

*MANAGEMENT REPORT ON FINANCIAL STATEMENT  
AND INTERNAL ACCOUNTING CONTROLS*



Ex-Im Bank's management is responsible for the content and integrity of the financial data included in the Bank's annual report and for ascertaining that this data fairly presents the financial position, results of operations, and cash flows of the Bank.

The Bank's operations fall under the provisions of the Federal Credit Reform Act of 1990. This law, popularly known as credit reform, provides that beginning for all commitments approved after September 30, 1991, subsidy calculations must be performed (on a present value basis) and the resulting cost, if any, must be appropriated by Congress. Credits may not be approved if the cost has not been appropriated in advance.

The financial statements were prepared in accordance with generally accepted accounting principles. As explained in more detail in the footnotes, the financial statements recognize the impact of credit reform legislation on commitments made after September 30, 1991. Other financial information related to the Bank included elsewhere in this report is presented on a basis consistent with the financial statements.

The Bank maintains a system of internal accounting controls that is designed to provide reasonable assurance at reasonable cost that assets are safeguarded, transactions are processed and properly recorded in accordance with management's authorization, and the financial statements are accurately prepared. The Bank believes that its system of internal accounting controls appropriately balances the cost/benefit relationship.

Ex-Im Bank's computer systems correctly recognize and process dates occurring subsequent to December 31, 1999 (referred to generally as the Y2K bug, or year 2000 computer problem). Since April 1999, all of Ex-Im Bank's mission-critical computer systems have been operating Y2K ready, and as of September 30, 1999, all systems, both mission and non-mission critical, are Y2K compliant.

Ex-Im Bank's board of directors pursues its responsibility for the Bank's financial statements through its audit committee. The audit committee meets regularly with management and the independent accountants. The independent accountants have direct access to the audit committee to discuss the scope and results of their audit work and their comments on the adequacy of internal accounting controls and the quality of financial reporting.

We believe that the Bank's policies and procedures, including its system of internal accounting controls, provide reasonable assurance that the financial statements are prepared in accordance with provisions of applicable laws and regulations.

The Bank's financial statements were audited by independent accountants. Their opinion is printed in this annual report immediately following the footnotes to the financial statements.

A handwritten signature in black ink, appearing to read "J. Harmon".

James A. Harmon  
President and Chairman

A handwritten signature in black ink, appearing to read "J. Hess".

James K. Hess  
Chief Financial Officer

October 28, 1999

## STATEMENT OF FINANCIAL POSITION

(in \$ Millions)

	September 30, 1999	September 30, 1998
<b>ASSETS</b>		
Cash and Cash Equivalents	\$1,306.2	\$555.6
Restricted Funds:		
Investments	5,862.0	4,457.9
Unexpended Appropriations	2,217.3	2,147.9
Loans Receivable, Net	5,830.7	4,525.5
Receivables from Subrogated Claims, Net	2,316.9	1,658.6
Accrued Interest and Fees Receivable	161.8	147.0
Other Assets	2.6	5.7
<b>Total Assets</b>	<b>\$17,697.5</b>	<b>\$13,498.2</b>
 <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Borrowings	\$7,824.8	\$4,462.5
Claims Payable	63.1	32.7
Accrued Interest Payable	438.5	271.0
Allowance for Off-Balance Sheet Risk	6,335.1	6,430.7
Amounts Payable to Treasury	2,027.5	-
Other Liabilities	824.4	728.4
<b>Total Liabilities</b>	<b>17,513.4</b>	<b>11,925.3</b>
Capital Stock held by U.S. Treasury	1,000.0	1,000.0
Tied Aid Appropriations	412.2	417.3
Credit Appropriations	176.1	9.5
(Accumulated Deficit)/Retained Earnings	(1,404.2)	146.1
<b>Total Stockholder's Equity</b>	<b>184.1</b>	<b>1,572.9</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$17,697.5</b>	<b>\$13,498.2</b>

