

**NORTH AMERICAN DEVELOPMENT BANK  
ORDINARY CAPITAL RESOURCES**

Consolidated Financial Statements  
(Unaudited)

December 31, 2023

North American Development Bank  
Ordinary Capital Resources  
Consolidated Financial Statements (Unaudited)  
December 31, 2023

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**North American Development Bank**  
**Ordinary Capital Resources**  
**Consolidated Balance Sheets**  
**As of December 31, 2023 and 2022**

	(Unaudited) December 31, 2023	(Audited) December 31, 2022
<b>Assets</b>		
Cash and cash equivalents:		
Held at other financial institutions	\$ 22,531,480	\$ 89,545,186
Repurchase agreements	31,200,000	75,200,000
Total cash and cash equivalents	<u>53,731,480</u>	<u>164,745,186</u>
Held-to-maturity investment securities, at amortized cost	4,308,115	4,180,726
Available-for-sale investment securities, at fair value	1,024,014,675	949,981,433
Loans outstanding	1,049,224,579	920,296,651
Allowance for credit losses	(16,546,195)	(22,153,814)
Unamortized loan fees	(6,528,697)	(6,924,616)
Foreign currency exchange rate adjustment	(17,273,777)	(32,171,930)
Hedged items, at fair value	(48,582,482)	(106,748,200)
Net loans outstanding	<u>960,293,428</u>	<u>752,298,091</u>
Interest receivable	22,420,512	18,285,105
Grant and other receivable	3,947,387	3,584,515
Furniture, equipment and leasehold improvements, net	76,601	81,789
Other assets	<u>177,206,661</u>	<u>100,914,303</u>
Total assets	<u>\$ 2,245,998,859</u>	<u>\$ 1,994,071,148</u>
<b>Liabilities and Equity</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 4,868,540	\$ 4,119,604
Accrued liabilities	3,125,033	3,012,294
Accrued interest payable	15,017,438	13,658,432
Due to Environment Investment and Capacity Facility (EICF)	2,000,000	8,729,539
Other liabilities	48,143,933	23,646,373
Short-term debt	<u>5,264,000</u>	<u>5,264,000</u>
Total current liabilities	<u>78,418,944</u>	<u>58,430,242</u>
Long-term liabilities:		
Long-term lease payable	278,654	512,977
Long-term post-retirement benefits payable	3,441,778	3,136,908
Deferred U.S. capital contribution	165,000,000	165,000,000
Long-term debt, net of discounts and unamortized debt issuance costs	1,118,474,408	1,058,245,694
Foreign currency exchange rate adjustment	73,772,276	17,309,920
Hedged items, at fair value	(8,679,564)	(57,376,728)
Net long-term debt	<u>1,183,567,120</u>	<u>1,018,178,886</u>
Total long-term liabilities	<u>1,352,287,552</u>	<u>1,186,828,771</u>
Total liabilities	<u>1,430,706,496</u>	<u>1,245,259,013</u>
Equity:		
Subscribed capital	\$ 6,000,000,000	
Less callable capital	(5,100,000,000)	
Less due from shareholders or restricted	(394,000,000)	
Paid-in capital	<u>506,000,000</u>	496,000,000
Retained earnings	305,849,155	286,619,700
Accumulated other comprehensive income (loss)	3,438,714	(33,812,165)
Non-controlling interest	4,494	4,600
Total equity	<u>815,292,363</u>	<u>748,812,135</u>
Total liabilities and equity	<u>\$ 2,245,998,859</u>	<u>\$ 1,994,071,148</u>

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

**North American Development Bank**  
**Ordinary Capital Resources**  
**Consolidated Statements of Income**  
**For the Years Ended December 31, 2023 and 2022**

	<b>(Unaudited)</b> <b>Year Ended</b> <b>December 31,</b> <b>2023</b>	<b>(Audited)</b> <b>Year Ended</b> <b>December 31,</b> <b>2022</b>
Interest income:		
Loans	\$ 72,039,640	\$ 42,163,642
Investments	30,394,011	11,174,533
Total interest income	<u>102,433,651</u>	<u>53,338,175</u>
Interest expense	<u>59,074,407</u>	<u>26,110,498</u>
Net interest income	43,359,244	27,227,677
Provision for credit losses	<u>(1,689,191)</u>	<u>14,482</u>
Net interest income after provision for loan losses	45,048,435	27,213,195
Operating expenses (income):		
General and administrative:		
Personnel	18,138,834	17,324,037
Administrative	2,628,323	2,227,895
Consultants and contractors	2,102,607	1,786,685
Other	(1,664,099)	(917,210)
Grant administrative reimbursements, net	(1,544,195)	(1,430,451)
Depreciation	<u>61,780</u>	<u>57,266</u>
Total operating expenses	<u>19,723,250</u>	<u>19,048,222</u>
Net operating income	25,325,185	8,164,973
Non-interest and non-operating income (expenses):		
Loss on sale of securities, net	(1,373,307)	(402,252)
Grant disbursements	-	(30,000)
Fees and other income (expense), net	493,256	226,042
Swap settlements, net	2,200	1,819,476
Income (expense) from hedging activities, net	<u>66,473</u>	<u>(1,271,355)</u>
Total non-interest and non-operating income (expense)	<u>(811,378)</u>	<u>341,911</u>
Transfer to Environment Investment and Capacity Facility (EICF)	<u>5,101,424</u>	<u>7,500,000</u>
Net income	19,412,383	1,006,884
Non-controlling interest in net loss	<u>(106)</u>	<u>(236)</u>
Controlling interest in net income	<u>\$ 19,412,489</u>	<u>\$ 1,007,120</u>

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

**North American Development Bank**  
**Ordinary Capital Resources**  
**Consolidated Statements of Comprehensive Income**  
**For the Years Ended December 31, 2023 and 2022**

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	(Unaudited)	(Audited)
	Year Ended December 31, 2023	Year Ended December 31, 2022
Net income	\$ 19,412,383	\$ 1,006,884
Non-controlling interest in net loss	(106)	(236)
Controlling interest in net income	<u>19,412,489</u>	<u>1,007,120</u>
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Change in unrealized gains (losses) during the period, net	27,366,381	(39,388,872)
Reclassification adjustment for net losses included in net income	<u>1,373,307</u>	<u>402,252</u>
Total unrealized gain (loss) on available-for-sale investment securities	28,739,688	(38,986,620)
Post-retirement benefit liability adjustment	-	427,567
Foreign currency translation adjustment	41,002	(103,908)
Unrealized gains (losses) on hedging activities:		
Foreign currency translation adjustment, net	(26,740,912)	8,251,033
Fair value of cross-currency interest rate swaps and options, net	<u>35,211,101</u>	<u>(8,147,194)</u>
Total unrealized gain on hedging activities	8,470,189	103,839
Total other comprehensive income (loss)	<u>37,250,879</u>	<u>(38,559,122)</u>
Total comprehensive income (loss)	<u>\$ 56,663,368</u>	<u>\$ (37,552,002)</u>

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

**North American Development Bank**  
**Ordinary Capital Resources**  
**Consolidated Statement of Changes in Equity**  
**For the Years Ended December 31, 2023 and 2022**

	<b>Paid-in Capital</b>	<b>General Reserve Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Non-controlling Interest</b>	<b>Total Equity</b>
Beginning balance, January 1, 2022	\$ 486,500,000	\$ 285,612,580	\$ 4,746,957	\$ 4,836	\$ 776,864,373
Capital contribution	9,500,000	-	-	-	9,500,000
Net income	-	1,007,120	-	-	1,007,120
Other comprehensive loss	-	-	(38,559,122)	-	(38,559,122)
Non-controlling interest	-	-	-	(236)	(236)
Ending balance, December 31, 2022 (audited)	496,000,000	286,619,700	(33,812,165)	4,600	748,812,135
Capital contribution	10,000,000	-	-	-	10,000,000
Cumulative adjustment for adoption of credit loss accounting standard	-	(183,034)	-	-	(183,034)
Net income	-	19,412,489	-	-	19,412,489
Other comprehensive income	-	-	37,250,879	-	37,250,879
Non-controlling interest	-	-	-	(106)	(106)
Ending balance, December 31, 2023 (unaudited)	<u>\$ 506,000,000</u>	<u>\$ 305,849,155</u>	<u>\$ 3,438,714</u>	<u>\$ 4,494</u>	<u>\$ 815,292,363</u>

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

North American Development Bank  
Ordinary Capital Resources  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2023 and 2022

