



**NORTH AMERICAN DEVELOPMENT BANK  
ORDINARY CAPITAL RESOURCES**

Audited Consolidated Financial Statements

December 31, 2023

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

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## **Report of Independent Auditors**

Those Charged with Governance  
North American Development Bank  
Ordinary Capital Resources

### **Opinion**

We have audited the consolidated financial statements of North American Development Bank - Ordinary Capital Resources and subsidiary (the Bank), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank at December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that

includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Ernst & Young LLP*

August 21, 2024

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

<b>Assets</b>	
Cash and cash equivalents:	
Held at other financial institutions	\$ 22,531,480
Repurchase agreements	31,200,000
Total cash and cash equivalents	<u>53,731,480</u>
Held-to-maturity investment securities, at amortized cost	4,308,115
Available-for-sale investment securities, at fair value	1,020,014,675
Loans outstanding	1,049,224,579
Allowance for credit losses	(16,546,195)
Unamortized loan fees	(6,528,697)
Foreign currency exchange rate adjustment	(25,251,690)
Hedged items, at fair value	1,296,457
Net loans outstanding	<u>1,002,194,454</u>
Interest receivable	22,420,512
Security settlement receivable	4,000,000
Grant and other receivable	3,947,387
Furniture, equipment and leasehold improvements, net	76,601
Other assets	<u>177,206,661</u>
Total assets	<u>\$ 2,287,899,885</u>
<b>Liabilities and Equity</b>	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 4,868,540
Accrued liabilities	3,125,033
Accrued interest payable	15,017,438
Due to Environment Investment and Capacity Facility (EICF)	2,000,000
Other liabilities	48,143,933
Short-term debt	5,264,000
Total current liabilities	<u>78,418,944</u>
Long-term liabilities:	
Long-term lease payable	278,654
Long-term post-retirement benefits payable	3,441,778
Deferred U.S. capital contribution	165,000,000
Long-term debt, net of discounts and unamortized debt issuance costs	1,118,474,408
Foreign currency exchange rate adjustment	108,478,892
Hedged items, at fair value	(4,458,154)
Net long-term debt	<u>1,222,495,146</u>
Total long-term liabilities	<u>1,391,215,578</u>
Total liabilities	<u>1,469,634,522</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>
Retained earnings	309,966,937
Accumulated other comprehensive income (loss)	2,293,932
Non-controlling interest	4,494
Total equity	<u>818,265,363</u>
Total liabilities and equity	<u>\$ 2,287,899,885</u>

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

**North American Development Bank  
Ordinary Capital Resources  
Consolidated Statement of Income  
For the Year Ended December 31, 2023**

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Interest income:	
Loans	\$ 72,039,640
Investments	30,394,011
Total interest income	<u>102,433,651</u>
Interest expense	<u>59,074,407</u>
Net interest income	43,359,244
Provision for credit losses	<u>(1,689,191)</u>
Net interest income after provision for loan losses	45,048,435
Operating expenses (income):	
General and administrative:	
Personnel	18,138,834
Administrative	2,628,323
Consultants and contractors	2,102,607
Other	(1,664,099)
Grant operating reimbursements, net	(1,544,195)
Depreciation	<u>61,780</u>
Total operating expenses	<u>19,723,250</u>
Net operating income	25,325,185
Non-interest and non-operating income (expenses):	
Loss on sale of securities, net	(1,373,307)
Fees and other income (expense), net	495,456
Income (expense) from foreign currency exchange rate adjustments and hedging activities, net	<u>4,184,255</u>
Total non-interest and non-operating income (expense)	<u>3,306,404</u>
Transfer to Environment Investment and Capacity Facility (EICF)	<u>5,101,424</u>
Net income	23,530,165
Non-controlling interest in net loss	<u>(106)</u>
Controlling interest in net income	<u>\$ 23,530,271</u>

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

**North American Development Bank**  
**Ordinary Capital Resources**  
**Consolidated Statement of Comprehensive Income**  
**For the Year Ended December 31, 2023**