*The accompanying notes are an integral part of this financial statement.*

## STATEMENT OF OPERATIONS

(in \$ Millions)	For the Year Ended September 30, 1999	For the Year Ended September 30, 1998
<b>INTEREST INCOME</b>		
Interest on Loans	\$736.3	\$654.1
Interest on Investments	442.5	295.3
Total Interest Income	1,178.8	949.4
<b>INTEREST EXPENSE</b>		
Interest on Borrowings	486.5	327.6
Other Interest Expense	1.9	2.8
Total Interest Expense	488.4	330.4
Net Interest Income	690.4	619.0
Provision for Credit Losses	707.2	2,540.3
Net Loss After Provision for Losses	16.8	1,921.3
<b>NON-INTEREST INCOME</b>		
Commitment Fees	48.4	53.0
Exposure Fees	190.7	181.1
Guarantee Fees and Insurance Premiums	29.4	28.4
Other Income	25.9	33.7
Total Non-Interest Income	294.4	296.2
<b>NON-INTEREST EXPENSE</b>		
Administrative Expense	48.8	46.3
FFB Prepayment Penalty	0.0	50.6
Other Expense	14.4	8.4
Total Non-Interest Expense	63.2	105.3
Net Income/(Loss)	\$214.4	(\$1,730.4)

*The accompanying notes are an integral part of this financial statement.*

## STATEMENT OF CHANGES IN CAPITAL AND ACCUMULATED DEFICIT

(in \$ Millions)	Capital Stock	Tied Aid	<u>Appropriated Capital</u>		Retained Earnings/ (Accumulated Deficit)	Total
			Pre-Fiscal 1992 Credits	Post-Fiscal 1991 Credits		
<b>BALANCE AT SEPTEMBER 30, 1997</b>	\$1,000.0	\$379.7	\$0.0	\$46.7	\$1,403.6	\$2,830.0
Appropriations Received			7.5	731.6		739.1
Appropriations Obligated Excluding Tied Aid			(7.5)	(766.6)	774.1	0.0
Appropriations Obligated and Transferred to Tied Aid		8.2		(8.2)		0.0
Net Loss					(1,730.4)	(1,730.4)
Transferred to Tied Aid		39.7		(39.7)		0.0
Appropriations Deobligated and Reavailable, Net				53.0	(53.0)	0.0
Appropriations Deobligated and Unavailable				(6.0)	6.0	0.0
Expired or transferred to the U.S. Treasury		(8.8)		(1.3)	(254.2)	(264.3)
Tied Aid Appropriations Disbursed		(1.5)				(1.5)
<b>BALANCE AT SEPTEMBER 30, 1998</b>	\$1,000.0	\$417.3	\$0.0	\$9.5	\$146.1	\$1,572.9
Appropriations Received			18.3	825.3		843.6
Appropriations Obligated Excluding Tied Aid			(18.3)	(710.3)	728.6	0.0
Net Income					214.4	214.4
Appropriations Deobligated and Reavailable, Net				48.7	(48.7)	0.0
Appropriations Deobligated and Unavailable				2.9	(2.9)	0.0
Expired or Transferred to the U.S. Treasury		(2.6)			(414.2)	(416.8)
Tied Aid Appropriations Disbursed		(2.5)				(2.5)
Amounts Payable to Treasury					(2,027.5)	(2,027.5)
<b>BALANCE AT SEPTEMBER 30, 1999</b>	\$1,000.0	\$412.2	\$0.0	\$176.1	(\$1,404.2)	\$184.1

