NORTH AMERICAN DEVELOPMENT BANK

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (UNAUDITED)

JUNE 30, 2018

North American Development Bank (NADB)

Consolidated Financial Statements and Supplementary Information (Unaudited)
June 30, 2018

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North American Development Bank
Consolidated Balance Sheets
June 30, 2018 and December 31, 2017

	(Unaudited) June 30, 2018	(Audited) December 31, 2017
Assets		
Cash and cash equivalents:		
Held at other financial institutions in demand deposit accounts	$ 314,451	$ 543,712
Held at other financial institutions in interest bearing accounts	28,213,120	26,742,869
Repurchase agreements	118,500,000	137,000,000
	147,027,571	164,286,581
Held-to-maturity investment securities, at amortized cost	3,904,396	3,904,396
Available-for-sale investment securities, at fair value	798,828,715	787,282,178
Loans outstanding	1,286,628,630	1,293,806,755
Allowance for loan losses	(19,192,623)	(21,107,945)
Unamortized loan fees	(11,843,537)	(11,711,140)
Foreign currency exchange rate adjustment	(44,327,860)	(45,997,351)
Hedged items, at fair value	(148,625,872)	(144,105,721)
Net loans outstanding	1,062,638,738	1,070,884,598
Interest receivable	28,329,916	28,781,647
Grant and other receivable	4,123,321	4,523,939
Furniture, equipment and leasehold improvements, net	302,505	354,961
Other assets	92,043,013	86,241,301
Total assets	$ 2,137,198,175	$ 2,146,259,601
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 6,600,690	$ 6,749,106
Accrued liabilities	863,452	1,385,789
Accrued interest payable	21,910,126	21,697,668
Undisbursed grant funds	6,916	1,002
Other liabilities	18,605,637	-
Short-term debt, net of discount and unamortized debt issuance costs	304,856,818	304,660,489
Hedged item, at fair value	(725,085)	(708,958)
Net short-term debt	304,131,733	303,951,531
Long-term debt, net of discount and unamortized debt issuance costs	1,181,117,113	1,183,283,306
Hedged items, at fair value	(34,838,109)	(5,602,130)
Net long-term debt	1,146,279,004	1,177,681,176
Total liabilities	1,498,397,558	1,511,466,272
Equity:		
Paid-in capital	415,000,000	415,000,000
General Reserve:		
Allocated paid-in capital	2,088,897	2,338,897
Retained earnings:		
Designated	10,288,979	11,663,722
Reserved	143,707,330	137,602,160
Undesignated	62,718,583	56,416,631
Accumulated other comprehensive income	4,991,424	11,766,444
Non-controlling interest	5,404	5,475
Total equity	638,800,617	634,793,329
Total liabilities and equity	$ 2,137,198,175	$ 2,146,259,601

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, 2018 and 2017

	For the Six Months Ended June 30,	
	2018	**2017**
Interest income:		
Loans	$ 29,431,142	$ 27,471,679
Investments	7,467,534	4,670,971
Total interest income	36,898,676	32,142,650
Interest expense	21,822,970	14,025,805
Net interest income	15,075,706	18,116,845
Operating expenses:		
Personnel	6,023,963	3,702,022
[redacted]	[redacted]	779,212
[redacted]	[redacted]	893,543
[redacted]	[redacted]	740,774
[redacted]	[redacted]	(135,780)
[redacted]	[redacted]	82,097
[redacted]	[redacted]	104,299
[redacted]	[redacted]	6,166,167
[redacted]	[redacted]	11,950,678
[redacted]	[redacted]	-
[redacted]	[redacted]	-
[redacted]	[redacted]	36,091
[redacted]	[redacted]	2,235,973
[redacted]	[redacted]	334,489
[redacted]	[redacted]	1,823
[redacted]	[redacted]	-
[redacted]	[redacted]	2,608,376
[redacted]	[redacted]	14,559,054
[redacted]	[redacted]	269,166
[redacted]	[redacted]	(269,166)
[redacted]	[redacted]	(258,612)
[redacted]	[redacted]	-
[redacted]	[redacted]	-
[redacted]	[redacted]	-
[redacted]	[redacted]	(404,014)
[redacted]	[redacted]	(662,626)
[redacted]	[redacted]	13,896,428
[redacted]	[redacted]	(64)
[redacted]	[redacted]	$ 13,896,492

North American Development Bank
Consolidated Statements of Comprehensive Income
For the Six Months Ended June 30, 2018 and Year Ended December 31, 2017

	(Unaudited) Six Months Ended June 30, 2018	(Audited) Year Ended December 31, 2017
Income before non-controlling interest	$ 11,032,308	$ 29,334,914
Net loss attributable to non-controlling interest	(71)	(146)
Net income attributable to NADB	11,032,379	29,335,060
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	(1,538,167)	1,740,190
Reclassification adjustment for net gains included in net income	(4,980)	(3,616,047)
Total unrealized loss on available-for-sale investment securities	(1,543,147)	(1,875,857)
Foreign currency translation adjustment	17,091	(39,664)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	1,669,490	9,029,818
Fair value of cross-currency interest rate swaps, net	(6,918,454)	(11,315,131)
Total unrealized loss on hedging activities	(5,248,964)	(2,285,313)
Total other comprehensive loss	(6,775,020)	(4,200,834)
Total comprehensive income	$ 4,257,359	$ 25,134,226

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, 2018 and Year Ended December 31, 2017

	Paid-In Capital	General Reserve		Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
		Allocated Paid-In Capital	Retained Earnings			
Beginning balance, January 1, 2017	$ 415,000,000	$ 2,460,790	$ 171,392,217	$ 15,967,278	$ 5,621	$ 604,825,906
Transfer to Targeted Grant Program of the U.S. Domestic Program	-	(121,893)	-	-	-	(121,893)
Transfer from the Border Environment Cooperation Commission (BECC)	-	-	4,955,236	-	-	4,955,236
Net income	-	-	29,335,060	-	-	29,335,060
Other comprehensive income	-	-	-	(4,200,834)	-	(4,200,834)
Non-controlling interest	-	-	-	-	(146)	(146)
Ending balance, December 31, 2017 (audited)	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)
Net income	-	-	11,032,379	-	-	11,032,379
Other comprehensive income	-	-	-	(6,775,020)	-	(6,775,020)
Non-controlling interest	-	-	-	-	(71)	(71)
Ending balance, June 30, 2018 (Unaudited)	$ 415,000,000	$ 2,088,897	$ 216,714,892	$ 4,991,424	$ 5,404	$ 638,800,617