	(Unaudited) Year Ended December 31, 2023	(Audited) Year Ended December 31, 2022
<b>Cash flows from operating activities</b>		
Net income	\$ 19,412,489	\$ 1,007,120
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	61,780	57,266
Amortization of net premiums (discounts) on investments	(5,875,630)	4,380,812
Change in fair value of swaps, options, hedged items and other non-cash items	(19,369,586)	8,521,481
Non-controlling interest	(106)	(236)
Loss on sale of securities, net	1,373,307	402,252
Provision for credit losses	(1,689,191)	14,482
Post-retirement benefits payable	304,870	(99,799)
Transfer to Environment Investment and Capacity Facility (EICF)	2,000,000	7,500,000
Change in other assets and liabilities:		
(Increase) decrease in interest receivable	(4,135,407)	(6,818,664)
(Increase) decrease in accounts receivable	(362,872)	(1,984,192)
Increase (decrease) in accounts payable	748,936	3,277,271
Increase (decrease) in accrued liabilities	112,739	842,967
Increase (decrease) in accrued interest payable	1,359,006	4,633,506
Increase (decrease) in due to EICF	(8,729,539)	-
Net cash provided by (used in) operating activities	<u>(14,789,204)</u>	<u>21,734,266</u>
<b>Cash flows from lending, investing, and development activities</b>		
Capital expenditures	(57,464)	(55,026)
Loan principal repayments	89,900,704	146,244,118
Loan disbursements	(218,828,632)	(90,030,432)
Purchase of held-to-maturity investment securities	(9,871,713)	(2,423,715)
Purchase of available-for-sale investment securities	(645,854,189)	(707,174,649)
Proceeds from maturities of held-to-maturity investments	9,861,000	2,374,000
Proceeds from sales and maturities of available-for-sale investments	<u>608,805,876</u>	<u>675,205,861</u>
Net cash provided by (used in) lending, investing, and development activities	<u>(166,044,418)</u>	<u>24,140,157</u>
<b>Cash flows from financing activities</b>		
Capital contribution	10,000,000	9,500,000
Proceeds from other borrowings	65,083,916	100,000,606
Principal repayment of other borrowings	(5,264,000)	(5,264,000)
Principal repayment of notes payable	-	(150,002,000)
Grant funds from the Environmental Protection Agency (EPA)	-	14,908,316
Grant funds from other sources	-	2,103,797
Grant disbursements - EPA	-	(14,908,312)
Grant disbursements from other sources	-	(1,369,037)
Net cash provided by (used in) financing activities	<u>69,819,916</u>	<u>(45,030,630)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(111,013,706)</b>	<b>843,793</b>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>164,745,186</u></b>	<b><u>163,901,393</u></b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 53,731,480</u></b>	<b><u>\$ 164,745,186</u></b>
<b>Supplemental cash information</b>		
Cash paid during the year for interest	\$ 22,545,961	\$ 11,691,225
<b>Significant non-cash transactions</b>		
Foreign currency translation adjustment	\$ (26,740,912)	\$ 8,251,033
Non-cash investing and financing activities during the year upon adoption of the lease standard	-	956,393
Change in fair value of cross-currency interest rate swaps, net	35,211,101	(8,147,194)
Change in fair value of available-for-sales investments, net	28,739,688	(38,986,620)
Due to EICF	2,000,000	8,729,539

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

North American Development Bank  
Ordinary Capital Resources  
Notes to Consolidated Financial Statements (Unaudited)  
December 31, 2023

**1. Organization and Purpose**

The North American Development Bank (NADBank or the Bank) was established on January 1, 1994 by an agreement between the Governments of the United States of America (the United States or U.S.) and the United Mexican States (Mexico) that was signed by their respective Presidents on November 16 and 18, 1993 (the Charter). The Bank was created to finance environmental infrastructure projects in the U.S.-Mexico border region. 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 (the Board) appointed by the two countries. The operations of the Bank are subject to certain limitations outlined in the Charter. The geographic jurisdiction of the Bank is within 100 kilometers north and 300 kilometers south of the U.S.-Mexico border. The primary activities of the Bank are providing loan and grant financing and technical assistance for environmental infrastructure projects approved by the Board and administering grant funding provided by other entities. The Bank is headquartered in San Antonio, Texas, and also has an office in Ciudad Juarez, Chihuahua (Juarez Office).

In June 1998, the Board authorized the establishment of a financial institution to facilitate lending to the Mexican public sector, and since 2006 it has operated the Corporación Financiera de América del Norte, S.A. de C.V. SOFOM E.N.R. As of September 30, 2023, COFIDAN is 99.93% owned by the Bank and 0.07% owned by the Government of Mexico. The non-controlling interest is reflected in the consolidated balance sheets and consolidated statements of income and represents the ownership of the Government of Mexico through the Ministry of Finance and Public Credit (SHCP).

On December 28, 2022, the Board approved the establishment of the Environment Investment and Capacity Facility (EICF) to hold the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors.

With the establishment of the grant facility, the activities of the Bank are conducted through either Ordinary Capital Resources (OCR) or the EICF, which are accounted for separately. Beginning January 1, 2023, all grant and technical assistance activities are reported under the EICF, while lending operations of the Bank are reported under the OCR. The administrative expenses of the EICF are paid by the OCR, with administrative expenses incurred for third-party grants subject to reimbursement to the OCR. As such, no administrative expenses are reported under the EICF.

As part of the establishment of the EICF, the Board agreed to continue providing support to it from the OCR by transferring a portion of the Bank's allocable income using a formula-based approach. Additional information on the EICF is provided in Note 8.



North American Development Bank  
Ordinary Capital Resources  
Notes to Consolidated Financial Statements (Unaudited)  
December 31, 2023

## 2. Summary of Significant Accounting Policies

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

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

### **Principles of Consolidation**

These consolidated financial statements include the accounts of the OCR and the Bank's subsidiary, COFIDAN. All material intercompany accounts and transactions with COFIDAN have been eliminated in the consolidation. The EICF is accounted for separately and is not included in these consolidated financial statements.

### **Cash and Cash Equivalents**

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash deposits, money market accounts with other financial institutions and overnight repurchase agreements. As of December 31, 2023, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled \$568,112 and \$21,963,368, respectively. As of December 31, 2022, cash deposits with other financial institutions in demand deposit accounts and interest-bearing accounts totaled \$1,434,286 and \$88,110,900, respectively.

### **Repurchase Agreements**

The Bank has entered into agreements with other financial institutions. Shorter term repurchases may occur daily involving U.S. government and federally sponsored agency securities, which are included in cash and cash equivalents. Longer term repurchase agreements may be part of collateralized borrowings. The underlying securities related to the repurchase transactions are held in the possession of the respective financial institution. Additional information on investment securities and borrowings is provided in Notes 3 and 6, respectively.

### **Investment Securities**

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

*Held-to-maturity (HTM)* – 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.

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Ordinary Capital Resources  
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December 31, 2023

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

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 (AFS) – 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 at December 31, 2023 and 2022.

**Taxation**

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

**Furniture, Equipment, and Leasehold Improvements**

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

**Operating Lease**

The Bank rents office space for its headquarters in San Antonio, Texas under an operating lease. Beginning January 1, 2022, the Bank implemented Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires the recognition of operating lease obligations on a discounted basis and the recognition of a right-of-use lease asset. The Bank applied the optional modified retrospective method and recorded the lease as of the adoption date without any retrospective adjustment to comparative financial information. Additional information on the Bank's operating lease is provided in Note 13.

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

### Retained Earnings

Retained earnings are classified as either designated for a specific program, reserved, or undesignated. Undesignated retained earnings in excess of one percent (1.0%) of total assets are used to fund four reserves in the following order of priority:

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

Operating Expenses Reserve – This reserve is maintained in an amount equal to 12 months of the operating budget expenses at each fiscal year-end.

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

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

Additional information on retained earnings of the Bank is provided in Note 7.

### Loans

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

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

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

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

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

Loans in nonaccrual status are evaluated on an individual basis for impairment when it is probable that the Bank may sustain some loss. Impairment of these loans is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent.

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

**Loan Portfolio Risk Rating**

The Bank uses a credit risk scorecard methodology developed by an internationally recognized credit rating agency. The scorecard methodology is based on a model that scores quantitative and qualitative variables to address both project and borrower risks and is tailored to the characteristics of each transaction and project type. The analysis includes financial and operating metrics relevant to the overall performance of the project or loan, as well as relevant credit risk mitigating measures. The variables are well defined and consistently applied to each individual loan.

For each loan, a letter rating is assessed, and the probability of default is estimated using the risk horizon (remaining maturity) of the loan, which is mapped to the undiscounted default probability table provided by the credit agency. Loans in Mexico with sovereign/sub-sovereign repayment sources or guarantees are capped at BBB, equivalent to the foreign currency issuer rating of Mexico.

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

The loan portfolio is classified using the following risk grades and scale.

Loan Credit Rating		
Description	Risk Grade	Scale
Highest credit quality, minimum credit risk	AAA	
Very high quality, very low credit risk	AA+	A
	AA	
	AA-	
High credit quality, strong payment capacity	A+	
	A	
	A-	
Good credit quality, adequate payment capacity	BBB+	
	BBB	
	BBB-	
Moderate credit quality, likely to meet obligations, some uncertainty under adverse conditions	BB+	B
	BB	
	BB-	
Low credit quality, still able to meet obligations, highly vulnerable to adverse conditions	B+	
	B	
	B-	
Very low credit quality, highly vulnerable, high risk of default with some possibility of recovery	CCC+	C
	CCC	
	CCC-	
In or near default, lowest possible rating	D	D

**Allowance for Credit Losses**

On January 1, 2023, the Bank adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended by ASU 2019-10, which applies to financial assets, including loans receivable and held-to-maturity investment securities measured at amortized cost, available-for-sale investment securities measured at fair value, related interest receivables, and undisbursed loan commitments and requires that allowances for credit losses be measured based on management’s estimate of credit losses over the life of the financial instruments. Upon adoption of the standard as of January 1, 2023, the allowance for credit losses decreased by \$1,519,413, which was offset with provisions for credit losses for off-balance sheet, undisbursed loan commitments of \$1,702,447. The net difference of \$183,034 resulted in an opening retained earnings adjustment using a modified-retrospective approach and a cumulative-effect adjustment.

Determining the expected allowance for credit losses involves significant judgment and reflects management’s best estimate based on the current information available, including: 1) past events; 2) current conditions; and 3) reasonable and supportable forecasts.