*The accompanying notes are an integral part of this financial statement.*

## STATEMENT OF CASH FLOWS

(in \$ Millions)	For the Year Ended September 30, 1999	For the Year Ended September 30, 1998
<b>CASH FLOWS FROM OPERATIONS</b>		
Net Income/(Loss)	\$214.4	(\$1,730.4)
Adjustments To Reconcile Net Income to Net Cash from Operations:		
Collections Subject to Credit Reform Restrictions	(827.1)	(624.0)
Amortization of Discount on Loan Disbursements, Net	(6.8)	(6.8)
Amortization of Loan Exposure Fees, Net	64.5	28.0
Provision for Loan Losses	293.5	353.0
Increase in Claims Receivable, Net	(658.3)	(32.0)
(Increase) Decrease in Accrued Interest and Fees Receivable	(14.8)	7.2
Decrease in Other Assets	3.1	0.1
Increase (Decrease) in Claims Payable	30.4	(180.2)
Increase in Accrued Interest Payable	167.5	39.9
(Decrease) Increase in Allowance for Off-Balance Sheet Risk	(95.6)	2,234.0
Increase in Other Liabilities	96.0	15.0
Net Cash (Used in)/from Operations	(733.2)	103.8
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan Disbursements	(2,321.0)	(1,330.9)
Repayment of Loans Receivable	664.5	690.5
Net Cash Used in Investing Activities	(1,656.5)	(640.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Federal Financing Bank Borrowings	0.0	(1,294.5)
Borrowings from the U.S. Treasury	2,876.6	824.4
Repayment of Borrowings from the U.S. Treasury	(229.6)	(9.1)
Claim Payment Certificates Issued	864.0	295.0
Claim Payment Certificates Paid	(148.7)	(97.8)
Credit Appropriations (Returned)/Used	(222.0)	392.7
Net Cash from Financing Activities	3,140.3	110.7
Net Increase (Decrease) in Cash and Cash Equivalents	750.6	(425.9)
Cash and Cash Equivalents - Beginning of Year	555.6	981.5
Cash and Cash Equivalents - End of Year	\$1,306.2	\$555.6
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for Interest	\$320.8	\$341.2

*The accompanying notes are an integral part of this financial statement.*

# NOTES TO FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

### Enabling Legislation and Mission

The Export-Import Bank of the United States (Ex-Im Bank) is an independent corporate agency of the United States that was first organized as a District of Columbia banking corporation in 1934. Ex-Im Bank's operations subsequent to September 30, 1991, are subject to the provisions of the Federal Credit Reform Act of 1990 (P.L. 101-508).

Ex-Im Bank's mission is to facilitate U.S. exports by providing financing in order to level the playing field for American exporters facing unfair foreign financing competition and bridge export financing shortfalls caused by market failures.

### Use of Estimates

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Ex-Im Bank defines cash and cash equivalents as highly liquid investments with original maturities of three months or less, and unrestricted funds at the Department of the Treasury.

### Restricted Funds

Appropriated funds received are deposited in a non-interest bearing account at the Department of the Treasury. These funds are available to Ex-Im Bank when the credit activity to which they relate takes place or to finance administrative expenses. Upon occurrence of the credit activity, disbursement of the related loans or shipment of goods under guarantee or insurance policies written by Ex-Im Bank, the funds become available to either subsidize the related loan disbursement or to be invested to fund the credit costs of the guarantee and insurance policies. Unexpended appropriations are presented net of expired appropriations.

### Accrued Interest on Loans and Claims Receivable

Interest is accrued on loans and claims as it is earned. Generally, loans and claims receivable delinquent 90 days or more are placed in a non-accrual status unless they are well secured and significant collections have been received during the past year. At that time any accrued but unpaid interest previously recorded is reversed against current period interest income.

### Accounting for Capitalized Interest on Rescheduled Loans and Claims

Rescheduling agreements frequently allow Ex-Im Bank to add uncollected interest to the principal balance of rescheduled loans and claims receivable (i.e., capitalized interest). In such circumstances, interest income resulting from capitalized interest is recorded only when, in management's judgment, borrowers have demonstrated the ability to repay the debt in the normal course of business.

### Allowance for Credit Losses

The allowance for credit losses provides for possible losses inherent in the lending process. Providing for such losses recognizes that collection of some loans and claims are doubtful and their value, including claims to be filed under Ex-Im Bank's guarantee and insurance programs, is impaired. The allowance is available to absorb credit losses related to the total credit portfolio. The allowance is increased by provisions charged to expense and decreased by write-offs, net of recoveries. The provision for credit losses of \$707.2 million for fiscal year 1999 is comprised of a charge of \$293.5 million for loan losses, a charge of \$509.3 million for claim losses, and a credit of \$95.6 million for off-balance sheet risk.

### Commitment and Exposure Fees

Commitment fees on direct loans and guarantees, which are generally nonrefundable, are calculated and recognized ratably over the term of the commitment.