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, 2018 and 2017

	For the Six Months Ended June 30,	
	2018	**2017**
Cash flows from operating activities		
Net income	$ 11,032,379	$ 13,896,492
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	88,951	82,097
Amortization of net premiums (discounts) on investments	(924,405)	(26,767)
Change in fair value of swaps, hedged items and other non-cash items	(20,487,015)	(55,606,548)
Non-controlling interest	(71)	(64)
(Gains) loss on sales of available-for-sale investment securities, net	(4,980)	(36,091)
Provision for loan losses	(1,915,322)	740,774
Change in other assets and liabilities:		
Decrease in interest receivable	451,731	11,324,475
Decrease in receivable and other assets	2,851,950	4,530,865
Increase in accounts payable	(148,416)	(7,168,485)
Increase (decrease) in accrued liabilities	(522,337)	47,666
Increase (decrease) in accrued interest payable	212,458	(1,719,191)
Net cash used in operating activities	(9,365,077)	(33,934,777)
Cash flows from lending, investing, and development activities		
Capital expenditures	(36,673)	(16,809)
Loan principal repayments	71,199,537	52,592,239
Loan disbursements	(64,021,412)	(41,880,295)
Purchase of held-to-maturity investments	-	-
Purchase of available-for-sale investments	(305,075,865)	(403,396,456)
Proceeds from maturities of held-to-maturity investments	-	973,000
Proceeds from sales and maturities of available-for-sale investments	292,915,566	107,341,992
Net cash used in lending, investing, and development activities	(5,018,847)	(284,386,329)
Cash flows from financing activities		
Proceeds from other borrowings	-	12,847,737
Proceeds from note issuances	-	297,891,683
Principal repayment of other borrowings	(2,631,000)	(2,631,000)
Grant funds from the Environmental Protection Agency (EPA)	13,902,290	4,787,067
Grant disbursements - EPA	(13,896,376)	(4,775,098)
Grant activity - U.S. Domestic Program	(250,000)	(28,173)
Net cash provided by (used in) financing activities	(2,875,086)	308,092,216
Net decrease in cash and cash equivalents	(17,259,010)	(10,228,890)
Cash and cash equivalents at January 1, 2018 and 2017	164,286,581	151,727,469
Cash and cash equivalents at June 30, 2018 and 2017	$ 147,027,571	$ 141,498,579
Supplemental cash information		
Cash paid during the year for interest	$ 19,952,384	$ 15,569,789
Significant non-cash transactions		
Foreign currency translation adjustment	$ 1,669,490	$ 13,226,188
Change in fair value of cross-currency interest rate swaps, net	(6,918,454)	(18,082,274)
Change in fair value of available-for-sales investments, net	(1,543,147)	(38,724)

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 (the International Program) and community adjustment and investment projects throughout the U.S. and Mexico (the Domestic Programs). BECC was created to review the environmental aspects of projects seeking Bank financing under the International Program and recommend their certification to the Board of Directors. On March 16, 1994, the President of the United States issued an Executive Order designating the Bank as an international organization under the International Organization Immunities Act.

The Bank is governed by a Board of Directors appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter. On November 10, 2017, the Second Protocol of Amendment to the Charter entered into force, merging BECC into the Bank. The merger preserved the mission, purposes and functions of both organizations under the International Program, including their environmental mandate and geographic jurisdiction, which is within 100 kilometers north 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).

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

On June 2, 1998, the Board of Directors adopted a resolution authorizing the Bank to establish a limited-purpose financial institution (*sociedad financiera de objeto limitado*, SOFOL) for the purpose of facilitating Bank lending to the Mexican public sector. In January 1999, the *Corporación Financiera de América del Norte, S.A. de C.V. SOFOL* (COFIDAN) began operations in Mexico City and, in October 2006, COFIDAN was converted from a SOFOL to a non-regulated, multipurpose financial institution (SOFOM, E.N.R.), and its name was modified to *Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R.* As of June 30, 2018, COFIDAN is 99.90% owned by the Bank and 0.10% owned by the Government of Mexico. The accounts of COFIDAN are consolidated with the Bank, and all material intercompany 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.

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

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

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

2. Summary of Significant Accounting Policies (continued)

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, 2018 and December 31, 2017.

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

Program Activities

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

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

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

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

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, 2018, the Bank had entered into swap counterparty agreements with Fondo de Apoyo a Estados y Municipios (FOAEM), a fund owned by the Government of Mexico and administered by the federally run development bank, Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras); directly with Banobras outside the FOAEM arrangement; and with nine (9) other financial institutions. The foreign currency translation

2. Summary of Significant Accounting Policies (continued)

adjustment on loans denominated in Mexican pesos as of June 30, 2018 and December 31, 2017 was $(44,327,861) and $(45,997,351), respectively. Changes in the foreign currency translation adjustment are reported through other comprehensive income.

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

The Bank discontinues hedge accounting prospectively if it determines that the derivative is no longer highly effective in offsetting -6.6 (10.5 (g)8.9 ct)-6.6 (i)2.6 (v)8Ae (t)-6.6 te erg6 (s)-2 .6 (f)-

2. Summary of Significant Accounting Policies (continued)

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, 2018 and December 31, 2017.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Held-to-maturity:				
U.S. agency securities	$ 3,904,396	$ –	$ (38,559)	$ 3,865,837
Total held-to-maturity investment securities	3,904,396	–	(38,559)	3,865,837
Available-for-sale:				
U.S. government securities	395,820,126	6,327	(1,696,103)	394,130,350
U.S. agency securities	140,341,454	33	(827,907)	139,513,580
Corporate debt securities	187,683,632	1,052	(988,322)	186,696,362
Other fixed-income securities	65,308,305	2,069	(133,237)	65,177,137
Mexican government securities (UMS)	13,641,764	–	(330,478)	13,311,286
Total available-for-sale investment securities	802,795,281	9,481	(3,976,047)	798,828,715
Total investment securities	$ 806,699,677	$ 9,481	$ (4,014,606)	$ 802,694,552
December 31, 2017				
Held-to-maturity:				
U.S. agency securities	$ 3,904,396	$ –	$ (31,912)	$ 3,872,484
Total held-to-maturity investment securities	3,904,396	–	(31,912)	3,872,484
Available-for-sale:				
U.S. government securities	445,924,619	3,109	(1,270,425)	444,657,303
U.S. agency securities	124,224,160	56	(628,950)	123,595,266
Corporate debt securities	148,784,887	19,064	(462,854)	148,341,097
Other fixed-income securities	60,050,804	144	(143,036)	59,907,912
Mexican government securities (UMS)	10,721,127	74,734	(15,261)	10,780,600
Total available-for-sale investment securities	789,705,597	97,107	(2,520,526)	787,282,178
Total investment securities	$ 793,609,993	$ 97,107	$ (2,552,438)	$ 791,154,662

3. Investments (continued)

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of June 30, 2018 and December 31, 2017.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018						
Held-to-maturity:						
U.S. agency securities	$ 3,865,837	$ 38,559	$ –	$ –	$ 3,865,837	$ 38,559
Available-for-sale:						
U.S. government securities	378,429,705	1,696,103	–	–	378,429,705	1,696,103
U.S. agency securities	138,412,480	827,908	–	–	138,412,480	827,908
Corporate debt securities	184,987,540	988,322	–	–	184,987,540	988,322
Other fixed-income securities	54,679,269	133,237	–	–	54,679,269	133,237
Mexican government securities (UMS)	13,311,286	330,477	–	–	13,311,286	330,477
Total available-for-sale investment securities	769,820,280	3,976,047	–	–	769,820,280	3,976,047
Total temporarily impaired securities	$773,686,117	$ 4,014,606	$ –	$ –	$773,686,117	$ 4,014,606
December 31, 2017						
Held-to-maturity:						
U.S. agency securities	$ 3,872,484	$ 31,912	$ –	$ –	$ 3,872,484	$ 31,912
Available-for-sale:						
U.S. government securities	363,453,524	1,270,425	–	–	363,453,524	1,270,425
U.S. agency securities	122,603,016	628,950	–	–	122,603,016	628,950
Corporate debt securities	132,554,862	462,854	–	–	132,554,862	462,854
Other fixed-income securities	56,711,962	143,036	–	–	56,711,962	143,036
Mexican government securities (UMS)	3,527,600	15,261	–	–	3,527,600	15,261
Total available-for-sale investment securities	678,850,964	2,520,526	–	–	678,850,964	2,520,526
Total temporarily impaired securities	$ 682,723,448	$ 2,552,438	$ –	$ –	$ 682,723,448	$ 2,552,438

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary since, as of June 30, 2018, the Bank did not have the intent to sell any of these securities and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost.