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

Loans – The estimated credit loss for outstanding loans is reported separately as a contra-asset to loans outstanding on the consolidated balance sheets. The estimated credit loss for undisbursed loan commitments is reported as a component of other liabilities on the consolidated balance sheets. Prior to January 1, 2023, the allowance for credit losses was a valuation account used to reasonably estimate credit losses incurred as of the financial statement date.

For outstanding loans, the Bank calculates an allowance for credit loss on the estimated probability of default and loss given default for each loan. For undisbursed loan commitments, the liability for expected credit loss is calculated based on the projected probability of default, loss given default and the credit loss methodology used for the Bank's outstanding loans.

The allowance for credit losses is maintained at a level considered appropriate by management to provide for estimable losses inherent over the contractual life of the loan portfolio. Changes to the allowance are recorded as an expense or recovery of provision for loan losses in the consolidated statements of income. Upon final settlement of impaired loans, any remaining loss is charged off. Additional information on the allowance for credit losses related to loans is provided in Note 4.

Held-to-Maturity (HTM) Investment Securities – For these securities, management estimates the credit losses based on credit loss history, current conditions, and reasonable and supportable forecasts.

Available-for-sale (AFS) Investment Securities – For AFS investment securities with fair values lower than amortized cost, an impairment loss is recognized in earnings only if the Bank has the intent to sell the investment securities or if it is more-likely-than-not required to sell the investment securities before recovery of the amortized cost. If the Bank intends to hold or is not required to sell the debt securities, it will evaluate them to determine if a credit loss exists. If the portion of the decline in fair value below amortized cost is due to credit-related factors, it will be recognized as an allowance for credit losses in the consolidated balance sheets with a related charge to provisions for credit losses in the consolidated statements of income.

The Bank has elected not to estimate an allowance for credit losses on accrued interest receivable. Additional information on the allowance for credit losses on investment securities is provided in Note 3.

**Revenue Recognition**

Interest income from financial instruments, such as investments, loans and swaps used for hedging purposes, is recognized in the period earned and is not within the scope of Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts and Customers. Revenue from advisory fees and other income not associated with those financial instruments is within the scope of ASC Topic 606 and is recognized

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

by applying the following steps: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when a performance obligation is satisfied.

### Grant Program Activity

Beginning January 1, 2023, all grant activities of the Bank are reported in the EICF accounts. Prior to that date, grant program activities were reported in the consolidated financial statements.

Grant activity may be financed by the Bank with its own funds or by third parties. In some cases, the Bank receives third-party pass-through grants, meaning that the funds are not drawn until needed for disbursement. In other cases, the third-party grantors entrust the funds to the Bank, which are held in custody for the programs.

Bank-funded grants - Grants are recognized at the date the Bank becomes obligated under the terms of the grant agreements, and associated costs are recognized as incurred. Bank-funded grant disbursements were reflected in the consolidated statements of income.

Third-party grants - The Bank receives grants from the U.S. Environmental Protection Agency (EPA), the U.S. Department of State (DOS), the Texas Commission on Environmental Quality (TCEQ), the Paso del Norte Community Foundation, and other sources for project financing and technical assistance activities. Grant receipts and disbursements from third parties were reflected in the consolidated statements of cash flows. These grants are funded by the respective grantors and may be separately approved by them. The Bank's role is to administer these funds. The operating expenses and expense reimbursements for these grants are reflected in the consolidated statements of income.

Additional information on grant programs is provided in Note 8.

### 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. When such loans are not funded by Mexican peso liabilities, the Bank enters into cross-currency interest rate swaps that mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2023 and 2022, the Bank had entered into counterparty agreements with 12 counterparties, two (2) of which are

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

backed by the federal government of Mexico and the other 10 are commercial financial institutions. The foreign currency translation adjustment on loans denominated in Mexican pesos as of those same dates was \$(17,273,777) and \$(32,171,930), respectively.

All swaps relating to the lending activities of the Bank are designated as cash flow or fair value hedges and 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. Changes in the fair value of the fair value hedges are reported as non-interest income or expense.

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

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

**Fair Value**

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

Level 1 – Quoted prices in active markets for identical assets or liabilities, which the reporting entity has the ability to access at the measurement date. This category generally includes U.S. government securities, U.S. agency securities, corporate debt securities, other fixed-income securities, mortgage-backed securities, and Mexican government securities.



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

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes cross-currency interest rate swaps, interest rate swaps and options. For these consolidated financial statements, the Bank also obtains dealer quotations for comparative purposes to assess the reasonableness of the pricing models.

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 the fair value of hedged items where independent pricing information is not available for a significant portion of the underlying assets or liabilities.

Additional information on the fair value of the financial instruments of the Bank is provided in Note 10.

**Accumulated Other Comprehensive Income (Loss)**

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

**Allocable Income**

Allocable income is an internal management measure that reflects income available for allocation. The Bank defines allocable income on net operating income after certain adjustments that relate primarily to non-cash expenses. The Bank will transfer, under a formula-based approach, a proportion of allocable income to the EICF. For the year ended December 31, 2023, the Bank transferred \$5,101,424 to the EICF, which is reflected in the consolidated statements of income. Of that amount, \$177,224 were the rest of the designated retained earnings for the Community Assistance Program (CAP). Following the establishment of the EICF, the Bank transferred \$7,500,000 to the facility for the period ended December 31, 2022. Additional information on the EICF is provided in Note 8.

**Reclassifications**

Certain amounts in the prior-year consolidated financial statements have been reclassified to conform to the current-year consolidated financial statement presentation. For the current year, the equity section of the balance sheet as of December 31, 2023 has been expanded to include subscribed capital and its components. Additional information on subscribed capital is provided in Note 7.

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### 3. Investments

All investments held by the Bank are classified as either held-to-maturity or available-for-sale securities. The following schedule summarizes investments as of December 31, 2023 and 2022.

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<b>December 31, 2023</b>				
Held-to-maturity:				
U.S. government securities	\$ 4,308,115	\$ 1,679	\$ -	\$ 4,309,794
Total held-to-maturity investment securities	4,308,115	1,679	-	4,309,794
Available-for-sale:				
U.S. government securities	364,049,360	440,956	(11,030,608)	353,459,708
U.S. agency securities	92,284,806	45,023	(3,938,163)	88,391,666
Corporate debt securities	168,052,854	1,099,862	(4,612,075)	164,540,641
Other fixed-income securities	61,126,755	173,901	(1,829,472)	59,471,184
Mexican government securities	114,991,080	58,216	(784,374)	114,264,922
Securities pledged under collateralized borrowings <sup>1</sup>	235,297,666	4,895,996	(871,055)	239,322,607
Mortgage-backed securities	5,078,173	-	(514,226)	4,563,947
Total available-for-sale investment securities	1,040,880,694	6,713,954	(23,579,973)	1,024,014,675
Total investment securities	\$ 1,045,188,809	\$ 6,715,633	\$ (23,579,973)	\$ 1,028,324,469
<b>December 31, 2022</b>				
Held-to-maturity:				
U.S. government securities	\$ 3,019,254	\$ -	\$ (25,963)	\$ 2,993,291
U.S. agency securities	1,161,472	-	(44,533)	1,116,939
Total held-to-maturity investment securities	4,180,726	-	(70,496)	4,110,230
Available-for-sale:				
U.S. government securities	436,321,490	127,413	(20,483,222)	415,965,681
U.S. agency securities	162,313,889	-	(8,380,477)	153,933,412
Corporate debt securities	138,700,987	75,636	(9,614,864)	129,161,759
Other fixed-income securities	79,211,369	24,922	(4,066,741)	75,169,550
Mexican government securities	30,548,265	5,786	(1,216,409)	29,337,642
Securities pledged under collateralized borrowings <sup>1</sup>	142,637,146	-	(1,410,974)	141,226,172
Mortgage-backed securities	5,853,994	-	(666,777)	5,187,217
Total available-for-sale investment securities	995,587,140	233,757	(45,839,464)	949,981,433
Total investment securities	\$ 999,767,866	\$ 233,757	\$ (45,909,960)	\$ 954,091,663

<sup>1</sup> Additional information on the securities pledged under collateralized borrowings is provided in Note 6.