Ex-Im Bank charges a risk-related exposure fee under both the loan and guarantee programs that is based on each loan disbursement or shipment of goods under the guarantee policy. This fee is recognized as income over the life of the loan or guarantee.

### Insurance Fees

Fees charged under insurance policies are recognized as income on the straight line basis over the life of the insurance policies.

### Claims Payable

Liabilities for claims arising from Ex-Im Bank's guarantee and insurance activities, and the related estimated losses and loss adjustment expenses, are accrued upon approval of a claim filing.

### Discount on Loans Receivable

In fulfilling its mission to aid in financing and facilitating exports of U.S. goods and services to foreign countries and to provide U.S. exporters with financing that is competitive with that provided by foreign governments to their exporters, Ex-Im Bank, at times, lends money at interest rates lower than its cost of borrowing. When this occurs, Ex-Im Bank records a charge to income equivalent to the discount at inception of the loan and amortizes the discount over the life of the loan as interest income.

### Appropriated Capital

Appropriations received by Ex-Im Bank pursuant to the Credit Reform Act are recorded, in effect, as paid-in-capital. Such appropriations are applied to Ex-Im Bank's retained earnings in accordance with directions on the use of credit reform appropriations issued by the Office of Management and Budget (OMB). Appropriations not required to finance credit activities are returned to the Department of the Treasury.

### Reclassifications

Certain fiscal year 1998 balances have been reclassified to conform with the fiscal year 1999 financial statement presentations, the effect of which is immaterial.

## 2. CREDIT REFORM

The Federal Credit Reform Act of 1990, which became effective on October 1, 1991, significantly affected the manner in which Ex-Im Bank finances its credit activities. The primary purpose of this Act is to more accurately measure the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending.

Ex-Im Bank received appropriations aggregating \$825.3 million in fiscal year 1999 and \$731.6 million in fiscal year 1998, which represented the annual appropriation to cover the estimated subsidy cost of providing new direct loans, guarantees and insurance, and the associated administrative costs of these programs.

The following table summarizes appropriations received and used during fiscal years 1999 and 1998 (in \$ millions):

	1999	1998
Received and Available:		
For Credit Subsidies	\$ 775.0	\$ 683.0
For Credit-related Administrative Costs	50.3	48.6
Total Received	825.3	731.6
Carryover from Prior Fiscal Year	333.2	331.5
Cancellations of Prior Year Obligations	48.7	53.0
Total Available	\$1,207.2	\$1,116.1
Obligated:		
For Credit Subsidies Excluding Tied Aid	660.1	720.4
For Credit-related Administrative Costs	50.2	46.2
Subtotal	710.3	766.6
For Tied Aid	16.4	8.2
Total Obligated	\$726.7	\$774.8
Unobligated Balance:		
Unobligated Balance	480.5	341.3
Unobligated Balance Lapsed	0.1	8.1
Remaining Balance	\$ 480.4	\$ 333.2

Of the remaining balance of \$480.4 million at September 30, 1999, \$10.0 million is available until September 30, 2000; \$4.3 million is available until September 30, 2001; \$149.9 million is available until September 30, 2002; and \$316.2 million is available until expended and may be used for tied aid (see Note 3).

The cost of credit risk (credit subsidy) shown above, is the present value of expected inflows and outflows associated with loans, guarantees and insurance. Inflows typically include fees or premiums and loan principal and interest, and outflows typically include claim payments and loan disbursements. When the present value of expected cash inflows exceeds the present value of expected cash outflows, a "negative" credit subsidy arises. Negative subsidies are remitted to the Department of the Treasury upon disbursement of the underlying credits. Ex-Im Bank transferred \$13.3 and \$13.6 million of negative subsidies to the Department of the Treasury in fiscal years 1999 and 1998, respectively.