3. Investments (continued)

Contractual maturities of investments as of June 30, 2018 and December 31, 2017 are summarized in the following tables.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
June 30, 2018				
Less than 1 year	$ 1,712,798	$ 1,718,396	$ 638,050,890	$ 639,093,965
1–5 years	2,153,039	2,186,000	157,869,125	160,738,060
5–10 years	–	–	2,908,700	2,963,256
More than 10 years	–	–	–	–
	$ 3,865,837	$ 3,904,396	$ 798,828,715	$ 802,795,281
December 31, 2017				
Less than 1 year	$ 1,171,872	$ 1,175,396	$ 651,270,945	$ 652,469,990
1–5 years	2,700,612	2,729,000	136,011,233	137,235,607
5–10 years	–	–	–	–
More than 10 years	–	–	–	–
	$ 3,872,484	$ 3,904,396	$ 787,282,178	$ 789,705,597

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

The following table summarizes sale, call, and maturity activity of investment securities for the six months ended June 30, 2018 and 2017.

	Six Months Ended June 30,	
	2018	2017
Held-to-maturity investment securities:		
Proceeds from maturities	$ –	$ 973,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	292,915,566	107,341,992
Gross realized gains	4,980	36,378
Gross realized losses	–	287

3. Investments (continued)

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the six months ended June 30, 2018 and the year ended December 31, 2017.

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Net unrealized losses on investment securities available-for-sale, beginning of year	$ (2,423,419)	$ (547,562)
Net unrealized gains (losses) on investment securities available-for-sale, arising during the year	(1,538,167)	(1,806,949)
Reclassification adjustments for net (gains) losses on investment securities available-for-sale included in net income	(4,980)	(68,908)
Net unrealized losses on investment securities available-for-sale, end of year	$ (3,966,566)	$ (2,423,419)

4. Loans

The following schedule summarizes loans outstanding as of June 30, 2018 and December 31, 2017.

	International Program	U.S. Domestic Program	Total
June 30, 2018			
Loan balance	$ 1,286,628,630	$ –	$ 1,286,628,630
Allowance for loan losses:			
General	(16,523,076)	–	(16,523,076)
Specific	(2,669,547)	–	(2,669,547)
Unamortized loan fees	(11,843,537)	–	(11,843,537)
Foreign currency exchange rate adjustment	(44,327,860)	–	(44,327,860)
Fair value of hedged items	(148,625,872)	–	(148,625,872)
Net loans outstanding	$ 1,062,638,738	$ –	$ 1,062,638,738
December 31, 2017			
Loan balance	$ 1,293,806,755	$ –	$ 1,293,806,755
Allowance for loan losses:			
General	(18,438,398)	–	(18,438,398)
Specific	(2,669,547)	–	(2,669,547)
Unamortized loan fees	(11,711,140)	–	(11,711,140)
Foreign currency exchange rate adjustment	(45,997,351)	–	(45,997,351)
Fair value of hedged items	(144,105,721)	–	(144,105,721)
Net loans outstanding	$ 1,070,884,598	$ –	$ 1,070,884,598

4. Loans (continued)

At June 30, 2018 and December 31, 2017, the International Program had outstanding unfunded loan commitments on signed loan agreements totaling $127,568,923 and $188,352,122, respectively. At those same dates, the U.S. Domestic Program did not have any outstanding loan commitments on signed loan agreements. The International Program also had loan agreements under development for an additional $247,750,219 as of June 30, 2018.

The Bank under certain circumstances offered below-market-rate loans. As of June 30, 2018 and December 31, 2017, the Bank had below-market-rate loans outstanding for the International Program of $33,783,786 and $35,847,009, respectively. At those same dates, the U.S. Domestic Program did not have any below-market-rate loans.

The following table presents the loan portfolio by sector as of June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
International Program:		
Air quality	$ 91,596,493	$ 95,634,593
Basic urban infrastructure	36,805,174	37,093,463
Clean energy:		
Solar	306,139,424	291,197,939
Wind	649,322,111	620,669,578
Other	3,960,775	4,252,565
Public transportation	29,918,295	31,162,332
Storm drainage	12,709,775	52,715,102
Water and wastewater	156,176,584	161,081,183
Total International Program	1,286,628,631	1,293,806,755
U.S. Domestic Program	–	–
	$ 1,286,628,631	$ 1,293,806,755

4. Loans (continued)

The following table presents the loan portfolio by risk category as of June 30, 2018 and December 31, 2017. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	June 30, 2018	December 31 2017
International Program		
Pass	$ 1,272,624,625	$ 1,279,427,547
Special Mention	–	–
Substandard	14,004,005	14,379,208
Doubtful	–	–
Total International Program	1,286,628,630	1,293,806,755
U.S. Domestic Program		
Pass	–	–
Special Mention	–	–
Substandard	–	–
Doubtful	–	–
Total U.S. Domestic Program	–	–
	$ 1,286,628,630	$ 1,293,806,755

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4. Loans (continued)

An age analysis of past-due loans, including both accruing and non-accruing loans, as of June 30, 2018 and December 31, 2017, is shown in the following table.

	Loans 30–89 Days Past Due	Loans 90 or More Days Past Due	Total Past-due Loans
June 30, 2018			
International Program	$ –	$ 14,004,005	$ 14,004,005
U.S. Domestic Program	–	–	–
	$ –	$ 14,004,005	$ 14,004,005
December 31, 2017			
International Program	$ –	$ 14,379,208	$ 14,379,208
U.S. Domestic Program	–	–	–
	$ –	$ 14,379,208	$ 14,379,208

There were no loans past due 90 or more days accruing interest as of June 30, 2018 and December 31, 2017.

The following table summarizes the allowance for loan losses by classification as of June 30, 2018 and December 31, 2017.