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Net income	\$ 23,530,165
Non-controlling interest in net loss	(106)
Controlling interest in net income	<u>23,530,271</u>
Other comprehensive income:	
Available-for-sale investment securities:	
Change in unrealized gains (losses) during the period, net	27,366,381
Reclassification adjustment for net losses included in net income	<u>1,373,307</u>
Total unrealized gain on available-for-sale investment securities	28,739,688
Foreign currency translation adjustment	41,002
Unrealized gains (losses) on hedging activities:	
Foreign currency translation adjustment, net	(15,912,110)
Fair value of cross-currency interest rate swaps and options, net	<u>23,237,517</u>
Total unrealized gain on hedging activities	<u>7,325,407</u>
Total other comprehensive income	<u>36,106,097</u>
Total comprehensive income	<u>\$ 59,636,368</u>

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

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

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	<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, 2023	\$ 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	-	23,530,271	-	-	23,530,271
Other comprehensive income	-	-	36,106,097	-	36,106,097
Non-controlling interest	-	-	-	(106)	(106)
Ending balance, December 31, 2023	<u>\$ 506,000,000</u>	<u>\$ 309,966,937</u>	<u>\$ 2,293,932</u>	<u>\$ 4,494</u>	<u>\$ 818,265,363</u>

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



**North American Development Bank  
Ordinary Capital Resources  
Consolidated Statement of Cash Flows  
For the Year Ended December 31, 2023**

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<b>Cash flows from operating activities</b>	
Net income	\$ 23,530,271
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation	61,780
Amortization of net premiums (discounts) on investments	(5,875,630)
Change in fair value of swaps, options, hedged items and other non-cash items	(23,487,368)
Non-controlling interest	(106)
(Gains) losses on securities, net	1,373,307
Provision for credit losses	(1,689,191)
Post-retirement benefits payable	304,870
Change in other assets and liabilities:	
Increase in interest receivable	(4,135,407)
Increase in accounts receivable	(362,872)
Increase in securities settlement receivable	(4,000,000)
Increase in accounts payable	748,936
Increase in accrued liabilities	112,739
Increase in accrued interest payable	1,359,006
Decrease in due to EICF	(6,729,539)
	<hr/>
Net cash used in operating activities	(18,789,204)
<b>Cash flows from lending, investing, and development activities</b>	
Capital expenditures	(57,464)
Loan principal repayments	89,900,704
Loan disbursements	(218,828,632)
Purchase of held-to-maturity investment securities	(9,871,713)
Purchase of available-for-sale investment securities	(645,854,189)
Proceeds from maturities of held-to-maturity investments	9,861,000
Proceeds from sales and maturities of available-for-sale investments	612,805,876
	<hr/>
Net cash used in lending, investing, and development activities	(162,044,418)
<b>Cash flows from financing activities</b>	
Capital contribution	10,000,000
Proceeds from other borrowings	65,083,916
Principal repayment of other borrowings	(5,264,000)
	<hr/>
Net cash provided by financing activities	69,819,916
<b>Net decrease in cash and cash equivalents</b>	(111,013,706)
<b>Cash and cash equivalents, beginning of period</b>	164,745,186
	<hr/>
<b>Cash and cash equivalents, end of period</b>	\$ 53,731,480
<b><u>Supplemental cash information</u></b>	
Cash paid during the year for interest	\$ 22,545,961
<b><u>Significant non-cash transactions</u></b>	
Foreign currency translation adjustment	\$ (15,912,110)
Change in fair value of cross-currency interest rate swaps, net	23,237,517
Change in fair value of available-for-sales investments, net	28,739,688

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

North American Development Bank  
Ordinary Capital Resources  
Notes to Consolidated Financial Statements  
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. Its operations 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 December 31, 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 sheet and consolidated statement 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 or the EICF, which are accounted for separately. All grant and technical assistance activities are reported under the EICF, while all other operations of the Bank are reported through Ordinary Capital Resources.