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**3. Investments (continued)**

The following schedule summarizes unrealized losses and the fair value of investments aggregated by category and the length of time individual securities have been in a continuous unrealized loss position as of December 31, 2023 and 2022.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2023</b>						
Held-to-maturity:						
U.S. agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total held-to-maturity securities	-	-	-	-	-	-
Available-for-sale:						
U.S. government securities	32,698,075	258,551	222,733,257	10,772,057	255,431,332	11,030,608
U.S. agency securities	824,434	1,565	81,243,582	3,936,598	82,068,016	3,938,163
Corporate debt securities	8,047,355	22,208	96,268,180	4,589,867	104,315,535	4,612,075
Other fixed-income securities	4,979,319	64,566	34,641,868	1,764,906	39,621,187	1,829,472
Mexican government securities	-	-	14,664,520	784,374	14,664,520	784,374
Securities pledged under collateralized borrowings <sup>1</sup>	141,591,699	871,055	-	-	141,591,699	871,055
Mortgage-backed securities	-	-	4,563,947	514,226	4,563,947	514,226
Total available-for-sale investment securities	188,140,882	1,217,945	454,115,354	22,362,028	642,256,236	23,579,973
Total temporarily impaired securities	\$ 188,140,882	\$ 1,217,945	\$ 454,115,354	\$ 22,362,028	\$ 642,256,236	\$ 23,579,973
<b>December 31, 2022</b>						
Held-to-maturity:						
U.S. government securities	\$ 2,435,460	\$ 9,376	\$ 557,831	\$ 16,587	\$ 2,993,291	\$ 25,963
U.S. agency securities	-	-	1,116,939	44,533	1,116,939	44,533
Total held-to-maturity securities	2,435,460	9,376	1,674,770	61,120	4,110,230	70,496
Available-for-sale:						
U.S. government securities	145,850,471	4,159,725	227,596,894	16,323,497	373,447,365	20,483,222
U.S. agency securities	1,951,440	52,351	151,981,972	8,328,126	153,933,412	8,380,477
Corporate debt securities	20,219,964	834,376	104,643,455	8,780,488	124,863,419	9,614,864
Other fixed-income securities	13,426,992	526,900	57,591,923	3,539,841	71,018,915	4,066,741
Mexican government securities	6,604,290	592,874	7,842,350	623,535	14,446,640	1,216,409
Securities pledged under collateralized borrowings <sup>1</sup>	141,226,172	1,410,974	-	-	141,226,172	1,410,974
Mortgage-backed securities	1,278,034	132,122	3,909,183	534,655	5,187,217	666,777
Total available-for-sale investment securities	330,557,363	7,709,322	553,565,777	38,130,142	884,123,140	45,839,464
Total temporarily impaired securities	\$ 332,992,823	\$ 7,718,698	\$ 555,240,547	\$ 38,191,262	\$ 888,233,370	\$ 45,909,960

<sup>1</sup> Additional information on the securities pledged under collateralized borrowing is provided in Note 6.

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**3. Investments (continued)**

None of the unrealized losses identified in the preceding table are considered to be other-than-temporary or related to credit-related factors of an issuer as of December 31, 2023. As of that same date, the Bank did not have the intent to sell any of the securities with unrealized losses and believed that it was more-likely-than-not that the Bank would not be required to sell any such securities before a recovery of cost. Therefore, as of December 31, 2023, no credit losses for investment securities were recorded relating to the implementation of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*.

Contractual maturities of investments as of December 31, 2023 and 2022 are summarized in the following table.

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
<b>December 31, 2023</b>				
Less than 1 year	\$ 4,309,794	\$ 4,308,115	\$ 268,716,248	\$ 270,140,512
1–5 years	-	-	648,094,720	667,846,709
5–10 years	-	-	102,639,760	97,815,300
More than 10 years	-	-	-	-
Mortgage-backed securities	-	-	4,563,947	5,078,173
	\$ 4,309,794	\$ 4,308,115	\$ 1,024,014,675	\$ 1,040,880,694
<b>December 31, 2022</b>				
Less than 1 year	\$ 4,110,230	\$ 4,180,726	\$ 280,128,965	\$ 284,617,684
1–5 years	-	-	658,060,961	697,918,298
5–10 years	-	-	6,604,290	7,197,164
More than 10 years	-	-	-	-
Mortgage-backed securities	-	-	5,187,217	5,853,994
	\$ 4,110,230	\$ 4,180,726	\$ 949,981,433	\$ 995,587,140

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 and maturity activity of investment securities for the years ended December 31, 2023 and 2022.

	Year Ended December 31,	
	2023	2022
Held-to-maturity investment securities:		
Proceeds from maturities	\$ 9,861,000	\$ 2,374,000
Available-for-sale investment securities:		
Proceeds from sales and maturities	608,805,876	675,205,861
Gross realized gains	1,704	81,870
Gross realized losses	1,375,011	484,122

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**3. Investments (continued)**

The following table sets forth the net unrealized gains (losses) on securities available-for-sale and the reclassification adjustments required for the years ended December 31, 2023 and 2022.

	Year Ended December 31,	
	2023	2022
Net unrealized loss on investment securities available-for-sale, beginning of period	\$ (45,605,707)	\$ (6,619,087)
Net unrealized gains (losses) on investment securities available-for-sale, arising during the period	27,366,381	(39,388,872)
Reclassification adjustments for net losses on investment securities available-for-sale included in net income	1,373,307	402,252
Net unrealized loss on investment securities available-for-sale, end of period	<u>\$ (16,866,019)</u>	<u>\$ (45,605,707)</u>

**4. Loans**

The following schedule summarizes loans outstanding as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Loan balance	\$ 1,049,224,579	\$ 920,296,651
Allowance for credit losses	(16,546,195)	(22,153,814)
Unamortized loan fees	(6,528,697)	(6,924,616)
Foreign currency exchange rate adjustment	(17,273,777)	(32,171,930)
Fair value of hedged items	(48,582,482)	(106,748,200)
Net loans outstanding	<u>\$ 960,293,428</u>	<u>\$ 752,298,091</u>

At December 31, 2023 and 2022, outstanding undisbursed loan commitments on signed loan agreements totaled \$189,399,833 and \$174,784,983, respectively. As of December 31, 2023, the Bank had loan agreements under development for an additional \$176,575,387.

As part of the implementation of ASU 2016-13 on January 1, 2023, the Bank recorded an off-balance sheet credit exposure estimate for its undisbursed loan commitments through an increased provision for credit losses. As of December 31, 2023, this exposure totaled \$4,101,462 and is reported as a component of other liabilities on the consolidated balance sheet.

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**4. Loans (continued)**

The Bank under certain circumstances offered below-market-rate loans under its Low Interest Rate Lending Facility (LIRF) program, which was terminated in May 2013. As of December 31, 2023 and 2022, the Bank had LIRF loans outstanding of \$13,053,907 and \$16,847,839, respectively.

The following table presents the loan portfolio by sector as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Water	\$ 190,128,972	\$ 121,611,690
Solid waste	615,000	1,210,000
Air quality	100,790,868	115,736,121
Sustainable energy	658,498,525	607,764,116
Urban development	15,370,682	16,738,170
Sustainable food value chains	10,121,560	10,121,560
Sustainable buildings	24,462,325	-
ProRec <sup>1</sup>	49,236,647	47,114,994
	\$ 1,049,224,579	\$ 920,296,651

<sup>1</sup> In May 2020, the Board approved a COVID-19 Recovery Program (ProRec) to enhance the economic recovery and the general health and welfare of U.S.-Mexico border communities, while supporting projects with a positive environmental impact. The program was closed as of December 31, 2022.

The following table presents the loan portfolio by borrower type as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Private	\$ 700,092,391	\$ 629,196,767
Public	296,577,830	233,446,663
Public-private	52,554,358	57,653,221
	\$ 1,049,224,579	\$ 920,296,651

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

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**4. Loans (continued)**

The following table presents the loan portfolio by risk category as of as of December 31, 2023 and 2022. These risk categories are defined in Note 2, along with additional information on how the Bank evaluates credit quality.

	December 31,	
	2023	2022
AAA	\$ -	\$ -
AA+	23,045,000	-
AA	2,605,000	26,245,000
AA-	-	-
A+	21,630,000	1,355,000
A	4,375,000	4,580,000
A-	112,987,134	114,978,166
BBB+	108,765,000	115,440,279
BBB	170,750,964	124,634,901
BBB-	67,860,622	14,903,936
BB+	215,576,799	144,409,772
BB	248,294,473	132,346,373
BB-	29,435,632	141,038,827
B+	31,259,661	28,529,110
B	12,639,294	13,077,687
B-	-	58,757,600
C	-	-
	<u>\$ 1,049,224,579</u>	<u>\$ 920,296,651</u>

No loans were on non-accrual or impaired as of December 31, 2023 and 2022.

No loans were restructured during the years ended December 31, 2023 and 2022. The average impaired loan balance for the years ended December 31, 2023 and 2022 totaled \$0 and \$8,918,080, respectively.

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

	Loans 30–89 days past due	Loans 90 or more days past due	Total loans 30+ days past due
December 31, 2023	\$ -	\$ -	\$ -
December 31, 2022	-	-	-

There were no loans past due 90 or more days accruing interest as of December 31, 2023 and 2022.

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**4. Loans (continued)**

The following table summarizes the allowance for credit losses related to loans by classification as of December 31, 2023 and 2022.

	Allowance for Credit Losses	Total Loans Outstanding
<b>December 31, 2023</b>		
Mexico:		
Construction	\$ 672,458	\$ 17,084,033
Operation	10,699,509	629,000,912
Total Mexico	<u>11,371,967</u>	<u>646,084,945</u>
United States:		
Construction	2,459,284	220,180,104
Operation	2,714,944	182,959,530
Total United States	<u>5,174,228</u>	<u>403,139,634</u>
	<u>\$ 16,546,195</u>	<u>\$ 1,049,224,579</u>
<b>December 31, 2022</b>		
Mexico:		
Construction	\$ 667,629	\$ 13,864,867
Operation	13,274,228	619,683,942
Total Mexico	<u>13,941,857</u>	<u>633,548,809</u>
United States:		
Construction	1,391,769	66,665,695
Operation	6,820,188	220,082,147
Total United States	<u>8,211,957</u>	<u>286,747,842</u>
	<u>\$ 22,153,814</u>	<u>\$ 920,296,651</u>



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**4. Loans (continued)**

The following schedule summarizes the changes in the allowance for credit losses related to loans for the years ended December 31, 2023 and 2022.