The appropriation for administrative costs is based on an annual estimate of the costs to administer and service Ex-Im Bank's entire credit portfolio. It is obligated at the time administrative expenses are accrued. The credit subsidy appropriations are obligated to cover the estimated subsidy costs at the time loans, guarantees and insurance are committed. As the loans are disbursed or when the insured or guaranteed event has taken place (generally when the related goods are shipped) the obligated amounts are used to cover the estimated costs of the subsidies related to the disbursements and shipments. The portion of the appropriation related to Ex-Im Bank's lending programs is used to partially finance the loan disbursements while the portions related to Ex-Im Bank's guarantee and insurance programs are invested in an interest-bearing account with the Department of the Treasury. Prior to this use, all of the appropriated funds are held in a non-interest-bearing Department of the Treasury account.



OMB Circular A-11 requires that unobligated funds relating to credits authorized prior to October 1, 1991, are to be returned to the Department of the Treasury. At the end of fiscal year 1999, Ex-Im Bank returned \$400 million of these funds. No funds were returned in fiscal year 1998.

Financial and economic factors affecting the repayment prospects change over time, and therefore the net estimated subsidy cost of the outstanding balance of loans, guarantees and insurance financed by the subsidies is re-estimated periodically in accordance with OMB guidelines. Re-estimates that result in increases in subsidy costs are covered by additional appropriations that become automatically available while decreases in estimated subsidy costs result in returning excess funds to the Department of the Treasury. A re-estimate of the subsidy costs of the outstanding balance of fiscal year 1992 through 1998 commitments indicated that of the fees, interest and appropriations in the financing accounts, the net amount of \$1,607.2 million was no longer needed to cover commitments and is due to the U.S. Treasury. This amount has been reported as a liability as of September 30, 1999, in the Statement of Financial Position.

Also included in amounts payable to the U.S. Treasury are \$420.3 million of expired appropriations. These amounts were obligated in prior fiscal years and the obligation was subsequently canceled. These funds are no longer available for obligation.

The manner in which Ex-Im Bank uses its credit appropriations differs from the way in which it calculates its credit-related loss allowances and net income under GAAP. Both GAAP and the method through which the use of the credit appropriation is calculated similarly factor into the loss allowance individual credit risks. Both recognize the cost to Ex-Im Bank of issuing loans at interest rates below Ex-Im Bank's borrowing rate. However, the GAAP loss allowances do not recognize the present value of future fees and premiums as an offset to the allowance since to do so would effectively record revenue prior to realization. As discussed in Note 12, Ex-Im Bank calculates the fair value of its credit instruments using the credit reform methodology.

Effective in fiscal year 1999, OMB issued new risk premia to calculate estimated subsidy costs for new loans, guarantees and insurance obligated in fiscal year 1999. The new risk premia were also used to calculate the credit-related loss allowances as of September 30, 1999. The net impact of the new risk premia alone was to lower loss reserves.

### 3. TIED AID APPROPRIATIONS

Ex-Im Bank provides assistance for transactions, referred to as "Tied Aid," that helps U.S. exporters in special situations where there is "reasonable proof" that concessional financing is being offered to a foreign competitor of a U.S. exporter. The assistance is provided through either a direct grant or an interest concession subsidy payment. Appropriations that may be used for Tied Aid are available until expended.

Changes in the appropriations that may be used for Tied Aid in fiscal years 1998 and 1999 are as follows (in \$ millions):

	Unobligated Balance	Obligated Undisbursed		Total Undisbursed Balance	
		Undisbursed Grants	Interest Equalization Program		Undisbursed Int. Rate Subsidy
Balance 9/30/97	\$292.9	\$59.4	\$2.0	\$25.4	\$379.7
No-Year Funds from FY 97 Appropriation	33.0				33.0
No-Year Funds from FY 98 Appropriation	6.7				6.7
Tied Aid Obligations from FY 98 No-Year Appropriation		8.2			8.2
Unobligated Balance Lapsed				(8.8)	(8.8)
Disbursements		(0.1)		(1.4)	(1.5)
<b>Balance 9/30/98</b>	<b>\$332.6</b>	<b>\$67.5</b>	<b>\$2.0</b>	<b>\$15.2</b>	<b>\$417.3</b>
Tied Aid Obligations from No-Year Appropriation	(16.4)	16.4			0.0
Unobligated Balance Lapsed		(2.6)			(2.6)
Disbursements		(1.3)		(1.2)	(2.5)
<b>Balance 9/30/99</b>	<b>\$316.2</b>	<b>\$80.0</b>	<b>\$2.0</b>	<b>\$14.0</b>	<b>\$412.2</b>