These consolidated financial statements reflect the operations of the Bank through the Ordinary Capital Resources and its subsidiary, COFIDAN.

## 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

North American Development Bank  
Ordinary Capital Resources  
Notes to Consolidated Financial Statements  
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## 2. Summary of Significant Accounting Policies (continued)

assumptions that affect the reported amounts of assets and liabilities and the 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 of the Bank include the accounts of the Ordinary Capital Resources and its subsidiary, COFIDAN. All material intercompany accounts and transactions with COFIDAN have been eliminated in the consolidation. In accordance with U.S. GAAP, EICF does not meet the criteria for consolidation; therefore, the financial statements of EICF are accounted for and issued separately.

### Cash and Cash Equivalents

For the purposes of the consolidated statement 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.

### Repurchase Agreements

The Bank has entered into repurchase agreements with other financial institutions. Shorter term repurchase agreements, which are included in cash and cash equivalents, may occur daily and involve U.S. government and federally sponsored agency securities. 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.

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 statement 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.

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

The accretion of discounts and the amortization of premiums are computed using the effective interest method. Realized gains and losses are determined using the specific identification method.

### **Taxation**

Pursuant to its Charter, as further implemented in the U.S. under 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.

### **Retained Earnings**

Retained earnings are classified as 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.

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

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 reversed through current-year interest income.

In cases where a borrower experiences financial difficulty, the Bank may make certain modifications to the contractual terms of the loan. 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 first 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 loan 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.

For each loan, a letter rating is assessed using the scorecard methodology. 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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Ordinary Capital Resources  
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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 the allowance for off-balance sheet, undisbursed loan commitments of \$1,702,447. The net difference of \$183,034 resulted in an opening retained earnings cumulative-effect adjustment using a modified-retrospective approach.

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 – For outstanding loans, the allowance for credit losses is calculated based on the estimated probability of default using the risk horizon (remaining life) of the loan, which is mapped to the undiscounted default probability table provided by the same credit rating agency used to develop the Bank’s credit risk grades. The estimated credit losses for outstanding loans are reported separately as a contra-asset to loans outstanding on the consolidated balance sheet.

For undisbursed loan commitments, the liability for expected credit losses is calculated based on the projected probability of default and loss given default. The estimated credit losses for undisbursed loan commitments is reported as a component of other liabilities on the consolidated balance sheet.

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 statement of income. 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 on an individual basis 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 and is not required to sell the debt securities, it will evaluate the securities to determine if a credit loss exists. If a portion of the decline in fair value below amortized cost is due to credit-related factors, it is recognized as an allowance for credit losses in the consolidated balance sheet with a related charge to provisions for credit losses in the consolidated statement of income. Available-for-sale securities are charged off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible.

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.

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

### **Foreign Currency**

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

### **Derivatives**

The lending activities of the Bank include making loans that are denominated in Mexican pesos. When such loans are not funded with debt proceeds denominated in Mexican pesos, the Bank enters into cross-currency interest rate swaps to convert the Mexican pesos back into U.S. dollars to mitigate its exposure to fluctuations in foreign currency exchange rates and interest rates. As of December 31, 2023, the Bank had entered into agreements with 12 swap counterparties.

All derivative financial instruments are recorded at fair value on the consolidated balance sheet. Certain swaps relating to the lending activities of the Bank are designated as fair value hedges of interest rate risk. Certain swaps and options related to debt activities are designated as cash flow or fair value hedges. Changes in the fair value of the cash flow hedges are reported in other comprehensive income. For fair value hedges and the hedged items, changes in the fair value are reported as net income (expense) from hedging activities in the consolidated statement of income.

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 statement of income over the remaining life of the loan or debt. 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.



North American Development Bank  
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## 2. Summary of Significant Accounting Policies (continued)

### Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank carries cross-currency interest rate swaps, interest rate swaps, 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.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes U.S. agency securities, corporate debt securities, other fixed-income securities, Mexican government securities, securities pledged under collateralized borrowings, mortgage-backed securities, 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 consolidated statement of comprehensive income for the period presented and 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.

