,563
Collateral from swap counterparty	(76,570,000)	–	(76,570,000)
Credit valuation adjustment for swaps	(1,184,549)	–	(1,184,549)
Total other assets	$ 115,122,200	$ (32,405,738)	$ 82,716,462
Liabilities			
Cross-currency interest rate swaps	$ 896,687	$ –	$ 896,687
Total other liabilities	$ 896,687	$ –	$ 896,687
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 June 30, 2019 and December 31, 2018.

Issue Date	Maturity Date	Fixed Rate	June 30, 2019 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	$ (40,056)	$ (99,214)	$ 1,773,285	$ 251,634,015
10/26/12	10/26/22	2.400	250,000,000	(285,711)	(494,059)	492,301	249,712,531
12/17/12	10/26/22	2.400	180,000,000	(1,257,216)	(312,949)	(605,459)	177,824,376
12/17/12	12/17/30	3.300	50,000,000	–	(197,053)	1,603,438	51,406,385
CHF Issuance							
04/30/15	04/30/25	0.250	128,706,754	476,808	(484,563)	2,183,003	130,882,002
04/26/17	10/26/27	0.200	124,443,117	320,882	(595,445)	4,121,557	128,290,111
07/24/18	07/24/26	0.300	126,415,858	132,084	(719,633)	7,106,088	132,934,397
NOK Issuance							
03/10/17	03/10/32	2.470	173,448,566	–	(502,972)	(9,359,876)	163,585,718
Total notes payable			1,283,014,295	(653,209)	(3,405,888)	7,314,337	1,286,269,535
Other Borrowings							
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			28,952,000	–	–	–	28,952,000
			$ 1,311,966,295	$ (653,209)	$ (3,405,888)	$ 7,314,337	$ 1,315,221,535

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 June 30, 2019 as other assets of $3,263,563 and other liabilities of $0 and at December 31, 2018 $(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 June 30, 2019 as other assets of $8,582,352 and at December 31, 2018 as other assets of $(15,958,507). Additional information on the fair value of financial instruments and derivatives is provided in Notes 11 and 12.

Other Borrowings

On November 8, 2012, the Bank signed a loan commitment with another development bank to borrow up to $50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. As of June 30, 2019, and December 31, 2018, the outstanding balance was $28,952,000 and $31,583,000, respectively.

The following table summarizes the maturities of the notes payable and other borrowings as of June 30, 2019 and December 31, 2018.

	June 30, 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	5,264,000	5,264,000
3–4 years	435,264,000	435,264,000
4–5 years	5,264,000	5,264,000
5–10 years	382,197,729	384,829,729
More than 10 years	223,448,566	223,448,566
Total	$ 1,311,966,295	$ 1,314,597,295

The following table summarizes short-term and long-term debt as of June 30, 2019 and December 31, 2018.

	June 30, 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	23,688,000	26,320,000
Total long-term debt	1,056,702,295	1,309,334,295
Total debt	$ 1,311,966,295	$ 1,314,597,295

7. Equity

Subscribed Capital

At June 30, 2019 and December 31, 2018, 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 June 30, 2019 and December 31, 2018 as shown in the following table.

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

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

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

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.

7. Equity (continued)

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

Retained Earnings

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

	June 30, 2019	December 31, 2018
Designated retained earnings		
Water Conservation Investment Fund (WCIF)	$ 95,594	$ 95,594
Technical Assistance Program (TAP)	2,873,256	2,924,782
Community Assistance Program (CAP)	7,957,532	7,967,844
Total designated retained earnings	10,926,382	10,988,220
Reserved retained earnings		
Debt Service Reserve	49,200,000	49,200,000
Operating Expenses Reserve	21,812,376	21,774,242
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	61,091,482	61,091,482
Total reserved retained earnings	162,103,858	162,065,724
Undesignated retained earnings		
Operations	65,155,509	51,178,760
Mark-to-Market Hedge Valuations	6,697,910	4,664,676
Total undesignated retained earnings	71,853,419	55,843,436
Total retained earnings	$ 244,883,659	$ 228,897,380

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

7. Equity (continued)

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for six months ended June 30, 2019 and the year ended December 31, 2018.

	Beginning Balance	Period Activity	Ending Balance
June 30, 2019			
Net unrealized gain (loss) on available-for-sale investment securities	$ (2,329,346)	$ 4,524,759	$ 2,195,413
Foreign currency translation adjustment	337,247	(39,477)	297,770
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(40,516,565)	3,681,114	(36,835,451)
Fair value of cross-currency interest rate swaps	51,632,678	(5,220,057)	46,412,621
Net unrealized gain (loss) on hedging activities	11,116,113	(1,538,943)	9,577,170
Total accumulated other comprehensive gain (loss)	$ 9,124,014	$ 2,946,339	$ 12,070,353
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, 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.