#### 4. LOANS RECEIVABLE

Ex-Im Bank extends medium-term and long-term direct loans to foreign buyers of U.S. exports. Loans extended under the medium-term loan programs have repayment terms of one to seven years, while loans extended under the long-term loan programs have repayment terms in excess of seven years. Generally, both the medium-term and long-term loan programs cover up to 85 percent of the U.S. export value of shipped goods. Ex-Im Bank's direct loans carry the lowest fixed interest rate permitted for the country and term under the "Arrangement on Guidelines for Officially Supported Export Credits" negotiated among members of the Organization for Economic Cooperation and Development (OECD).

Ex-Im Bank's loans receivable, as shown in the Statement of Financial Position, are net of uncollected interest capitalized upon rescheduling, unamortized exposure fees, unamortized discounts, and an allowance for loan losses. At September 30, 1999 and 1998, the allowance for loan losses equaled 26.8 percent and 29.0 percent, respectively, of the outstanding loans receivable balance, excluding uncollected capitalized interest and unamortized exposure fees and discounts. The net balance of loans receivable at September 30, 1999 and 1998 consists of the following (in \$ millions):

	1999	1998
Asia	\$5,189.0	\$4,060.2
Latin America	2,737.7	2,038.1
Africa/Middle East	1,752.1	1,964.5
New Independent States (NIS)	0.9	25.9
Eastern Europe - Non-NIS	442.2	461.8
United States/Other	3.5	13.0
Western Europe/Canada	0.3	2.6
	<u>10,125.7</u>	<u>8,566.1</u>
Less:		
Capitalized Interest	1,926.0	2,013.7
Unamortized Discount and Exposure Fees	234.0	176.3
	<u>7,965.7</u>	<u>6,376.1</u>
Less: Allowance for Loan Losses	2,135.0	1,850.6
<b>Net Balance</b>	<b><u>\$5,830.7</u></b>	<b><u>\$4,525.5</u></b>

Changes in the allowance for loan losses for fiscal years 1999 and 1998 are as follows (in \$ millions):

	1999	1998
Balance at Beginning of Year	\$1,850.6	\$1,531.2
Net Write-offs	(9.1)	(33.6)
Provision Charged to Operations	293.5	353.0
<b>Balance at End of Year</b>	<b><u>\$2,135.0</u></b>	<b><u>\$1,850.6</u></b>

The allowance for loan losses is based on Ex-Im Bank's evaluation of the loan portfolio taking into consideration a variety of factors, including repayment status of the loans, assessment of future risks, and worldwide economic and political conditions.

Although Ex-Im Bank has a diversified loan portfolio, some of its loans are more heavily concentrated in certain countries or industries. At September 30, 1999, the largest concentrations of gross loans outstanding were in the following countries and industries (in \$ millions):

Country	Industry
China	Power Generation
\$1,303.9	\$3,410.1
Indonesia	Manufacturing
1,153.5	1,168.6
Brazil	Telecommunications
1,078.8	649.9
Philippines	Infrastructure Projects
808.1	475.9

From time to time, Ex-Im Bank extends the repayment date and modifies the interest terms of some or all principal installments of a loan because the obligor or country has encountered financial difficulty and Ex-Im Bank's board of directors has determined that providing relief in this manner will enhance the ability to collect the loan. The outstanding balances related to rescheduled installments included in loans receivable at September 30, 1999 and 1998 were \$2,873.7 million and \$3,166.5 million, respectively. Rescheduled loan installments of principal and interest were \$83.8 million and \$67.7 million, respectively, in fiscal year 1999, and \$38.6 million and \$62.8 million, respectively, in fiscal year 1998. The interest rate on rescheduled loans is generally a floating rate of interest that is 37.5 to 62.5 basis points over Ex-Im Bank's cost of borrowing.