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
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	360,049,360	440,956	(11,030,608)	349,459,708
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	1,036,880,694	6,713,954	(23,579,973)	1,020,014,675
Total investment securities	\$ 1,041,188,809	\$ 6,715,633	\$ (23,579,973)	\$ 1,024,324,469

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

As of December 31, 2023, accrued interest on held-to-maturity and available-for-sale securities totaled \$5,229,329 and is reported as a component of interest receivable in the consolidated balance sheet.

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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.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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

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

None of the unrealized losses identified in the preceding table were related to credit-related factors of an issuer as of December 31, 2023. This assessment is based on the overall high quality of the investment portfolio, the underlying risk characteristics for the types of investment securities, credit ratings and other qualitative factors, including historical credit loss experience. 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 allowance for credit losses for investment securities was recorded.

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

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than 1 year	\$ 4,309,794	\$ 4,308,115	\$ 264,716,248	\$ 266,140,512
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	\$ 1,020,014,675	\$ 1,036,880,694

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**3. Investments (continued)**

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 year ended December 31, 2023.

	<u>Year ended December 31, 2023</u>
Held-to-maturity investment securities:	
Proceeds from maturities	\$ 9,861,000
Available-for-sale investment securities:	
Proceeds from sales and maturities	612,805,876
Gross realized gains	1,704
Gross realized losses	1,375,011

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

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

**4. Loans**

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

Loan balance	\$ 1,049,224,579
Allowance for credit losses	(16,546,195)
Unamortized loan fees	(6,528,697)
Foreign currency exchange rate adjustment	(25,251,690)
Fair value of hedged items	<u>1,296,457</u>
Net loans outstanding	<u><u>\$ 1,002,194,454</u></u>

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**4. Loans (continued)**

At December 31, 2023, outstanding undisbursed loan commitments on signed loan agreements totaled \$257,028,338. As of the same date, 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 a reserve for off-balance sheet credit exposure for its undisbursed loan commitments. As of December 31, 2023, this reserve estimate totaled \$4,101,462 and is reported as a component of other liabilities on the consolidated balance sheet.

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, the Bank had LIRF loans outstanding of \$13,053,907.

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

Water	\$ 190,128,972
Solid waste	615,000
Air quality	100,790,868
Sustainable energy	658,498,525
Urban development	15,370,682
Sustainable buildings	24,462,325
Sustainable food value chains	10,121,560
ProRec <sup>1</sup>	49,236,647
	<u>\$ 1,049,224,579</u>

<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.

Private	\$ 700,092,391
Public	296,577,830
Public-private	52,554,358
	<u>\$ 1,049,224,579</u>

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

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**4. Loans (continued)**

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

Risk Category	Mexico	United States	Total
AAA	\$ -	\$ -	\$ -
AA+	-	23,045,000	23,045,000
AA	-	2,605,000	2,605,000
AA-	-	-	-
A+	-	21,630,000	21,630,000
A	-	4,375,000	4,375,000
A-	-	112,987,134	112,987,134
BBB+	96,000,000	12,765,000	108,765,000
BBB	170,750,964	-	170,750,964
BBB-	15,029,079	52,831,543	67,860,622
BB+	106,232,513	109,344,286	215,576,799
BB	184,737,802	63,556,671	248,294,473
BB-	29,435,632	-	29,435,632
B+	31,259,661	-	31,259,661
B	12,639,294	-	12,639,294
B-	-	-	-
CCC to C	-	-	-
	<u>\$ 646,084,945</u>	<u>\$ 403,139,634</u>	<u>\$ 1,049,224,579</u>

The following table presents the loan portfolio by risk category and year committed as of December 31, 2023.