	Allowance for Loan Losses			
	General Allowance	Specific Allowance	Total	Total Loans Outstanding
June 30, 2018				
International Program:				
Private:				
Construction	$ 3,378,035	$ –	$ 3,378,035	$ 97,085,237
Operation	11,646,716	2,669,547	14,316,263	889,878,490
Public	1,025,365	–	1,025,365	205,072,929
Public-private	472,960	–	472,960	94,591,974
Total International Program	16,523,076	2,669,547	19,192,623	1,286,628,630
U.S. Domestic Program	–	–	–	–
	$ 16,523,076	$ 2,669,547	$ 19,192,623	$ 1,286,628,630
December 31, 2017				
International Program:				
Private:				
Construction	$ 1,267,448	$ –	$ 1,267,448	$ 35,564,527
Operation	15,425,916	2,669,547	18,095,463	909,235,438
Public	1,262,795	–	1,262,795	252,558,904
Public-private	482,239	–	482,239	96,447,886
Total International Program	18,438,398	2,669,547	21,107,945	1,293,806,755
U.S. Domestic Program	–	–	–	–
	$ 18,438,398	$ 2,669,547	$ 21,107,945	$ 1,293,806,755

4. Loans (continued)

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

The following schedule summarizes the allowance for loan losses for the six months ended June 30, 2018 and the year ended December 31, 2017.

	Allowance for Loan Losses				
	Beginning Balance	Specific Provisions	General Provisions	Loan (Charge-offs) Recoveries	Ending Balance
June 30, 2018					
International Program:					
Private:					
Construction	$ 1,267,448	$ –	$ 2,110,587	$ –	$ 3,378,035
Operation	18,095,463	–	(3,779,200)	–	14,316,263
Public	1,262,795	–	(237,430)	–	1,025,365
Public-private	482,239	–	(9,279)	–	472,960
Total International Program	21,107,945	–	(1,915,322)	–	19,192,623
U.S. Domestic Program	–	–	–	–	–
	$ 21,107,945	$ –	$ (1,915,322)	$ –	$ 19,192,623
December 31, 2017					
International Program:					
Private:					
Construction	$ 10,417,904	$ –	$ (9,150,456)	$ –	$ 1,267,448
Operation	12,741,894	2,669,547	2,684,022	–	18,095,463
Public	1,441,539	–	(178,744)	–	1,262,795
Public-private	451,134	–	31,105	–	482,239
Total International Program	25,052,471	2,669,547	(6,614,073)	–	21,107,945
U.S. Domestic Program	23,188	–	(23,188)	–	–
	$ 25,075,659	$ 2,669,547	$ (6,637,261)	$ –	$ 21,107,945

5. Other Assets and Other Liabilities

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at June 30, 2018 and December 31, 2017.

	Gross Amount	Master Netting Arrangements	Net Amount
June 30, 2018			
Other assets			
Cross-currency interest rate swaps	$ 212,573,203	$ (23,170,429)	$ 189,402,774
Interest rate swaps	2,881,091	(2,881,091)	–
Collateral from swap counterparty	(96,760,000)	–	(96,760,000)
Credit valuation adjustment for swaps	(1,253,068)	–	(1,253,068)
Other real estate owned	653,307	–	653,307
Total other assets	$ 118,094,533	$ (26,051,520)	$ 92,043,013
Other liabilities			
Interest rate swaps	$ 18,605,637	$ –	$ 18,605,637
Total other liabilities	$ 18,605,637	$ –	$ 18,605,637
December 31, 2017			
Other assets			
Cross-currency interest rate swaps	$ 223,716,302	$ (22,102,844)	$ 201,613,458
Interest rate swaps	(4,690,552)	4,690,552	–
Collateral from swap counterparty	(117,380,000)	–	(117,380,000)
Credit valuation adjustment for swaps	(1,096,796)	–	(1,096,796)
Other real estate owned	3,104,639	–	3,104,639
Total other assets	$ 103,653,593	$ (17,412,292)	$ 86,241,301
Other liabilities			
Interest rate swaps	$ –	$ –	$ –
Total other liabilities	$ –	$ –	$ –

6. Debt

The following table summarizes the notes payable and other borrowings as of June 30, 2018 and December 31, 2017.

			June 30, 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	$ (105,306)	$ (260,832)	$ 2,881,091	$ 252,514,953
10/26/12	10/26/22	2.400	250,000,000	(371,711)	(642,773)	(11,012,372)	237,973,144
12/17/12	10/26/22	2.400	180,000,000	(1,635,642)	(407,148)	(9,147,707)	168,809,503
12/17/12	12/17/30	3.300	50,000,000	–	(214,242)	(3,348,519)	46,437,239
10/10/13	10/10/18	2.300	300,000,000	(311,917)	(93,265)	(725,085)	298,869,733
CHF Issuance							
04/30/15	04/30/25	0.250	128,706,754	553,622	(567,632)	(3,247,896)	125,444,848
04/26/17	10/26/27	0.200	124,443,117	359,142	(542,593)	(4,796,849)	119,407,201
						878,780	878,780
NOK Issuance							
03/10/17	03/10/32	2.470	173,448,566	–	(598,209)	(7,044,637)	165,861,336
Total Notes Payable			1,456,598,437	(1,511,812)	(3,326,694)	(35,563,194)	1,416,196,737
Other Borrowings							
08/15/13	12/30/18	1.900	600,467	–	–	–	600,467
04/11/14	12/30/18	1.900	2,030,533	–	–	–	2,030,533
04/11/14	06/30/19	1.900	2,631,000	–	–	–	2,631,000
04/11/14	12/30/19	1.900	2,632,000	–	–	–	2,632,000
04/11/14	06/30/20	1.900	526,785	–	–	–	526,785
08/14/14	06/30/20	1.900	2,105,215	–	–	–	2,105,215
08/14/14	12/30/20	1.900	2,632,000	–	–	–	2,632,000
08/14/14	06/30/21	1.900	1,008,985	–	–	–	1,008,985
02/13/15	06/30/21	1.900	1,623,015	–	–	–	1,623,015
02/13/15	12/30/21	1.900	1,470,635	–	–	–	1,470,635
07/29/15	12/30/21	1.900	1,161,365	–	–	–	1,161,365
07/29/15	06/30/22	1.900	266,455	–	–	–	266,455
09/16/16	06/30/22	1.900	2,216,528	–	–	–	2,216,528
03/17/17	06/30/22	1.900	149,017	–	–	–	149,017
03/17/17	12/30/22	1.900	2,632,000	–	–	–	2,632,000
03/17/17	06/30/23	1.900	2,632,000	–	–	–	2,632,000
03/17/17	12/30/23	1.900	2,632,000	–	–	–	2,632,000
03/17/17	06/30/24	1.900	2,632,000	–	–	–	2,632,000
03/17/17	12/30/24	1.900	2,170,720	–	–	–	2,170,720
11/13/17	12/30/24	1.900	461,280	–	–	–	461,280
Total Other Borrowings			34,214,000	–	–	–	34,214,000
			$ 1,490,812,437	$ (1,511,812)	$ (3,326,694)	$ (35,563,194)	$ 1,450,410,737

6. Debt (continued)

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

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.

7. Equity

Subscribed Capital

At June 30, 2018 and December 31, 2017, the Bank had subscribed 600,000 shares of capital stock, with a par value of $10,000 per share. As defined in the Charter, capital includes unqualified and qualified subscribed shares. Qualified subscribed shares are subject to the necessary legal requirements of each subscribing country. Unqualified subscribed shares have either been funded or authorized for purchase by the subscribing country. Capital is further classified as callable or paid-in capital at June 30, 2018 and December 31, 2017 as shown in the following table.

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

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.