## 5. RECEIVABLES FROM SUBROGATED CLAIMS

Receivables from subrogated claims represent the outstanding balance of claims that were submitted to Ex-Im Bank in its capacity as guarantor or insurer under Ex-Im Bank's export guarantee or insurance programs. Under the subrogation clauses in its insurance contracts, Ex-Im Bank receives all rights, title and interest in all amounts relating to claims paid under insurance policies and therefore establishes an asset to reflect such rights.

Ex-Im Bank's receivables from subrogated claims, as shown in the Statement of Financial Position, are net of uncollected capitalized interest for rescheduled claims and an allowance for claim losses.

The net balance of receivables from subrogated claims at September 30, 1999 and 1998 consists of the following (in \$ millions):

	1999	1998
Claims Previously Paid and Unrecovered:		
Rescheduled	\$2,096.7	\$2,186.4
Non-rescheduled	2,351.2	1,123.4
Claims Filed Pending Payment	63.1	32.8
	4,511.0	3,342.6
Less: Capitalized Interest	433.4	426.0
	4,077.6	2,916.6
Less: Allowance for Claim Losses	1,760.7	1,258.0
<b>Net Balance</b>	<b>\$2,316.9</b>	<b>\$1,658.6</b>

Changes in the allowance for claim losses for fiscal years 1999 and 1998 are as follows (in \$ millions):

	1999	1998
Balance at Beginning of Year	\$1,258.0	\$1,313.2
Net Write-offs	(6.6)	( 8.5)
Provision Credited to Operations	509.3	(46.7)
<b>Balance at End of Year</b>	<b>\$1,760.7</b>	<b>\$1,258.0</b>

The allowance for claim losses is based on Ex-Im Bank's evaluation of the receivables from subrogated claims portfolio taking into consideration a variety of factors, including repayment status of the claims, assessment of future risks, and worldwide economic and political conditions. Write-offs are net of recoveries of funds received on claims that were previously written off. At September 30, 1999 and 1998, the allowance for claim losses equaled 43.2 percent and 43.1 percent, respectively, of the outstanding balance, excluding uncollected capitalized interest.

## 6. NON-ACCRUAL OF INTEREST

The weighted average interest rate on Ex-Im Bank's loan and rescheduled claim portfolio at September 30, 1999, equaled 4.46 percent (6.63 percent on performing loans and rescheduled claims). Interest income is not recognized on non-rescheduled claims paid and unrecovered or on claims filed pending payment.

Generally, the accrual of interest on loans and rescheduled claims is discontinued when the credit is delinquent for 90 days. Ex-Im Bank had a total of \$2,872.7 million and \$1,128.5 million of loans and rescheduled claims, respectively, in non-accrual status at September 30, 1999, and \$2,900.7 million and \$1,138.2 million at September 30, 1998. Had these credits been in accrual status, interest income would have been \$146.7 million higher in fiscal year 1999 (amount is net of interest received of \$114.9 million) and \$145.4 million higher in fiscal year 1998 (amount is net of interest received of \$118.7 million).

## 7. BORROWINGS

Ex-Im Bank's outstanding borrowings come from two sources: direct borrowings from the Department of Treasury and the assumption of repayment obligations of defaulted guarantees under the Bank's guarantee program via Claim Payment Certificates. Claim Payment Certificates are, in effect, marketable securities issued by Ex-Im Bank under the same terms as the original obligation.

Prior to October 1, 1991, Ex-Im Bank borrowed from the Federal Financing Bank (FFB), a separate office of the Department of the Treasury. In Fiscal Year 1998, Ex-Im Bank repaid the entire outstanding balance of \$1,294.6 million as of September 30, 1997. At September 30, 1999 and 1998, Ex-Im Bank had no outstanding borrowings with the FFB.

Under provisions of Ex-Im Bank's guarantee program, the insured party has the option of accepting payment via a Claim Payment Certificate. At September 30, 1999, \$1,222.0 million was outstanding under Claim Payment Certificates. Maturities of Claim Payment Certificates are as follows (in \$ millions):

Fiscal Year	Amount
2000	\$176.2
2001	161.9
2002	169.2
2003	163.7
2004	157.1
	828.1
2005-2017	393.9
	<u>\$1,222.0</u>

The weighted average interest rate on Ex-Im Bank's outstanding Claim Payment Certificates at September 30, 1999, equaled 6.46 percent.