Risk Category	Year of Loan Commitment						Total Loans at December 31, 2023
	2023	2022	2021	2020	2019	Prior	
AAA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
AA+ to AA-	-	-	23,045,000	-	-	2,605,000	25,650,000
A+ to A-	20,800,000	63,000,000	-	20,642,614	615,000	33,934,520	138,992,134
BBB+ to BBB-	56,932,828	52,831,543	1,665,000	13,693,695	105,987,814	116,265,706	347,376,586
BB+ to BB-	79,610,695	27,352,463	1,410,000	3,199,752	-	381,733,994	493,306,904
B+ to B-	3,246,244	-	-	-	-	40,652,711	43,898,955
CCC to C	-	-	-	-	-	-	-
Total	<u>\$ 160,589,767</u>	<u>\$ 143,184,006</u>	<u>\$ 26,120,000</u>	<u>\$ 37,536,061</u>	<u>\$ 106,602,814</u>	<u>\$ 575,191,931</u>	<u>\$ 1,049,224,579</u>

As of December 31, 2023, no loans were on non-accrual or impaired. For the year ended December 31, 2023, no loans were modified, and the average impaired loan balance was \$0.

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**4. Loans (continued)**

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	\$ -	\$ -	\$ -

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

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

	Allowance for Credit Losses	Total Loans Outstanding
Mexico:		
Construction	\$ 672,458	\$ 17,084,033
Operation	10,699,509	629,000,912
Total Mexico	11,371,967	646,084,945
United States:		
Construction	2,459,284	220,180,104
Operation	2,714,944	182,959,530
Total United States	5,174,228	403,139,634
	\$ 16,546,195	\$ 1,049,224,579

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**4. Loans (continued)**

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

	<u>Change in Allowance for Credit Losses</u>				Ending Balance
	Beginning Balance	CECL Adoption Impact <sup>1</sup>	Provision for Credit Losses <sup>2</sup>	Loan (Charge-offs) Recoveries <sup>3</sup>	
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>

<sup>1</sup> Current expected credit loss (CECL): The Bank adopted ASU 2016-13 as of January 1, 2023, which decreased the loan allowance by \$1,519,413.

<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 reported as a component of other liability. The provision for credit losses is reflected in the consolidated statement of income.

<sup>3</sup> For the year ended December 31, 2023, there were no loan charge-offs or recoveries.



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**5. Other Assets and Other Liabilities**

The following table summarizes other assets and other liabilities as of December 31, 2023.

	<u>Assets</u>	<u>Liabilities</u>
Swaps and options, net	\$ 167,042,265	\$ 44,042,471
Collateral to counterparty	20,196,176	-
Collateral from counterparty	(8,049,975)	-
Credit valuation adjustment	(2,494,782)	-
Right-of-use lease asset	512,977	-
Off-balance sheet credit exposure	-	4,101,462
Total	<u>\$ 177,206,661</u>	<u>\$ 48,143,933</u>

The following table presents swaps and options subject to counterparty master netting arrangements at December 31, 2023.

	<u>Assets</u>	<u>Liabilities</u>
Cross-currency interest rate swaps	\$ 144,833,059	\$ 59,632,128
Interest rate swaps	19,999,994	14,117,988
Options	31,916,857	-
	<u>196,749,910</u>	<u>73,750,116</u>
Master netting by counterparty	(29,707,645)	(29,707,645)
Total swaps and options, net	<u>\$ 167,042,265</u>	<u>\$ 44,042,471</u>

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## 6. Debt

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

Issue Date	Maturity Date	Rate (%)	December 31, 2023						
			Principal Amount	Unamortized Premium/ (Discount)	Unamortized Debt Issuance Costs	FX Translation Adjustment	Fair Value of Hedged Items	Net Debt	
<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)	19,849,869	-	148,568,476	
04/26/17	10/26/27	0.20	124,443,117	175,085	(273,284)	24,113,507	-	148,458,425	
07/24/18	07/24/26	0.30	126,415,858	56,180	(261,090)	22,140,766	-	148,351,714	
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)	(15,698,763)	-	70,874,028	
03/10/17	03/10/32	2.47	86,724,283	-	(161,054)	(15,698,763)	-	70,864,466	
Total notes payable			954,944,737	930,268	(2,463,413)	86,850,191	(4,458,154)	1,035,803,629	
<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>\$ 108,478,892</u>	<u>\$ (4,458,154)</u>	<u>\$ 1,227,759,146</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 a hedge relating to a interest rate swap on notes payable denominated in U.S. dollars was reported at December 31, 2023 as other assets of \$(4,458,154). 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 as other assets of \$72,876,949 as other liabilities of \$35,536,063. The fair value of hedges relating to options on notes payable not denominated in U.S. dollars was reported at December 31, 2023 as other assets of \$31,916,857. 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, the outstanding balance was \$5,264,000.