8. Domestic Programs (continued)

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 six months ended June 30, 2019 and 2018, the U.S. Domestic Program had total interest income of $0 and $1,636, respectively. Total expenses for the same periods paid from U.S. Domestic Program funds were $0 and $93,395, 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 six months ended June 30, 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 June 30, 2019 and December 31, 2018, the outstanding liabilities from this program totaled $55,763 and $107,894, respectively.

9. Program Activities

Program activities are comprised of the following:

	Six Months ended June 30, 2019	Six Months ended June 30, 2018
Program income:		
Border Environment Infrastructure Fund (BEIF)		
EPA grant income	$ 448,098	$ 495,243
Technical Assistance Program:		
EPA grant income		
Project Development Assistance Program (PDAP)	485,484	632,650
U.S. Mexico Border 2020 Program (Border 2020)	263,703	226,382
IDB Multilateral Investment Fund (MIF) grant income	–	10,621
Other grant income	28,570	–
Total program income	1,225,855	1,364,896
Program expenses:		
BEIF:		
EPA grant administration	448,098	495,243
Community Assistance Program	10,312	1,138,478
Technical Assistance Program:		
NADB technical assistance and training expense	93,526	144,506
EPA grant administration	451,648	424,390
EPA grant expense – PDAP	172,520	271,210
EPA grant expense – Border 2020	220,883	163,432
IDB-MIF grant expense	–	10,621
Other grant administration	28,570	–
Total program expenses	1,425,557	2,647,880
Net program expenses	$ 199,702	$ 1,282,984

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 June 30, 2019, total $707,722,862. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA, which approves the projects. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

As of June 30, 2019, EPA has approved project funding proposed by the Bank totaling $670,123,429, of which $642,879,370 has been disbursed through the Bank. The Bank recognized $448,098 and $495,243 as reimbursement of expenses incurred for the six months ended June 30, 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 six months ended June 30, 2019 and 2018, no funds were disbursed under this program. As of June 30, 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 June 30, 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 June 30, 2019, a cumulative total of $14,092,840 has been allocated to the CAP. For the six months ended June 30, 2019 and 2018, $10,312 and $1,138,478, 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 six months ended June 30, 2019 and 2018, $51,526 and $144,506, 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 six months ended June 30, 2019 and 2018, $42,000 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 PDAP program was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grants from EPA, on a reimbursement basis, to assist communities in the development of water and wastewater projects that have been prioritized by EPA to receive BEIF grants. For the six months ended

9. Program Activities (continued)

June 30, 2019 and 2018, the Bank recognized $172,520 and $271,210, respectively, in technical assistance expenses. as well as $312,964 and $361,440 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 Border 2020 program was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grant funds from EPA, on a reimbursement basis, to support joint efforts of the two governments to improve the environment and protect the health of residents within 100 kilometers of the U.S.-Mexico border. The Bank provides logistical and administrative services to identify, contract and manage projects and workshops funded under the program. For the six months ended June 30, 2019 and 2018, the Bank recognized $220,883 and $163,432, respectively, in technical assistance expenses, as well as $138,684 and $62,950 in grant administrative expenses, respectively. The Bank recognized $263,703 and $226,382 as reimbursement of expenses incurred for the six months ended June 30, 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 MIF grant was administered previously by BECC. On November 10, 2017, the date of integration, the Bank began administering grant funds provided by MIF, on a reimbursement basis, to support the development and implementation of a sustainable e-waste management and recycling system in Mexicali, Baja California. The Bank recognized $0 and $10,621 in technical assistance expense for the six months ended June 30, 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 six months ended June 30, 2019 and 2018, the Bank expended $564,594 and $554,360, respectively, relating to the plan.

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

11. Fair Value of Financial Instruments

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

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

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

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

Loans Receivable and Interest Receivable
The fair value of loans is estimated based on Level 2 observable inputs using discounted cash flow analyses and interest rates currently being offered for loans made by the Bank with similar terms to borrowers of similar credit quality, net of allowance for loan loss, unamortized loan fees, foreign currency exchange rate adjustment and hedged items. 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

11. Fair Value of Financial Instruments (continued)

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.