	Change in Allowance for Credit Losses				
	Beginning Balance	Provision for Credit Losses due to Accounting Change <sup>1</sup>	Provision for Credit Losses <sup>2</sup>	Loan (Charge-offs) Recoveries	Ending Balance
<b>December 31, 2023</b>					
Mexico:					
Construction	\$ 667,629	\$ (1,820)	\$ 6,649	\$ -	\$ 672,458
Operation	13,274,228	(1,355,757)	(1,218,962)	-	10,699,509
Total Mexico	13,941,857	(1,357,577)	(1,212,313)	-	11,371,967
United States:					
Construction	1,391,769	887	1,066,628	-	2,459,284
Operation	6,820,188	(162,723)	(3,942,521)	-	2,714,944
Total United States	8,211,957	(161,836)	(2,875,893)	-	5,174,228
	<u>\$ 22,153,814</u>	<u>\$ (1,519,413)</u>	<u>\$ (4,088,206)</u>	<u>\$ -</u>	<u>\$ 16,546,195</u>
<b>December 31, 2022</b>					
Mexico:					
Construction	\$ -	\$ -	\$ 667,629	\$ -	\$ 667,629
Operation	17,203,805	-	(3,929,577)	-	13,274,228
Total Mexico	17,203,805	-	(3,261,948)	-	13,941,857
United States:					
Construction	947,136	-	444,633	-	1,391,769
Operation	3,988,391	-	2,831,797	-	6,820,188
Total United States	4,935,527	-	3,276,430	-	8,211,957
	<u>\$ 22,139,332</u>	<u>\$ -</u>	<u>\$ 14,482</u>	<u>\$ -</u>	<u>\$ 22,153,814</u>

<sup>1</sup> The Bank adopted ASU 2016-13 as of January 1, 2023, which decreased the loan allowance by \$1,519,413 due to adjustments for unamortized loan fees, foreign exchange adjustments and hedged items at fair value.

<sup>2</sup> For the year ended December 31, 2023, provision for credit losses totaled \$(1,689,191), which included \$2,399,015 in credit loss provisions for undisbursed loan commitments. For the year ended December 31, 2022, the provision for credit losses totaled \$14,482. The provision for credit losses is reflected in the consolidated statements of income.

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**5. Other Assets and Other Liabilities**

The following table presents the gross and net balances of other assets and other liabilities, including the result of master netting arrangements for derivatives with certain swap counterparties, at December 31, 2023 and 2022.

	Gross Amount	Master Netting Arrangements	Net Amount
<b>December 31, 2023</b>			
<b>Other Assets</b>			
Cross-currency interest rate swaps	\$ 143,926,683	\$ (16,834,362)	\$ 127,092,321
Interest rate swaps	19,999,994	(11,966,907)	8,033,087
Options	31,916,857	-	31,916,857
Collateral to counterparty	20,196,176	-	20,196,176
Collateral from counterparty	(8,049,975)	-	(8,049,975)
Credit valuation adjustment for swaps	(2,494,782)	-	(2,494,782)
Right-of-use lease asset	512,977	-	512,977
Total other assets	<u>\$ 206,007,930</u>	<u>\$ (28,801,269)</u>	<u>\$ 177,206,661</u>
<b>Other Liabilities</b>			
Cross-currency swaps	\$ 41,891,391	\$ -	\$ 41,891,391
Interest rate swaps	2,151,080	-	2,151,080
Off-balance sheet credit exposure	4,101,462	-	4,101,462
Total other liabilities	<u>\$ 48,143,933</u>	<u>\$ -</u>	<u>\$ 48,143,933</u>
<b>December 31, 2022</b>			
<b>Other Assets</b>			
Cross-currency interest rate swaps	\$ 116,994,965	\$ (26,014,966)	\$ 90,979,999
Interest rate swaps	22,901,624	(5,488,170)	17,413,454
Options	8,913,119	-	8,913,119
Collateral to counterparty	2,820,000	-	2,820,000
Collateral from counterparty	(18,200,000)	-	(18,200,000)
Credit valuation adjustment for swaps	(1,749,740)	-	(1,749,740)
Right-of-use lease asset	737,471	-	737,471
Total other assets	<u>\$ 132,417,439</u>	<u>\$ (31,503,136)</u>	<u>\$ 100,914,303</u>
<b>Other Liabilities</b>			
Cross-currency interest rate swaps	\$ 22,728,838	\$ -	\$ 22,728,838
Interest rate swaps	917,535	-	917,535
Total other liabilities	<u>23,646,373</u>	<u>-</u>	<u>23,646,373</u>

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**6. Debt**

The following tables summarize the notes payable and other borrowings as of December 31, 2023 and 2022.

Issue Date	Maturity Date	Rate (%)	December 31, 2023						Net Debt
			Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items		
<b>Notes Payable</b>									
<u>USD Issuance</u>									
12/17/12	12/17/30	3.30	\$ 50,000,000	\$ -	\$ (119,678)	\$ -	\$ (4,458,154)	\$ 45,422,168	
<u>CHF Issuance</u>									
04/30/15	04/30/25	0.25	128,706,754	122,608	(110,755)	-	16,474,561	145,193,168	
04/26/17	10/26/27	0.20	124,443,117	175,085	(273,284)	-	14,867,096	139,212,014	
07/24/18	07/24/26	0.30	126,415,858	56,180	(261,090)	-	17,435,188	143,646,136	
05/28/20	11/28/28	0.20	186,316,116	13,588	(619,114)	27,605,423	-	213,316,013	
05/28/20	05/27/33	0.55	165,614,326	562,807	(766,946)	24,538,152	-	189,948,339	
<u>NOK Issuance</u>									
03/10/17	03/10/31	2.47	86,724,283	-	(151,492)	-	(25,912,458)	60,660,333	
03/10/17	03/10/32	2.47	86,724,283	-	(161,054)	-	(27,085,797)	59,477,432	
Total notes payable			954,944,737	930,268	(2,463,413)	52,143,575	(8,679,564)	996,875,603	
<b>Other Borrowings</b>									
<u>USD</u>									
03/17/17	06/30/24	1.90	2,632,000	-	-	-	-	2,632,000	
03/17/17	12/30/24	1.90	2,170,720	-	-	-	-	2,170,720	
11/13/17	12/30/24	1.90	461,280	-	-	-	-	461,280	
<u>MXN</u>									
12/14/22	12/01/27	TIE var.	100,000,606	-	(21,706)	16,574,458	-	116,553,358	
10/27/23	10/01/29	TIE var.	65,083,916	-	-	5,054,243	-	70,138,159	
Total other borrowings			170,348,522	-	(21,706)	21,628,701	-	191,955,517	
			<u>\$ 1,125,293,259</u>	<u>\$ 930,268</u>	<u>\$ (2,485,119)</u>	<u>\$ 73,772,276</u>	<u>\$ (8,679,564)</u>	<u>\$ 1,188,831,120</u>	

CHF = Swiss franc; MXN = Mexican peso; NOK= Norwegian krone; USD = U.S. dollar.

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**6. Debt (continued)**

Issue Date	Maturity Date	Rate (%)	December 31, 2022						Net Debt
			Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items		
<b>Notes Payable</b>									
<u>USD Issuance</u>									
12/17/12	12/17/30	3.30	\$ 50,000,000	\$ -	\$ (136,867)	\$ -	\$ (5,260,536)	\$ 44,602,597	
<u>CHF Issuance</u>									
04/30/15	04/30/25	0.25	128,706,754	195,292	(193,824)	-	463,081	129,171,303	
04/26/17	10/26/27	0.20	124,443,117	201,081	(344,831)	-	(4,131,808)	120,167,559	
07/24/18	07/24/26	0.30	126,415,858	71,078	(362,925)	-	505,757	126,629,768	
05/28/20	11/28/28	0.20	186,316,116	14,887	(745,254)	8,390,040	-	193,975,789	
05/28/20	05/27/33	0.55	165,614,326	566,715	(848,485)	7,457,813	-	172,790,369	
<u>NOK Issuance</u>									
03/10/17	03/10/31	2.47	86,724,283	-	(172,558)	-	(23,902,415)	62,649,310	
03/10/17	03/10/32	2.47	86,724,283	-	(180,716)	-	(25,050,807)	61,492,760	
Total notes payable			954,944,737	1,049,053	(2,985,460)	15,847,853	(57,376,728)	911,479,455	
<b>Other Borrowings</b>									
<u>USD</u>									
03/17/17	06/30/23	1.90	2,632,000	-	-	-	-	2,632,000	
03/17/17	12/30/23	1.90	2,632,000	-	-	-	-	2,632,000	
03/17/17	06/30/24	1.90	2,632,000	-	-	-	-	2,632,000	
03/17/17	12/30/24	1.90	2,170,720	-	-	-	-	2,170,720	
11/13/17	12/30/24	1.90	461,280	-	-	-	-	461,280	
<u>MXN</u>									
12/14/22	12/01/27	TIIE var	100,000,606	-	(27,242)	1,462,067	-	101,435,431	
Total other borrowings			110,528,606	-	(27,242)	1,462,067	-	111,963,431	
			<u>\$ 1,065,473,343</u>	<u>\$ 1,049,053</u>	<u>\$ (3,012,702)</u>	<u>\$ 17,309,920</u>	<u>\$ (57,376,728)</u>	<u>\$ 1,023,442,886</u>	

CHF = Swiss franc; MXN = Mexican peso; NOK= Norwegian krone; USD = U.S. dollar.