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.

Less than one year	\$	5,264,000
1-2 years		128,706,754
2-3 years		126,415,858
3-4 years		224,443,723
4-5 years		186,316,116
5-10 years		454,146,808
More than 10 years		-
Total	<u>\$</u>	<u>1,125,293,259</u>

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**6. Debt (continued)**

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

Short-term debt:	
Other borrowings	\$ 5,264,000
Total short-term debt	<u>5,264,000</u>
Long-term debt:	
Notes payable	954,944,737
Other borrowings	<u>165,084,522</u>
Total long-term debt	<u>1,120,029,259</u>
Total debt	<u>\$ 1,125,293,259</u>

**7. Equity**

**Subscribed Capital**

At December 31, 2023, 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 is shown in the following table.

	Mexico		United States		Total	
	Shares	USD Million	Shares	USD Million	Shares	USD Million
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

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.

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**7. Equity (continued)**

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, 2023, 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 date, 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 reserved or undesignated as shown in the following table as of December 31, 2023.

Reserved retained earnings		
Debt Service Reserve	\$	65,894,000
Operating Expenses Reserve		28,088,200
Special Reserve		30,000,000
Capital Preservation Reserve		159,320,901
Total reserved retained earnings		<u>283,303,101</u>
Undesignated retained earnings		<u>26,663,836</u>
Total retained earnings	\$	<u>309,966,937</u>

Additional information regarding the reserve funds listed above is provided in Note 2.

**Accumulated Other Comprehensive Income (Loss)**

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

	Beginning Balance		Period Activity		Ending Balance
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)		(15,912,110)		(39,994,658)
Fair value of cross-currency interest rate swaps and options, net	35,303,646		23,237,517		58,541,163
Net unrealized gain on hedging activities	<u>11,221,098</u>		<u>7,325,407</u>		<u>18,546,505</u>
Total accumulated other comprehensive income (loss)	<u>\$ (33,812,165)</u>	<u>\$</u>	<u>36,106,097</u>	<u>\$</u>	<u>2,293,932</u>

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## 7. Equity (continued)

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

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

	Year Ended December 31, 2023
Cross-currency swaps and hedged items for loans, net	\$ (1,863,794)
Cross-currency swaps, options and hedged items for debt, net	9,189,201
Total	<u>\$ 7,325,407</u>

For the year ended December 31, 2023, \$1,863,794 was reclassified from other comprehensive income and recorded as income from hedging activities, net in the consolidated statements of income.

## 8. EICF Transfers and Reimbursements

As part of the establishment of the EICF, the Board agreed to continue providing support to the EICF by transferring a portion of allocable income from the Bank's Ordinary Capital Resources. For the year ended December 31, 2023, the Bank transferred \$5,101,424 to the EICF, which is reflected in the consolidated statement of income.

All operating expenses of the Bank are paid through the accounts of the Ordinary Capital Resources, including those related to grant operations under the EICF. Operating expenses incurred for third-party grants are subject to reimbursement to the Bank. Such reimbursements represent personnel expenses, net of administrative expenses and are recorded in the consolidated income statement as net grant operating reimbursements. For the year ended December 31, 2023, the Bank recognized \$1,544,195 in net reimbursements from the EICF.