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

7. Equity (continued)

Retained Earnings

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

	June 30, 2018	December 31, 2017
Designated retained earnings		
International Program:		
Water Conservation Investment Fund (WCIF)	$ 95,594	$ 95,594
Technical Assistance Program (TAP)	3,031,322	3,175,828
Community Assistance Program (CAP)	9,114,361	10,252,839
Total International Program	12,241,277	13,524,261
U.S. Domestic Program	(1,952,298)	(1,860,539)
Total designated retained earnings	10,288,979	11,663,722
Reserved retained earnings		
International Program:		
Debt Service Reserve	42,000,000	42,000,000
Operating Expenses Reserve	21,774,242	15,669,072
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	49,933,088	49,933,088
Total International Program	143,707,330	137,602,160
U.S. Domestic Program:		
Special Reserve	–	–
Total reserved retained earnings	143,707,330	137,602,160
Undesignated retained earnings		
International Program		
Operations	59,172,507	53,548,372
Mark-to-Market Hedge Valuations	3,546,076	2,868,259
Total undesignated retained earnings	62,718,583	56,416,631
Total retained earnings	$ 216,714,892	$ 205,682,513
Retained earnings by program		
International Program	$ 218,667,190	$ 207,543,052
U.S. Domestic Program	(1,952,298)	(1,860,539)
Total retained earnings	$ 216,714,892	$ 205,682,513

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

7. Equity (continued)

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

Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income (loss) for six months ended June 30, 2018 and the year ended December 31, 2017.

	Beginning Balance	Period Activity	Ending Balance
June 30, 2018			
Unrealized loss on available-for-sale investment securities	$ (2,423,419)	$ (1,543,147)	$ (3,966,566)
Foreign currency translation adjustment	333,444	17,091	350,535
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(45,997,351)	1,669,490	(44,327,861)
Fair value of cross-currency interest rate swaps	59,853,770	(6,918,454)	52,935,316
Net unrealized gain (loss) on hedging activities	13,856,419	(5,248,964)	8,607,455
Total accumulated other comprehensive gain (loss)	$ 11,766,444	$ (6,775,020)	$ 4,991,424
December 31, 2017			
Unrealized loss on available-for-sale investment securities	$ (547,562)	$ (1,875,857)	$ (2,423,419)
Foreign currency translation adjustment	373,108	(39,664)	333,444
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(55,027,169)	9,029,818	(45,997,351)
Fair value of cross-currency interest rate swaps	71,168,901	(11,315,131)	59,853,770
Net unrealized gain (loss) on hedging activities	16,141,732	(2,285,313)	13,856,419
Total accumulated other comprehensive income (loss)	$ 15,967,278	$ (4,200,834)	$ 11,766,444

8. Domestic Programs

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

8. Domestic Programs (continued)

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 1999. Accordingly, the activities of the Mexican Domestic Program are not reflected as operations of the Bank.

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

In accordance with the Charter and MOU with the United States, net assets of the Bank in the amounts of $136,599 and $478,358 were designated for the U.S. Domestic Program at June 30, 2018 and December 31, 2017, respectively. The revenue related to these amounts for the six months ended June 30, 2018 and 2017 was $1,636 and $11,075, respectively. Additionally, expenses directly related to the operation of the U.S. Domestic Program of $93,395 and $104,299, are included in the operations of the Bank for the six months ended June 30, 2018 and 2017, respectively. All expenses and disbursements are paid out of the U.S. Domestic Program funds. Deficit retained earnings on the U.S. Domestic Program capital funds as of June 30, 2018 and December 31, 2017, were $1,952,298 and $1,860,539, respectively. Under the U.S. Domestic Program, $166,666 in cash and cash equivalents was available for disbursement as of June 30, 2018.

In January 2009, the Finance Committee approved a Targeted Grant Program (TGP) to be funded with the remaining balance of the U.S. Domestic Program's allocated paid-in capital. As of June 30, 2018, and December 31, 2017, the U.S. Domestic Program's allocated paid-in capital totaled $2,088,897 and $2,338,897, respectively. For the six months ended June 30, 2018 and the year ended December 31, 2017, $250,000 and $121,893, respectively, were disbursed through the TGP. These disbursements were reported as a deduction from allocated paid-in capital.

9. Program Activities

Program activities are comprised of the following:

	Six Months ended June 30,	
	2018	2017
Program income:		
Border Environment Infrastructure Fund (BEIF)		
EPA grant income	$ 495,243	$ 269,166
Technical Assistance Program:		
EPA grant income		
Project Development Assistance Program (PDAP)	632,650	–
U.S. Mexico Border 2020 Program (Border 2020)	226,382	–
IDB Multilateral Investment Fund (MIF) grant income	10,621	–
Total program income	1,364,896	269,166
Program expenses:		
BEIF:		
EPA grant administration	(495,243)	(269,166)
Community Assistance Program	(1,138,478)	(258,612)
Water Conservation Investment Fund	–	–
Technical Assistance Program:		
NADB Technical assistance and training expense	(144,506)	(404,014)
EPA grant administration	(424,390)	–
EPA grant expense – PDAP	(271,210)	–
EPA grant expense – Border 2020	(163,432)	–
IDB-MIF grant expense	(10,621)	–
Total program expenses	(2,647,880)	(931,792)
Net program expenses	$ (1,282,984)	$ (662,626)

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, 2018, total $701,772,141. 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, 2018, EPA has approved project funding proposed by the Bank totaling $663,193,429, of which $627,341,142 has been disbursed through the Bank. The Bank recognized $495,243 and $269,166 as reimbursement of expenses incurred for the six months ended June 30, 2018 and 2017, 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, 2018 and 2017, no funds were disbursed under this program. As of June 30, 2018, cumulative disbursements total $38,239,378 for the United States and $39,990,407 for Mexico. These disbursements were funded with previously designated retained earnings and have been reported as a program expense.

In May 2013, the Board agreed to close out the WCIF and transfer any uncommitted funds to the CAP program. As of June 30, 2018, a cumulative total of $1,674,621 in uncommitted WCIF funds was transferred to the CAP program.

Community Assistance Program (CAP)
In February 2011, the Board of Directors approved a grant program to support public projects in all sectors eligible for Bank financing. The CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. As of June 30, 2018, a cumulative total of $14,092,840 has been allocated to the CAP. For the six months ended June 30, 2018 and 2017, $1,138,478 and $258,612, 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. Through the TAP, assistance is provided in three categories: project development, institutional capacity-building measures, and sector studies to identify needs and generate knowledge about a new sector or technology. For the six months ended June 30, 2018 and 2017, $144,506 and $404,014, 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, 2018 and 2017, $0 and $60,941, respectively, was expended under this program.

9. Program Activities (continued)

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. Since November 10, 2017, the date of integration, 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. The Bank recognized $271,210 in technical assistance expense and $361,440 as in grant administrative expense for the six months ended June 30, 2018. 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. Since November 10, 2017, the date of integration, the Bank administers 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. The Bank recognized $163,432 technical assistance expense and $62,950 in grant administrative expense for the six months ended June 30, 2018. 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. Since November 10, 2017, the date of integration, the Bank administers grant funds provided by MIF, on a reimbursement basis, to support the development and implementation of a sustainable e-waste management and recycling system in Mexicali, Baja California. The Bank recognized $10,621 technical assistance expense for the period from the six months ended June 30, 2018. These funds have been recorded as program revenue and expenses in the consolidated statement of income.