Hedged Items for Notes Payable

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

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

	June 30, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 132,651,964	$ 132,651,964	$ 175,094,413	$ 175,094,413
Held-to-maturity securities	3,992,158	4,005,824	3,335,360	3,313,703
Available-for-sale securities	633,265,961	633,265,961	620,823,835	620,823,835
Loans, net	1,133,140,257	1,182,970,980	1,056,221,018	1,074,690,417
Interest receivable	26,623,502	26,623,502	15,941,621	15,941,621
Cross-currency interest rate swaps	157,207,448	157,207,448	193,465,335	193,465,335
Interest rate swaps	3,263,563	3,263,563	(5,904,367)	(5,904,367)
Liabilities				
Accrued interest payable	19,484,406	19,484,406	18,367,661	18,367,661
Short-term debt, net	255,124,730	255,582,416	5,263,000	5,263,000
Long-term debt, net	1,052,782,467	1,052,446,143	1,304,721,548	1,304,693,268
Cross-currency interest rate swaps	896,687	896,687	–	–
Interest rate swaps	–	–	7,257,372	7,257,372

11. Fair Value of Financial Instruments (continued)

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2019 and December 31, 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
June 30, 2019				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 307,732,152	$ –	$ –	$ 307,732,152
U.S. agency securities	–	93,913,060	–	93,913,060
Corporate debt securities	–	153,675,670	–	153,675,670
Other fixed-income securities	–	60,506,924	–	60,506,924
Mexican government securities (UMS)	–	17,438,155	–	17,438,155
Total AFS securities	307,732,152	325,533,809	–	633,265,961
Cross-currency interest rate swaps	–	–	157,207,448	157,207,448
Interest rate swaps	–	–	3,263,563	3,263,563
Hedged items for loans	–	–	(97,964,910	(97,964,910
Total assets at fair value	$ 307,732,152	$ 325,533,809	$ 62,506,101	$ 695,772,062
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ 896,687	$ 896,687
Interest rate swaps	–	–	–	–
Hedged item for notes payable	–	–	7,314,337	7,314,337
Total liabilities at fair value	$ –	$ –	$ 8,211,024	$ 8,211,024
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 six months ended June 30, 2019 and the year ended December 31, 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)	(25,133,463)	3,263,563	57,935,606
Included in other comprehensive income (loss)	(5,220,057)	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, June 30, 2019	$ 157,207,448	$ 3,263,563	$ (97,964,910)
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	896,687	(7,257,372)	40,518,927
Included in other comprehensive income	–	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, June 30, 2019	$ 896,687	$ –	$ 7,314,337
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 six months ended June 30, 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 June 30, 2019 and December 31, 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 $76,570,000 and $100,360,000 was posted from counterparties to the Bank as of June 30, 2019 and December 31, 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 June 30, 2019 and December 31, 2018 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	June 30, 2019		December 31, 2018	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	$ 1,071,449,962	$ 156,310,762	$ 1,071,857,976	$ 193,465,335
Interest rate swaps	956,929,502	3,263,563	951,701,197	(13,161,739)

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at June 30, 2019 and December 31, 2018 was 5.22% 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 June 30, 2019 and December 31, 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 $9,577,170 and $11,116,113 at June 30, 2019 and December 31, 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 six months ended June 30, 2019 and 2018, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $1,897,823 and $834,089, 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 six months ended June 30, 2019 and 2018, changes in the aforementioned swaps included the accompanying consolidated statements of income were $0.

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 June 30, 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 $161,730 and $124,220 for the six months ended June 30, 2019 and 2018, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

July 1 - December 31, 2019	$	130,698
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
	$	1,569,878

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, 2020 and will require transition using a modified retrospective approach for leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements. Notwithstanding the foregoing, in January 2018, the Financial Accounting Standards Board issued a proposal to provide an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Bank is evaluating the potential impact of ASU 2016-02 to its consolidated financial statements and disclosures

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

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

Supplementary Information

North American Development Bank
Statement of Income of NADB Office in Juarez, Chihuahua (Unaudited)
For the Six Months Ended June 30, 2019

	EPA				
	PDAP	**Border 2020**	**Other**	**Operation**	**Total**
Income:					
U.S. State Department contribution	$ -	$ -	$ -	$ 1,200,000	$ 1,200,000
SEMARNAT contribution	-	-	-	661,750	661,750
U.S. Environmental Protection Agency:					
Project Development Assistance Program (PDAP) grant income	485,484	-	-	-	485,484
U.S.-Mexico Border 2020 Program grant income	-	263,703	-	-	263,703
Other grant income	-	-	28,570	-	28,570
Interest income	-	-	-	789	789
Other income	-	-	-	7,327	7,327
Total income	485,484	263,703	28,570	1,869,866	2,647,623
Operating expenses:					
Personnel	263,508	110,078	21,796	1,558,825	1,954,207
General and administrative	47,863	17,700	6,774	274,007	346,344
Consultants	1,593	10,906	-	64,792	77,291
Other	-	-	-	-	-
Depreciation	-	-	-	5,507	5,507
Total operating expenses	312,964	138,684	28,570	1,903,131	2,383,349
Income before program activities	172,520	125,019	-	(33,265)	264,274
Technical assistance expenses	172,520	220,883	-	93,526	486,929
Net loss	$ -	$ (95,864)	$ -	$ (126,791)	$ (222,655)