## 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 year ended December 31, 2023, the Bank expended \$1,380,024 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

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**9. Employee Benefits (continued)**

funded by the Bank as benefits are paid. The Bank paid benefits of \$63,130 for the year ended December 31, 2023. 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 liabilities and long-term post-retirement benefits payable of \$102,000 and \$3,441,778, respectively.

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

Beginning balance	\$	3,215,908
Service expense		253,000
Interest expense		138,000
Net benefits paid		(63,130)
Actuarial loss (gain)		-
Ending balance	<u>\$</u>	<u>3,543,778</u>

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

Beginning balance	\$	-
Employer contributions		63,130
Net benefits paid		(63,130)
Ending balance	<u>\$</u>	<u>-</u>

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

Current liabilities	\$	102,000
Non-current liabilities		3,441,778
Total	<u>\$</u>	<u>3,543,778</u>

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

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

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## 9. Employee Benefits (continued)

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

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

Discount rate	4.36%
Current healthcare trend rate	6.30%
Ultimate healthcare trend rate	5.00%
Year in which ultimate trend is reached	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 Levels 1 and 2 observable inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service, which are based on prices quoted for the exact or like-kind instrument.

### 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 (MXN) are discounted using the MXN swap curve. Cash flows in U.S. dollars are discounted using the Secured Overnight Financing Rate (SOFR) curve.



## **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 MXN 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 Overnight Index Swap (OIS) or SOFR 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 flows in U.S. dollars are is discounted using the SOFR curve and cash flows in Mexican pesos are discounted using the MXN swap curve, as well as on 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 SOFR curve for USD issuances, as well as on external pricing models and counterparty pricing.

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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 as of December 31, 2023.

	Carrying Amount	Estimated Fair Value
<b>Assets</b>		
Available-for-sale securities	\$ 1,020,014,675	\$ 1,020,014,675
Loans	226,956,094	228,252,551
Cross-currency interest rate swaps	144,833,059	144,833,059
Interest rate swaps	19,999,994	19,999,994
Options	31,916,857	31,916,857
<b>Liabilities</b>		
Long-term debt	50,000,000	45,541,847
Cross-currency interest rate swaps	59,632,128	59,632,128
Interest rate swaps	14,117,988	14,117,988

The Bank's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 are summarized in the following table by the valuation level of the inputs used to measure fair value. Additional information on how the Bank measures and classifies the levels of fair-value inputs is provided in Note 2.

	Fair Value Measurements Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Available-for-sale (AFS) securities:				
U.S. government securities	\$ 349,459,708	\$ -	\$ -	\$ 349,459,708
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	349,459,708	670,554,967	-	1,020,014,675
Cross-currency interest rate swaps	-	144,833,059	-	144,833,059
Interest rate swaps	-	19,999,994	-	19,999,994
Options	-	31,916,857	-	31,916,857
Hedged items for loans	-	-	1,296,457	1,296,457
Total assets at fair value	\$ 349,459,708	\$ 867,304,877	\$ 1,296,457	\$ 1,218,061,042
<b>Liabilities</b>				
Cross-currency interest rate swaps	\$ -	\$ 59,632,128	\$ -	\$ 59,632,128
Interest rate swaps	-	14,117,988	-	14,117,988
Hedged items for notes payable	-	-	(4,458,154)	(4,458,154)
Total liabilities at fair value	\$ -	\$ 73,750,116	\$ (4,458,154)	\$ 69,291,962

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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 year ended December 31, 2023. 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
<b>Assets</b>	
Beginning balance	\$ (106,748,200)
Total realized and unrealized gains (losses):	
Included in earnings (expenses)	108,044,657
Included in other comprehensive income (loss)	-
Purchases	-
Settlements	-
Transfers in/out of Level 3	-
Ending balance	\$ 1,296,457
<b>Liabilities</b>	
Beginning balance	\$ (57,376,728)
Total realized and unrealized (gains) losses:	
Included in (earnings) expenses	52,918,574
Included in other comprehensive income (loss)	-
Purchases	-
Settlements	-
Transfers in/out of Level 3	-
Ending balance	\$ (4,458,154)

**11. Derivative 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. The swaps are structured so that the notional amounts mature to match the expected maturity of the related loans and notes payable.