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, 2018 and 2017, the Bank expended $554,360 and $364,320, respectively, relating to the plan.

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

11. Fair Value of Financial Instruments

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

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

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

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

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

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

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)

three (3) debt issuances in foreign currencies for U.S.-dollar operations. Cash flows in Mexican pesos are discounted using the TIIE 28-day swap curve. Cash flows in Swiss francs (CHF) are discounted using the CHF swap curve. Cash flows in Norwegian krone (NOK) are discounted using the NOK swap curve. Cash flows in U.S. dollars are discounted using the USD OIS curve.

Interest Rate Swaps
Interest rate swaps are reported at fair value using Level 3 unobservable inputs. The fair value of these swaps is estimated based on discounting procedures, whereby each cash flow stream is discounted using the USD OIS curve, as well as external pricing models and counterparty pricing.

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

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

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

11. Fair Value of Financial Instruments (continued)

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

	June 30, 2018		December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 147,027,571	$ 147,027,571	$ 164,286,581	$ 164,286,581
Held-to-maturity securities	3,904,396	3,865,837	3,904,396	3,872,484
Available-for-sale securities	798,828,715	798,828,715	787,282,178	787,282,178
Loans, net	1,062,638,738	1,121,994,494	1,070,884,598	1,110,949,537
Interest receivable	28,329,916	28,329,916	28,781,647	28,781,647
Cross-currency interest rate swaps	189,402,774	189,402,774	206,304,010	206,304,010
Interest rate swaps	2,881,091	2,881,091	(4,690,552)	(4,690,552)
Other real estate owned	653,307	653,307	3,104,639	3,104,639
Liabilities				
Accrued interest payable	21,910,126	21,910,126	21,697,668	21,697,668
Short-term debt	304,856,818	304,856,818	304,660,489	304,660,489
Long-term debt, net	1,181,117,113	1,180,285,884	1,183,283,306	1,183,863,120
Interest rate swaps	18,605,637	18,605,637	–	–

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, 2018 and December 31, 2017 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
June 30, 2018				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 394,130,350	$ –	$ –	$ 394,130,350
U.S. agency securities	–	139,513,580	–	139,513,580
Corporate debt securities	–	186,696,362	–	186,696,362
Other fixed-income securities	–	65,177,137	–	65,177,137
Mexican government securities (UMS)	–	13,311,286	–	13,311,286
Total AFS securities	394,130,350	404,698,365	–	798,828,715
Cross-currency interest rate swaps	–	–	186,521,683	186,521,683
Interest rate swaps	–	–	2,881,091	2,881,091
Hedged items for loans	–	–	(148,625,872)	(148,625,872)
Total assets at fair value	$ 394,130,350	$ 404,698,365	$ 40,776,902	$ 839,605,617
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ –	$ –
Interest rate swaps	–	–	18,605,637	18,605,637
Hedged item for notes payable	–	–	(35,563,194)	(35,563,194)
Total liabilities at fair value	$ –	$ –	$ (16,957,557)	$ (16,957,557)
December 31, 2017				
Assets				
Available-for-sale (AFS) securities:				
U.S. government securities	$ 444,657,303	$ –	$ –	$ 444,657,303
U.S. agency securities	–	123,595,266	–	123,595,266
Corporate debt securities	–	148,341,097	–	148,341,097
Other fixed-income securities	–	59,907,912	–	59,907,912
Mexican government securities (UMS)	–	10,780,600	–	10,780,600
Total AFS securities	444,657,303	342,624,875	–	787,282,178
Cross-currency interest rate swaps	–	–	206,304,010	206,304,010
Interest rate swaps	–	–	(4,690,552)	(4,690,552)
Hedged items for loans	–	–	(144,105,721)	(144,105,721)
Total assets at fair value	$ 444,657,303	$ 342,624,875	$ 57,507,737	$ 844,789,915
Liabilities				
Cross-currency interest rate swaps	$ –	$ –	$ –	$ –
Interest rate swaps	–	–	–	–
Hedged item for notes payable	–	–	(6,311,088)	(6,311,088)
Total liabilities at fair value	$ –	$ –	$ (6,311,088)	$ (6,311,088)

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, 2018 and the year ended December 31, 2017. 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, 2018	$ 201,613,458	$ –	$ (144,105,721)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	(5,292,230)	–	(4,520,151)
Included in other comprehensive income (loss)	(6,918,454)	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, June 30, 2018	$ 189,402,774	$ –	$ (148,625,872)
Beginning balance, January 1, 2017	$ 227,719,003	$ 4,065,766	$ (151,854,451)
Total realized and unrealized gains (losses):			
Included in earnings (expenses)	(12,635,914)	(4,065,766)	7,748,730
Included in other comprehensive income (loss)	(11,315,131)	–	–
Purchases	–	–	–
Settlements	(2,154,500)	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2017	$ 201,613,458	$ –	$ (144,105,721)
Liabilities			
Beginning balance, January 1, 2018	$ –	$ –	$ (6,311,088)
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	–	18,605,637	(29,252,106)
Included in other comprehensive income	–	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, June 30, 2018	$ –	$ 18,605,637	$ (35,563,194)
Beginning balance, January 1, 2017	$ –	$ –	$ 2,931,548
Total realized and unrealized (gains) losses:			
Included in (earnings) expenses	–	–	(9,242,636)
Included in other comprehensive income	–	–	–
Purchases	–	–	–
Settlements	–	–	–
Transfers in/out of Level 3	–	–	–
Ending balance, December 31, 2017	$ –	$ –	$ (6,311,088)

11. Fair Value of Financial Instruments (continued)

The Bank entered into three (3) cross-currency interest rate swaps and no interest rate swaps during the six months ended June 30, 2018. Upon issuance, the fair value of the swaps is $0 and, therefore, is not portrayed in the purchases line item in the preceding table. The change in fair value of these instruments is included within the total gains (losses) line item.

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring basis. Certain nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include foreclosed assets (upon initial recognition or subsequent impairment) and other nonfinancial long-lived assets measured at fair value for impairment assessment. The fair value of the collateral from foreclosed loans is measured using Level 3 unobservable inputs and is reported in other assets as other real estate owned of $653,307 and $3,104,639 at June 30, 2018 and December 31, 2017, respectively. For the six months ended June 30, 2018 and 2017, the Bank did not remeasure any existing real estate owned and did not record any impairment of long-lived assets.

12. Derivative Financial Instruments

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

The Bank enters into cross-currency interest rate swaps that are matched to specific fixed, variable, or adjustable rate loans denominated in Mexican pesos that the Bank has entered into directly with the borrower or with COFIDAN. In the latter case, COFIDAN then enters into loans denominated in Mexican pesos under the exact same terms with its borrowers. The Bank has also entered into cross-currency interest rate swaps for its long-term notes payable issued in Swiss francs and Norwegian kroner. These swaps have been designated as hedging instruments because they hedge the risk of fluctuations in cash flows due to changes in foreign currency exchange rates. The swaps are structured so that the notional amounts mature to match the expected maturity of the loans and the notes payable.