**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.

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**6. Debt (continued)**

The fair value of the hedges relating to interest rate swaps on notes payable denominated in U.S. dollars was reported at December 31, 2023 and 2022 as other assets of \$(4,458,153) and \$(4,343,000), respectively, and as other liabilities of \$0 and \$917,535, respectively. The fair value of the hedges relating to cross-currency interest rate swaps on notes payable not denominated in U.S. dollars was reported at December 31, 2023 and 2022 as other assets of \$72,876,949 and \$(11,202,057), respectively, and as other liabilities of \$35,536,063 and \$22,728,837, respectively. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at December 31, 2023 and 2022 as other assets of \$31,916,857 and \$8,913,119, respectively. Additional information on the fair value of financial instruments and derivatives is provided in Notes 10 and 11.

**Other Borrowings**

On November 8, 2012, the Bank signed a loan commitment with another financial institution to borrow up to \$50 million to fund eligible projects in Mexico. This loan amortizes semiannually, with the first principal payment paid on December 30, 2015 and final principal payment due on December 30, 2024. At December 31, 2023 and 2022, the outstanding balance was \$5,264,000 and \$10,528,000, respectively.

On December 14, 2022, the Bank entered into a collateralized borrowing with another financial institution in the form of a repurchase agreement to borrow MXN \$1,978 million (\$100 million USD) with a maturity date of December 1, 2027. The loan carries a variable interest rate referenced to Mexico's Benchmark Interbank Deposit Rate (TIIE). This borrowing is collateralized by U.S. Treasury Notes, which are reflected on the consolidated balance sheet as available-for-sale investment securities.

On October 27, 2023 the Bank entered into a collateralized borrowing with another financial institution in the form of a repurchase agreement to borrow MXN \$1,190 million (\$65 million USD) with a maturity date of October 1, 2029 and a variable interest rate referenced to Mexico's TIIE. This borrowing is collateralized by U.S. Treasury Notes, which are reflected on the consolidated balance sheet as available-for-sale investment securities.

The following table summarizes the maturities of the notes payable and other borrowings as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Less than one year	\$ 5,264,000	\$ 5,264,000
1-2 years	128,706,754	5,264,000
2-3 years	126,415,858	128,706,754
3-4 years	224,443,723	126,415,858
4-5 years	186,316,116	224,443,723
5-10 years	454,146,808	409,764,682
More than 10 years	-	165,614,326
Total	<u>\$ 1,125,293,259</u>	<u>\$ 1,065,473,343</u>

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**6. Debt (continued)**

The following table summarizes short-term and long-term debt as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Short-term debt:		
Other borrowings	\$ 5,264,000	\$ 5,264,000
Total short-term debt	5,264,000	5,264,000
Long-term debt:		
Notes payable	954,944,737	954,944,737
Other borrowings	165,084,522	105,264,606
Total long-term debt	1,120,029,259	1,060,209,343
Total debt	\$ 1,125,293,259	\$ 1,065,473,343

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**7. Equity**

**Subscribed Capital**

At December 31, 2023 and 2022, the shareholders of the Bank had subscribed 600,000 shares of capital stock, with a par value of \$10,000 per share. Subscribed capital is divided into paid-in and callable capital. Callable capital are shares that the Bank can request that its shareholders pay under Chapter II, Article II, Section 3(d) of the Bank's Charter. As defined in the Charter, subscribed shares can be unqualified or qualified. Qualified shares are subject to the respective domestic legal requirements of each subscribing country. Unqualified shares have completed the domestic legal requirements. The Bank's capital at December 31, 2023 and 2022 is shown in the following tables.

	Mexico		United States		Total	
	Shares	USD Million	Shares	USD Million	Shares	USD Million
December 31, 2023						
Subscribed capital	300,000	\$ 3,000.0	300,000	\$ 3,000.0	600,000	\$ 6,000.0
Qualified callable capital	(104,267)	(1,042.7)	(102,000)	(1,020.0)	(206,267)	(2,062.7)
Unqualified callable capital	(150,733)	(1,507.3)	(153,000)	(1,530.0)	(303,733)	(3,037.3)
Qualified paid-in capital	(18,400)	(184.0)	-	-	(18,400)	(184.0)
Total funded paid-in capital	26,600	266.0	45,000	450.0	71,600	716.0
Restricted from commitments	-	-	(16,500)	(165.0)	(16,500)	(165.0)
Transferred to Domestic Programs	-	(22.5)	-	(22.5)	-	(45.0)
Total paid-in capital	26,600	\$ 243.5	28,500	\$ 262.5	55,100	\$ 506.0
December 31, 2022						
Subscribed capital	300,000	\$ 3,000.0	300,000	\$ 3,000.0	600,000	\$ 6,000.0
Qualified callable capital	(109,934)	(1,099.3)	(102,000)	(1,020.0)	(211,934)	(2,119.3)
Unqualified callable capital	(145,066)	(1,450.7)	(153,000)	(1,530.0)	(298,066)	(2,980.7)
Qualified paid-in capital	(19,400)	(194.0)	-	-	(19,400)	(194.0)
Total funded paid-in capital	25,600	256.0	45,000	450.0	70,600	706.0
Restricted from commitments	-	-	(16,500)	(165.0)	(16,500)	(165.0)
Transferred to Domestic Programs	-	(22.5)	-	(22.5)	-	(45.0)
Total paid-in capital	25,600	\$ 233.5	28,500	\$ 262.5	54,100	\$ 496.0

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**7. Equity (continued)**

In 1994, Mexico and the United States subscribed to the Bank's capital of 300,000 shares (\$3 billion) with equal commitments from each country. All shares from the original subscription have been unqualified. In 2015, the member countries agreed to a General Capital Increase (GCI) of 300,000 shares (\$3 billion), also with equal commitments from each government, bringing the Bank's subscribed capital to \$6 billion. Mexico submitted its letter of subscription on May 6, 2016, and the United States did so on September 1, 2016.

As of December 31, 2023, Mexico has unqualified 4,100 shares of paid-in capital and 23,233 shares of callable capital from its GCI subscription. As of December 31, 2022, Mexico has unqualified 3,100 shares of paid-in capital and 17,566 shares of callable capital from its GCI subscription.

As of December 31, 2023 and 2022, the United States has unqualified 22,500 shares of paid-in capital from its GCI subscription. Of these shares, 16,500 shares were restricted from commitment, until Mexico unqualifies corresponding payments. As such, the restricted shares are recorded as a deferred U.S. capital contribution. As of the same dates, the United States has also unqualified 25,500 shares of callable capital from its GCI subscription.

In accordance with Board Resolution BR 2020-7, the shareholders have until December 31, 2028, or such later dates as the Board of Directors shall determine, to unqualify the remaining shares of their subscriptions.

**Retained Earnings**

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

	December 31,	
	2023	2022
Designated retained earnings		
Community Assistance Program (CAP)	\$ -	\$ 177,224
Total designated retained earnings	-	177,224
Reserved retained earnings		
Debt Service Reserve	65,894,000	56,533,579
Operating Expenses Reserve	28,088,200	26,499,286
Special Reserve	30,000,000	30,000,000
Capital Preservation Reserve	159,320,901	153,556,195
Total reserved retained earnings	283,303,101	266,589,060
Undesignated retained earnings		
Operations	24,607,624	21,981,459
Mark-to-market hedge valuations	(2,061,570)	(2,128,043)
Total undesignated retained earnings	22,546,054	19,853,416
Total retained earnings	\$ 305,849,155	\$ 286,619,700



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**7. Equity (continued)**

Additional information regarding the reserve funds and each program listed above is provided in Notes 2 and 8, respectively.

**Accumulated Other Comprehensive Income (Loss)**

The following table presents the changes in accumulated other comprehensive income (loss) for the years ended December 31, 2023 and 2022.

	Beginning Balance	Period Activity	Ending Balance
<b>December 31, 2023</b>			
Net unrealized gain (loss) on available-for-sale investment securities	\$ (45,605,707)	\$ 28,739,688	\$ (16,866,019)
Post-retirement benefit liability adjustment	285,079	-	285,079
Foreign currency translation adjustment	287,365	41,002	328,367
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(24,082,548)	(26,740,912)	(50,823,460)
Fair value of cross-currency interest rate swaps and options, net	35,303,646	35,211,101	70,514,747
Net unrealized gain on hedging activities	11,221,098	8,470,189	19,691,287
Total accumulated other comprehensive income (loss)	<u>\$ (33,812,165)</u>	<u>\$ 37,250,879</u>	<u>\$ 3,438,714</u>
<b>December 31, 2022</b>			
Net unrealized loss on available-for-sale investment securities	\$ (6,619,087)	\$ (38,986,620)	\$ (45,605,707)
Post-retirement benefit liability adjustment	(142,488)	427,567	285,079
Foreign currency translation adjustment	391,273	(103,908)	287,365
Unrealized gain (loss) on hedging activities:			
Foreign currency translation adjustment	(32,333,581)	8,251,033	(24,082,548)
Fair value of cross-currency interest rate swaps and options, net	43,450,840	(8,147,194)	35,303,646
Net unrealized gain on hedging activities	11,117,259	103,839	11,221,098
Total accumulated other comprehensive income (loss)	<u>\$ 4,746,957</u>	<u>\$ (38,559,122)</u>	<u>\$ (33,812,165)</u>

**Hedging Activities in Other Comprehensive Income (Loss)**

The following table summarizes the net unrealized gain (loss) on derivatives designated as cash flow hedges and their related hedged items included in other comprehensive income for the years ended December 31, 2023 and 2022.