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**11. Derivative Instruments (continued)**

The Bank enters into interest rate swaps for some loans and one 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. Certain swaps have been designated as hedging instruments because they hedge the risk of changes in the fair value of fixed-rate loans and notes payable due to changes in the designated benchmark interest rate.

The Bank transitioned 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 2020-04, *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 were posted from counterparties to the Bank as of December 31, 2023. As of the same date, \$20,196,176 in cash collateral was posted by the Bank.

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

	Notional Amount	Estimated Fair Value
<b>Derivative assets</b>		
Hedging instruments:		
Cross-currency swaps for debt	\$ 175,965,221	\$ 37,543,676
Cross-currency options for debt	175,965,221	31,916,857
Interest rate swaps for loans	77,327,055	8,363,377
	<u>429,257,497</u>	<u>77,823,910</u>
Non-hedging instruments:		
Cross-currency interest rate swaps for debt	379,565,730	49,929,490
Cross-currency interest rate swaps for loans	208,646,560	57,359,893
Interest rate swaps for loans	58,941,099	11,636,617
	<u>647,153,389</u>	<u>118,926,000</u>
<b>Derivative liabilities</b>		
Hedging instruments:		
Interest rate swaps for debt	50,000,000	4,458,153
	<u>50,000,000</u>	<u>4,458,153</u>
Non-hedging instruments:		
Cross-currency interest rate swaps for debt	173,448,566	50,132,281
Cross-currency interest rate swaps for loans	70,506,240	9,499,847
Interest rate swaps for loans	161,127,468	9,659,835
	<u>405,082,274</u>	<u>69,291,963</u>

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**11. Derivative Instruments (continued)**

There were no swaps that were considered ineffective due to borrower default as of December 31, 2023.

**Gains and Losses on Derivative Cash Flows**

Cross-currency Swaps and Options – The fair value adjustments of cross-currency swaps and options designated as cash flow hedges are included in the consolidated statement of comprehensive income. Amounts are reclassified to earnings when the hedged items are included in earnings. The accumulated net unrealized gain (loss) related to the swaps and options included in accumulated other comprehensive income totaled \$18,546,505 at December 31, 2023.

Interest Rate Swaps – The changes in the fair value of interest rate swaps offset the changes in the fair value of the loans and debt (hedged items) using the “short-cut” method due to changes in the SOFR curve and are included in income (expense) from net hedging activities.

**Income (Expense) from Foreign Currency Exchange Rate Adjustments and Hedging Activities**

The following table summarizes the income (expense) from foreign currency exchange rate adjustments and hedging activities for the year ended December 31, 2023.

	Year Ended December 31, 2023
Foreign currency exchange rate adjustments:	
Loans	\$ (58,834,299)
Debt	10,184,132
	<u>(48,650,167)</u>
Changes in hedged items and derivative instruments:	
Hedged items for loans and fair value swaps	101,795,810
Hedged items for debt and fair value swaps	(52,918,575)
Hedged items for debt and cash flow options	4,702,229
	<u>53,579,464</u>
Credit valuation adjustment	(745,042)
Income (expense) from foreign currency adjustments and hedging activities, net	<u>\$ 4,184,255</u>

Net income from hedging activities is included as a component of non-operating income (expenses) in the accompanying consolidated statement 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 sheet 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 year ended December 31, 2023, operating lease expenses recognized on a straight-line basis totaled \$233,071 and are included as a component of operating expenses in the consolidated statement 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	\$	238,857
2025		240,732
2026		40,122
Total operating lease		<u>519,711</u>
Discount		<u>(6,734)</u>
Operating lease liability	\$	<u><u>512,977</u></u>

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**14. Subsequent Events**

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.

The Bank has evaluated subsequent events for potential recognition and/or disclosure through August 21, 2024, the date these consolidated financial statements were issued.