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

12. Derivative Financial Instruments (continued)

Under its arrangement with FOAEM, neither the Bank nor the counterparty is required to post collateral to support the outstanding fair value of the swaps. Beginning in July 2009, under counterparty relationships with other financial institutions, collateral may be required to be posted by either the Bank or the counterparty. Cash collateral of $96,760,000 and $117,380,000 was posted from counterparties to the Bank as of June 30, 2018 and December 31, 2017, respectively. No collateral was posted by the Bank as of those same dates.

The notional amounts and estimated fair values of the swaps outstanding at June 30, 2018 and December 31, 2017 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, 2018		December 31, 2017	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	$ 951,015,277	$ 191,433,402	$ 934,856,215	$ 206,304,010
Interest rate swaps	1,316,184,736	(21,352,592)	1,318,431,886	(4,690,552)

The referenced exchange rate received for the cross-currency interest rate swaps outstanding at June 30, 2018 and December 31, 2017 was 5.02% 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, 2018 and December 31, 2017.

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 $8,607,455 and $13,856,419 at June 30, 2018 and December 31, 2017, respectively.

Gains or losses due to changes in the fair value of cross-currency interest rate swaps designated as fair value hedges and ineffective swaps are reported in income (expense) from net hedging activities. For the six months ended June 30, 2018 and 2017, changes in the aforementioned swaps included in the accompanying consolidated statements of income were $834,089 and $(1,807,783), respectively.

12. Derivative Financial Instruments (continued)

Interest Rate Swaps – With regard to the interest rate swaps on outstanding loans and a portion of the long-term notes payable, the changes in the fair value of the swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the six months ended June 30, 2018 and 2017, there were no changes in the aforementioned swaps included in the accompanying consolidated statements of income.

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, 2018, the Bank has obligations to make payments contingent upon the future performance of the consultants and contractors under the terms of their respective contracts and, therefore, they are not recorded in the financial statements.

Lease Commitments

The Bank rents office space for its headquarter in San Antonio, Texas, under an operating lease that expires on February 28, 2026. The Bank also rents office space for its Juarez Office under an operating lease that expires on April 3, 2019. Rent expense totaled $124,220 and $101,889 for the six months ended June 30, 2018 and 2017, respectively. The following schedule summarizes the minimum future expenses for the forgoing leases.

July 1 - December 31, 2018	$	127,594
Year-ended:		
December 31, 2019		225,080
December 31, 2020		221,831
December 31, 2021		223,064
December 31, 2022		229,712
December 31, 2023		232,493
Thereafter		520,289
	$	1,780,063

15. Accounting Standards Updates

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Bank on January 1, 2019. The Bank does not anticipate a significant impact to its consolidated financial statements since the primary source of revenue is interest income from loans and investments, which does not fall within the scope of this ASU.

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

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

15. Accounting Standards Updates (continued)

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 financial statements.

16. Subsequent Event

On July 24, 2018, the Bank issued eight-year notes in Swiss francs in the amount of CHF 125,000,000 ($126,415,858 USD), with a coupon rate of 0.30%, interest payments due annually on July 24, and principal payment due on July 24, 2026.

Supplementary Information

North American Development Bank
Combining Balance Sheet by Program (Unaudited)
June 30, 2018

	International Program	U.S. Domestic Program (A)	Eliminations	Total
Assets				
Cash and cash equivalents:				
Held at other financial institutions in demand deposit accounts	$ 314,451	$ -	$ -	$ 314,451
Held at other financial institutions in interest bearing accounts	28,046,454	166,666	-	28,213,120
Repurchase agreements	118,500,000	-	-	118,500,000
	146,860,905	166,666	-	147,027,571
Held-to-maturity investment securities, at amortized cost	3,904,396	-	-	3,904,396
Available-for-sale investment securities, at fair value	798,828,715	-	-	798,828,715
Loans outstanding	1,286,628,630	-	-	1,286,628,630
Allowance for loan losses	(19,192,623)	-	-	(19,192,623)
Unamortized loan fees	(11,843,537)	-	-	(11,843,537)
Foreign currency exchange rate adjustment	(44,327,860)	-	-	(44,327,860)
Hedged items, at fair value	(148,625,872)	-	-	(148,625,872)
Net loans outstanding	1,062,638,738	-	-	1,062,638,738
Interest receivable	28,329,916	-	-	28,329,916
Grant and other receivable	4,123,321	-	-	4,123,321
Due from U.S. Domestic Program	1,629	-	(1,629)	-
Furniture, equipment and leasehold improvements, net	302,505	-	-	302,505
Other assets	92,043,013	-	-	92,043,013
Total assets	$ 2,137,033,138	$ 166,666	$ (1,629)	$ 2,137,198,175
Liabilities and Equity				
Liabilities:				
Accounts payable	$ 6,600,690	$ -	$ -	$ 6,600,690
Accrued liabilities	835,014	28,438	-	863,452
Due to International Program	-	1,629	(1,629)	-
Accrued interest payable	21,910,126	-	-	21,910,126
Undisbursed grant funds	6,916	-	-	6,916
Other liabilities	18,605,637	-	-	18,605,637
Short-term debt, net of discount and unamortized debt issuance costs	304,856,818	-	-	304,856,818
Hedged items, at fair value	(725,085)	-	-	(725,085)
Net short-term debt	304,131,733	-	-	304,131,733
Long-term debt, net of discount and unamortized debt issuance costs	1,181,117,113	-	-	1,181,117,113
Hedged items, at fair value	(34,838,109)	-	-	(34,838,109)
Net long-term debt	1,146,279,004	-	-	1,146,279,004
Total liabilities	1,498,369,120	30,067	(1,629)	1,498,397,558
Equity:				
Paid-in capital	415,000,000	-	-	415,000,000
General Reserve:				
Allocated paid-in capital	-	2,088,897	-	2,088,897
Retained earnings:				
Designated	12,241,277	(1,952,298)	-	10,288,979
Reserved	143,707,330	-	-	143,707,330
Undesignated	62,718,583	-	-	62,718,583
Accumulated other comprehensive income	4,991,424	-	-	4,991,424
Non-controlling interest	5,404	-	-	5,404
Total equity	638,664,018	136,599	-	638,800,617
Total liabilities and equity	$ 2,137,033,138	$ 166,666	$ (1,629)	$ 2,137,198,175

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

North American Development Bank
Combining Statement of Income by Program (Unaudited)
For the Six Months Ended June 30, 2018