	For the Year Ended December 31,	
	2023	2022
Cross-currency swaps and hedged items for loans, net	\$ (719,012)	\$ (3,865,185)
Cross-currency swaps, options and hedged items for debt, net	9,189,201	3,969,024
Total	<u>\$ 8,470,189</u>	<u>\$ 103,839</u>

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**7. Equity (continued)**

For the years ended December 31, 2023 and 2022, no amounts were reclassified from other comprehensive income and recorded as a component of net swap settlements in the consolidated statements of income.

**8. Grant Programs**

Beginning January 1, 2023, all grant activities of the Bank are reported in the EICF accounts. Prior to that date, grant program activities were reported in the consolidated financial statements.

Grant activity may be financed by the Bank with its own funds or by third parties. In some cases, the Bank receives third-party pass-through grants, meaning that the funds are not drawn until needed for disbursement. In other cases, the third-party grantors entrust the funds to the Bank, which are held in custody for the programs.

**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. Subject to annual limits, the CAP program is funded from the Bank's undesignated retained earnings as authorized by the Board. For the year ended December 31, 2022, no disbursements from the Bank were made under this program.

**Technical Assistance Program (TAP)**

The Bank designated 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, subject to annual limits. For the year ended December 31, 2022, no disbursements from the Bank were made under this program.

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 year ended December 31, 2022, no disbursements from the Bank were made under this program.

Since 2021, the Bank has received grant funding from the U.S. Department of State (DOS) designated for CAP and TAP. For the year ended December 31, 2022, the Bank disbursed DOS funds of \$802,229 under CAP and \$539,429 under TAP. The disbursement of DOS funds is reflected in the consolidated statements of cash flows. As of December 31, 2022, remaining DOS funds of \$1,021,205 were transferred to the EICF.

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**8. Grant Programs (continued)**

**COVID-19 Recovery Program (ProRec)**

On May 21, 2020, the Board of Directors approved the ProRec program including an allocation of \$3 million for technical assistance grants (see Note 4). For the year ended December 31, 2022, the Bank disbursed \$30,000 under this program, which is reflected in the consolidated statements of income. The program ended as of December 31, 2022.

**Border Environment Infrastructure Fund (BEIF)**

Through this program, the Bank administers grant funds from EPA to support the implementation of priority water and wastewater infrastructure projects. Under the terms of the grants, the Bank reviews and submits prospective projects to EPA. EPA approves the projects, which are subsequently certified for financing by the Board of Directors. EPA then disburses funds to the Bank, which directs the grant monies to the specified project. The Bank also oversees progress and compliance requirements for EPA and receives an allocation of the EPA grant funds for administrative expenses incurred.

Beginning January 1, 2023, disbursements are recognized in EICF. For the year ended December 31, 2022, the Bank disbursed \$11,333,441 in grants for project implementation. Since the Bank administers these funds, the grant disbursements are reflected in the consolidated statements of cash flows.

The Bank recognized \$1,158,374 and \$977,932 as reimbursement of expenses incurred in the administration of these funds for the years ended December 31, 2023, and 2022, respectively, which are reflected in consolidated statements of income.

**Project Development Assistance Program (PDAP)**

Through this program, the Bank administers grant funding from EPA to provide technical assistance to communities for the development of water and wastewater projects that have been prioritized by EPA to receive a BEIF grant. Beginning January 1, 2023, disbursements are recognized in EICF. For the year ended December 31, 2022, the Bank disbursed \$1,079,538 for technical assistance, which are reflected in the consolidated statements of cash flows.

The Bank recognized \$789,745 and \$854,621 as reimbursement of expenses incurred in the administration of these funds for the years ended December 31, 2023, and 2022, respectively, which are reflected in the consolidated statements of income.

**U.S.-Mexico Environmental Border 2025 Program**

The Bank administers grant funding from EPA to support the 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 technical assistance projects and workshops funded through the program. Beginning January 1, 2023, disbursements are recognized in EICF. For the year ended December 31, 2022, the Bank disbursed \$467,168, to support these projects, which are reflected in the consolidated statements of cash flows.

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**8. Grant Programs (continued)**

The Bank recognized \$277,970 and \$269,932 as reimbursement of expenses incurred in the administration of these funds for the years ended December 31, 2023 and 2022, respectively, which are reflected in the consolidated statements of income.

**9. Employee Benefits**

**401(a) Retirement Plan**

The Bank has a 401(a) Retirement Plan for its employees. This plan provides for employee and nondiscretionary employer contributions. For the years ended December 31, 2023 and 2022, the Bank expended \$1,380,024 and \$1,293,772, respectively, relating to the plan.

**Post-retirement Health Insurance Plan**

The Bank has a post-retirement health insurance plan for qualifying employees based on number of years of service and age. Qualified retirees may purchase group health insurance coverage at the current employee rate subject to the plan limits. The plan is funded by the Bank as benefits are paid. The Bank paid benefits of \$63,130 and \$45,232 for the years ended December 31, 2023, and 2022, respectively. As of December 31, 2023, the unfunded portion of the plan totaled \$3,543,778 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of \$102,000 and \$3,441,778, respectively. As of December 31, 2022, the unfunded portion of the plan totaled \$3,215,908 and is reflected in the consolidated balance sheet as a component of accrued liability and long-term liability of \$79,000 and \$3,136,908, respectively.

The following table presents the change in benefit obligations as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Beginning balance	\$ 3,215,908	\$ 3,296,707
Service expense	253,000	303,000
Interest expense	138,000	89,000
Net benefits paid	(63,130)	(45,232)
Actuarial loss (gain)	-	(427,567)
Ending balance	\$ 3,543,778	\$ 3,215,908

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**9. Employee Benefits (continued)**

The change in post-retirement health plan assets as of December 31, 2023 and 2022 is presented in the following table.

	December 31,	
	2023	2022
Beginning balance	\$ -	\$ -
Employer contributions	63,130	45,232
Net benefits paid	(63,130)	(45,232)
Ending balance	<u>\$ -</u>	<u>\$ -</u>

The following table presents post-retirement health plan liabilities as of December 31, 2023 and 2022.

	December 31,	
	2023	2022
Current liabilities	\$ 102,000	\$ 79,000
Non-current liabilities	3,441,778	3,136,908
Total	<u>\$ 3,543,778</u>	<u>\$ 3,215,908</u>

The net periodic benefit cost of the post-retirement health plan for years ended December 31, 2023 and 2022 is presented in the following table.

	Year Ended December 31,	
	2023	2022
Service expense	\$ 253,000	\$ 303,000
Interest expense	138,000	89,000
Total	<u>\$ 391,000</u>	<u>\$ 392,000</u>

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

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**9. Employee Benefits (continued)**

The assumptions used to determine the benefit obligations and net periodic post-retirement benefit costs of the plan as of December 31, 2023 and 2022 are presented below.

	December 31,	
	2023	2022
Discount rate	4.36%	4.36%
Current healthcare trend rate	6.30%	6.30%
Ultimate healthcare trend rate	5.00%	5.00%
Year in which ultimate trend is reached	2028	2028

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

Year ending December 31:		
2024	\$	102,000
2025		137,000
2026		177,000
2027		220,000
2028-2032		1,531,000

**10. Fair Value of Financial Instruments**

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

**Available-for-sale Securities**

Securities classified as available-for-sale are reported at fair value using Level 1 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.

**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 TIIE 28-day swap curve. Cash flows in U.S. dollars are discounted using the USD Overnight Index Swap (OIS) curve.

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**10. Fair Value of Financial Instruments (continued)**

**Cross-currency Interest Rate Swaps**

Cross-currency interest rate swaps are reported at fair value using Level 2 observable 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 other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Bank's cross-currency interest rate swaps are all Mexican-peso for U.S.-dollar operations except for six (6) 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 kroner (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 2 observable 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 other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Options**

Options are reported at fair value using Level 2 observable inputs. The Bank uses options to hedge its foreign exchange exposure related to debt issuance.

**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 Swiss franc issuances and the NOK swap curve for the Norwegian krone issuance, as well as on external pricing models and counterparty pricing.

**Long-term Post-retirement Benefits Payable**

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

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**10. Fair Value of Financial Instruments (continued)**

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

	December 31, 2023		December 31, 2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 53,731,480	\$ 53,731,480	\$ 164,745,186	\$ 164,745,186
Held-to-maturity securities	4,308,115	4,309,794	4,180,726	4,110,230
Available-for-sale securities	1,024,014,675	1,024,014,675	949,981,433	949,981,433
Loans, net	960,293,428	991,123,880	752,298,091	757,489,681
Interest receivable	22,420,512	22,420,512	18,285,105	18,285,105
Cross-currency interest rate swaps	127,092,321	127,092,321	90,979,999	90,979,999
Interest rate swaps	8,033,087	8,033,087	17,413,454	17,413,454
Options	31,916,857	31,916,857	8,913,119	8,913,119
<b>Liabilities</b>				
Accrued interest payable	15,017,438	15,017,438	13,658,432	13,658,432
Short-term debt, net	5,264,000	5,264,000	5,264,000	5,264,000
Long-term debt, net	1,118,474,408	1,119,432,054	1,058,245,694	1,057,392,602
Long-term post-retirement benefits payable	3,441,778	3,441,778	3,136,908	3,136,908
Cross-currency interest rate swaps	41,891,391	41,891,391	22,728,838	22,728,838
Interest rate swaps	2,151,081	2,151,081	917,535	917,535



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**10. Fair Value of Financial Instruments (continued)**

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022 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.