	International Program	U.S. Domestic Program (A)	Total
Interest income:			
Loans	$ 29,431,142	$ -	$ 29,431,142
Investments	7,465,898	1,636	7,467,534
Total interest income	36,897,040	1,636	36,898,676
Interest expense	21,822,970	-	21,822,970
Net interest income	15,074,070	1,636	15,075,706
Operating expenses:			
Personnel	6,023,963	-	6,023,963
General and administrative	1,057,767	-	1,057,767
Consultants and contractors	757,731	-	757,731
Provision for loan losses	(1,915,322)	-	(1,915,322)
Other	(74,426)	-	(74,426)
Depreciation	88,951	-	88,951
U.S. Domestic Program	-	93,395	93,395
Total operating expenses	5,938,664	93,395	6,032,059
Net operating income (loss)	9,135,406	(91,759)	9,043,647
Non-interest income and non-operating expenses:			
U.S. State Department grant income	881,411	-	881,411
SEMARNAT grant income	1,793,750	-	1,793,750
Gains on sales of available-for-sale securities	4,980	-	4,980
Income from hedging activities, net	667,458	-	667,458
Income from foreign exchange activities, net	213,393	-	213,393
Fees and other income	428	-	428
Loss on other real estate owned	(289,775)	-	(289,775)
Net non-interest income	3,271,645	-	3,271,645
Income (loss) before program activities	12,407,051	(91,759)	12,315,292
Program activities:			
BEIF:			
EPA grant income	495,243	-	495,243
EPA grant administration expense	(495,243)	-	(495,243)
CAP expense	(1,138,478)	-	(1,138,478)
TAP:			
EPA grant income	859,032	-	859,032
EPA grant administration expense	(424,390)	-	(424,390)
IDB-MIF grant income	10,621	-	10,621
TAP expense	(589,769)	-	(589,769)
Net program expenses	(1,282,984)	-	(1,282,984)
Income (loss) before non-controlling interest	11,124,067	(91,759)	11,032,308
Net loss attributable to non-controlling interest	(71)	-	(71)
Net income (loss)	$ 11,124,138	$ (91,759)	$ 11,032,379
General Reserve, January 1, 2018			
Allocated paid-in capital	$ -	2,338,897	$ 2,338,897
Retained earnings	207,543,052	(1,860,539)	205,682,513
Current Period Activity:			
Net income (loss)	11,124,138	(91,759)	11,032,379
TGP disbursements of the U.S. Domestic Program	-	(250,000)	(250,000)
General Reserve, June 30, 2018			
Allocated paid-in capital	-	2,088,897	2,088,897
Retained earnings	218,667,190	(1,952,298)	216,714,892
	$ 218,667,190	$ 136,599	$ 218,803,789

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

North American Development Bank
Combining Statement of Comprehensive Income by Program (Unaudited)
For the Six Months Ended June 30, 2018

	International Program	U.S. Domestic Program (A)	Total
Income (loss) before non-controlling interest	$ 11,124,067	$ (91,759)	$ 11,032,308
Net loss attributable to non-controlling interest	(71)	-	(71)
Net income (loss)	11,124,138	(91,759)	11,032,379
Other comprehensive income (loss):			
Available-for-sale investment securities:			
Change in unrealized gains (losses) during the period, net	(1,538,167)	-	(1,538,167)
Reclassification adjustment for net gains included in net income	(4,980)	-	(4,980)
Total unrealized loss on available-for-sale investment securities	(1,543,147)	-	(1,543,147)
Foreign currency translation adjustment	17,091	-	17,091
Unrealized gains (losses) on hedging activities:			
Foreign currency translation adjustment, net	1,669,490	-	1,669,490
Fair value of cross-currency interest rate swaps, net	(6,918,454)	-	(6,918,454)
Total unrealized loss on hedging activities	(5,248,964)	-	(5,248,964)
Total other comprehensive loss	(6,775,020)	-	(6,775,020)
Total comprehensive income (loss)	$ 4,349,118	$ (91,759)	$ 4,257,359

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

North American Development Bank
Combining Statement of Cash Flows by Program (Unaudited)
For the Six Months Ended June 30, 2018

	International Program	U.S. Domestic Program (A)	Total
Cash flows from operating activities			
Net income (loss)	$ 11,124,138	(91,759)	$ 11,032,379
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	88,951	-	88,951
Amortization of net premiums (discounts) on investments	(924,405)	-	(924,405)
Change in fair value of swaps, hedged items and other non-cash items	(20,487,015)	-	(20,487,015)
Non-controlling interest	(71)	-	(71)
Gain on sales of available-for-sale investment securities, net	(4,980)	-	(4,980)
Provision for loan losses	(1,915,322)	-	(1,915,322)
Change in other assets and liabilities:			
Decrease in interest receivable	451,682	49	451,731
Decrease in receivable and other assets	2,851,950	-	2,851,950
Decrease in due from U.S. Domestic Program and decrease due to International Program	3,059	(3,059)	-
Decrease in accounts payable	(148,416)	-	(148,416)
Increase (decrease) in accrued liabilities	(522,612)	275	(522,337)
Increase in accrued interest payable	212,458	-	212,458
Net cash used in operating activities	(9,270,583)	(94,494)	(9,365,077)
Cash flows from lending, investing, and development activities			
Capital expenditures	(36,673)	-	(36,673)
Loan principal repayments	71,199,537	-	71,199,537
Loan disbursements	(64,021,412)	-	(64,021,412)
Purchase of available-for-sale investments	(305,075,865)	-	(305,075,865)
Proceeds from sales and maturities of available-for-sale investments	292,915,566	-	292,915,566
Net cash used in lending, investing, and development activities	(5,018,847)	-	(5,018,847)
Cash flows from financing activities			
Principal repayment of other borrowings	(2,631,000)	-	(2,631,000)
Grant funds - EPA	13,902,290	-	13,902,290
Grant disbursements - EPA	(13,896,376)	-	(13,896,376)
Grant activity - U.S. Domestic Program	-	(250,000)	(250,000)
Net cash used in financing activities	(2,625,086)	(250,000)	(2,875,086)
Net decrease in cash and cash equivalents	(16,914,516)	(344,494)	(17,259,010)
Cash and cash equivalents at January 1, 2018	163,775,421	511,160	164,286,581
Cash and cash equivalents at June 30, 2018	$ 146,860,905	$ 166,666	$ 147,027,571

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

North American Development Bank
Statement of Income of NADB Office in Juarez, Chihuahua (Unaudited)
For the Six Months Ended June 30, 2018

	EPA				
	PDAP	**Border 2020**	**IDB-MIF**	**Operation**	**Total**
Income:					
U.S. State Department contribution	$ -	$ -	$ -	$ 881,411	$ 881,411
SEMARNAT contribution	-	-	-	1,793,750	1,793,750
U.S. Environmental Protection Agency:					
Project Development Assistance Program (PDAP) grant income	632,650	-	-	-	632,650
U.S.-Mexico Border 2020 Program grant income	-	226,382	-	-	226,382
Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) grant income	-	-	10,621	-	10,621
Interest income	-	-	-	26,545	26,545
Other income	-	-	-	428	428
Total income	632,650	226,382	10,621	2,702,134	3,571,787
Operating expenses:					
Personnel	295,548	28,257	-	1,455,323	1,779,128
General and administrative	65,892	34,693	-	237,432	338,017
Consultants	-	-	-	53,556	53,556
Other	-	-	-	(10,405)	(10,405)
Depreciation	-	-	-	9,200	9,200
Total operating expenses	361,440	62,950	-	1,745,106	2,169,496
Income (loss) before program activities	271,210	163,432	10,621	957,028	1,402,291
Technical Assistance Program expense	271,210	163,432	10,621	14,492	459,755
Net income (loss)	$ -	$ -	$ -	$ 942,536	$ 942,536