December 31, 2023	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 353,459,708	\$ -	\$ -	\$ 353,459,708
U.S. agency securities	88,391,666	-	-	88,391,666
Corporate debt securities	164,540,641	-	-	164,540,641
Other fixed-income securities	59,471,184	-	-	59,471,184
Mexican government securities	114,264,922	-	-	114,264,922
Securities pledged under collateralized borrowings	239,322,607	-	-	239,322,607
Mortgage-backed securities	4,563,947	-	-	4,563,947
Total AFS securities	1,024,014,675	-	-	1,024,014,675
Cross-currency interest rate swaps	-	127,092,321	-	127,092,321
Interest rate swaps	-	8,033,087	-	8,033,087
Options	-	31,916,857	-	31,916,857
Hedged items for loans	-	-	(48,582,482)	(48,582,482)
Total assets at fair value	<u>\$ 1,024,014,675</u>	<u>\$ 167,042,265</u>	<u>\$ (48,582,482)</u>	<u>\$ 1,142,474,458</u>
<b>Liabilities</b>				
Cross-currency interest rate swaps	\$ -	\$ 41,891,391	\$ -	\$ 41,891,391
Interest Rate Swaps	-	2,151,080	-	2,151,080
Hedged items for notes payable	-	-	(8,679,564)	(8,679,564)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 44,042,471</u>	<u>\$ (8,679,564)</u>	<u>\$ 35,362,907</u>

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**10. Fair Value of Financial Instruments (continued)**

December 31, 2022	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 415,965,681	\$ -	\$ -	\$ 415,965,681
U.S. agency securities	153,933,412	-	-	153,933,412
Corporate debt securities	129,161,759	-	-	129,161,759
Other fixed-income securities	75,169,550	-	-	75,169,550
Mexican government securities	29,337,642	-	-	29,337,642
Securities pledged under collateralized borrowings	141,226,172	-	-	141,226,172
Mortgage-backed securities	5,187,217	-	-	5,187,217
Total AFS securities	949,981,433	-	-	949,981,433
Cross-currency interest rate swaps	-	90,979,999	-	90,979,999
Interest rate swaps	-	17,413,454	-	17,413,454
Options	-	8,913,119	-	8,913,119
Hedged items for loans	-	-	(106,748,200)	(106,748,200)
Total assets at fair value	\$ 949,981,433	\$ 117,306,572	\$ (106,748,200)	\$ 960,539,805
<b>Liabilities</b>				
Cross-currency interest rate swaps	\$ -	\$ 22,728,838	\$ -	\$ 22,728,838
Interest rate swaps	-	917,535	-	917,535
Hedged items for notes payable	-	-	(57,376,728)	(57,376,728)
Total liabilities at fair value	\$ -	\$ 23,646,373	\$ (57,376,728)	\$ (33,730,355)

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**10. Fair Value of Financial Instruments (continued)**

The following table summarizes the changes to hedged items included in financial assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31, 2023 and 2022. Additional information on how the Bank measures fair value is provided in Note 2.

Fair Value of Level 3 Instruments	Year Ended December 31,	
	2023	2022
<b>Assets</b>		
Beginning balance	\$ (106,748,200)	\$ (93,844,578)
Total realized and unrealized gains (losses):		
Included in earnings (expenses)	58,165,718	(22,615,941)
Included in other comprehensive income (loss)	-	-
Purchases	-	-
Settlements	-	9,712,319
Transfers in/out of Level 3	-	-
Ending balance	<u>\$ (48,582,482)</u>	<u>\$ (106,748,200)</u>
<b>Liabilities</b>		
Beginning balance	\$ (57,376,728)	\$ 17,990,828
Total realized and unrealized (gains) losses:		
Included in (earnings) expenses	48,697,164	(75,367,556)
Included in other comprehensive income (loss)	-	-
Purchases	-	-
Settlements	-	-
Transfers in/out of Level 3	-	-
Ending balance	<u>\$ (8,679,564)</u>	<u>\$ (57,376,728)</u>

The Bank has no nonfinancial assets or liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2023 and 2022.

**11. 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 the terms of the loans denominated in Mexican pesos that the Bank has entered into directly or through COFIDAN. In the latter case, the swaps are entered into on the exact same terms COFIDAN signs 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.

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**11. Derivative Financial Instruments (continued)**

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 related loans and notes payable.

The Bank enters into interest rate swaps for some loans and certain of its long-term notes payable. The swaps are structured so that the notional amounts match the expected maturity of the related loans and 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.

Like the rest of the industry, the Bank has been transitioning to the Secured Overnight Financing Rate (SOFR) rate as its benchmark interest rate instead of the London Interbank Offered Rate (LIBOR). Beginning January 1, 2023, the Bank implemented ASU 2020-4, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. Prior to that date, the Bank elected to apply the contract amendments prospectively.

The Bank uses options to hedge a portion of its long-term notes payable. The options have been designated as hedging instruments and are structured to match the expected maturity of the notes payable.

The Bank may be required to post or receive collateral based on the outstanding fair value of its derivatives and other collateralized borrowings. Cash collateral and receivables totaling \$8,049,975 and \$18,200,000 were posted from counterparties to the Bank as of December 31, 2023 and 2022, respectively. As of those same dates, \$20,196,176 and \$2,820,000 collateral were posted by the Bank.

The notional amounts and estimated fair values of the swaps outstanding at December 31, 2023 and 2022 are presented in the following table. The fair value of these swaps is estimated using internal valuation models with observable market data inputs.

	December 31, 2023		December 31, 2022	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Cross-currency interest rate swaps	\$ 1,020,350,695	\$ 85,200,930	\$ 1,055,763,596	\$ 68,251,161
Interest rate swaps	346,239,368	5,882,007	231,832,891	16,495,919
Options	175,965,221	31,916,857	175,965,221	8,913,119

Swaps that are no longer deemed effective because of borrower default on the hedged loans are not included in the preceding table. There were no swaps that were considered ineffective due to borrower default as of December 31, 2023 and 2022.

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**11. Derivative Financial Instruments (continued)**

**Gains and Losses on Derivative Cash Flows**

Cross-currency interest rate Swaps and Options – The effective portion of the gain or loss due to changes in the fair value of cross-currency interest rate swaps and options 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 net unrealized gain (loss) related to the swaps and options included in accumulated other comprehensive income totaled \$19,691,287 and \$11,221,098 at December 31, 2023 and 2022, 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 and options are reported in income (expense) from net hedging activities. For the years ended December 31, 2023 and 2022, changes in the aforementioned swaps and options included in the accompanying consolidated statements of income were \$811,515 and \$(2,096,976), respectively.

Interest Rate Swaps – The changes in the fair value of the interest rate swaps offset the changes in the fair value of the loans and debt due to changes in the USD OIS curve, while the ineffective portion is included in income (expense) from net hedging activities. For the years ended December 31, 2023 and 2022, changes in the aforementioned swaps included in the accompanying consolidated statements of income were \$0.

**Income (Expense) from Hedging Activities**

The following table summarizes the net income (expense) from hedging activities for the years ended December 31, 2023 and 2022.

	Year Ended December 31,	
	2023	2022
Fair value hedges with swaps and hedged items for loans	\$ (84,298)	\$ (4,777,558)
Fair value hedges with swaps and hedged items for debt	(1,020,883)	1,607,055
Cash flow hedges with options and hedged items for debt	1,916,696	1,073,527
Credit valuation adjustment	(745,042)	825,621
Income (expense) from hedging activities, net	<u>\$ 66,473</u>	<u>\$ (1,271,355)</u>

Net income from hedging activities is included as a component of non-operating income (expenses) in the accompanying consolidated statements of income.

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**12. 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 equivalents, investments, loans receivable, options and swaps. The Bank maintains 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.

**13. Commitments**

In the normal course of business, the Bank has various outstanding commitments, in addition to the loans receivable disclosed in Note 4 and borrowings disclosed in Note 6. Under agreements with consultants and contractors in effect on December 31, 2023, 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 consolidated financial statements.

**Operating Lease Commitments**

The Bank rents office space for its headquarters in San Antonio, Texas, under an operating lease that expires on February 28, 2026. As of December 31, 2023, the right-of-use lease asset totaled \$512,977 and is reflected in the consolidated balance sheets as a component of other assets. As of that same date, the operating lease obligation is reflected in the consolidated balance sheet in accrued liabilities and as a long-term lease payable of \$234,323 and \$278,654, respectively. For the years ended December 31, 2023, and 2022, operating lease expenses recognized on a straight-line basis totaled \$232,493 and \$229,712, respectively, and are included as a component of operating expenses in the consolidated statements of income.

As of December 31, 2023, the weighted average term of the lease remaining was 2.2 years and the weighted average discount rate used on the lease liability was 1.26%, which is considered a risk-free rate by the Bank in determining the present value of future lease payments as follows:

Year Ending December 31,	
2024	\$ 239,436
2025	240,732
2026	<u>40,122</u>
Total operating lease	520,290
Discount	<u>(7,313)</u>
Operating lease liability	<u>\$ 512,977</u>

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**14. Subsequent Event**

On January 23, 2024, the Bank entered into a collateralized borrowing with another financial institution in the form of a repurchase agreement to borrow MXN \$430 million (\$25 million USD) with a maturity date of October 1, 2029. The loan carries a variable interest rate referenced to Mexico's TIIE and is collateralized by U.S. Treasury Notes.