Payments due on Claim Payment Certificates, for which the underlying commitment was authorized prior to October 1, 1991, are funded through net cash receipts related to loans, guarantees and insurance committed prior to October 1, 1991. To the extent the net receipts are not sufficient to repay the debt as it becomes due, Ex-Im Bank has available a permanent and indefinite appropriation for this purpose.

Direct borrowings from the Department of the Treasury are primarily used to finance the Bank's medium- and long-term loans committed on or after October 1, 1991. At September 30, 1999, Ex-Im Bank had \$6,602.8 million of borrowings outstanding with Department of the Treasury at a weighted average interest rate of 6.26 percent.

The Department of the Treasury borrowings are repaid, primarily, with the repayments of the medium- and long-term loans they financed. To the extent the repayments on the underlying loans, combined with the commitment and exposure fees and interest earnings received on the loans, are not sufficient to repay the borrowings, appropriated funds are available to Ex-Im Bank through the re-estimation process for this purpose. Accordingly, Department of the Treasury borrowings do not have a set repayment schedule; however, the full amount of the borrowings are expected to be repaid by fiscal year 2025.

## 8. RELATED PARTY TRANSACTIONS

The financial statements reflect the results of contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private sector banks, industrial companies and financial services institutions, makes medium- and long-term fixed and variable rate loans to foreign borrowers to purchase U.S.-made equipment when such loans are not available from traditional private sector lenders on competitive terms. PEFCO has agreements with Ex-Im Bank which, for specified fees earned totaling \$17.3 million in fiscal year 1999 and \$13.7 million in fiscal year 1998, provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal and interest on export loans made by PEFCO, (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured debt obligations when requested by PEFCO, and (3) guarantee certain fees paid by borrowers on behalf of PEFCO. Such guarantees, aggregating \$3,520.1 million at September 30, 1999, and \$3,988.0 million at September 30, 1998, are reported by Ex-Im Bank as off-balance sheet risk and the exposure is included in its allowance for off-balance sheet risk calculation.

Ex-Im Bank's credit and guarantee agreement with PEFCO extends through December 31, 2020. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO's major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues, and is entitled to representation at all meetings of PEFCO's board of directors, advisory board, and exporters' council.

As discussed in Note 7, Ex-Im Bank has significant transactions with the Department of the Treasury and the FFB. The Department of the Treasury, although not exercising control over Ex-Im Bank, holds the common stock of Ex-Im Bank, creating a related-party relationship between Ex-Im Bank and both the Department of the Treasury and the FFB.

## 9. PENSIONS AND ACCRUED ANNUAL LEAVE

Virtually all of Ex-Im Bank's employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For CSRS employees, Ex-Im Bank withholds a portion of their base earnings. The employees' contributions are then matched by Ex-Im Bank and the sum is transferred to the Civil Service Retirement Fund, from which the CSRS employees will receive retirement benefits. For FERS employees, Ex-Im Bank withholds, in addition to social security withholdings, a portion of their base earnings. Ex-Im Bank contributes an amount proportional to the employees' base earnings towards retirement, and an additional scaled amount towards each individual FERS employee's Thrift Savings Plan, depending upon the employee's level of savings. The FERS employees will receive retirement benefits from the Federal Employees Retirement System, the Social Security System, and Thrift Savings Plan deposits that have accumulated in their accounts.

Total Ex-Im Bank (employer) matching contributions to the Thrift Savings Plan, CSRS and FERS for all employees, included in administrative expenses, were approximately \$3.3 million and \$3.1 million for the fiscal years ended September 30, 1999 and 1998, respectively.

Although Ex-Im Bank funds a portion of pension benefits under CSRS and FERS relating to its employees and makes the necessary payroll withholdings for them, it has no liability for future payments to employees under these programs and does not account for the assets of CSRS and FERS, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) for the Retirement Systems and are not allocated to the individual employers. OPM also accounts for the health and life insurance programs for current and retired civilian federal employees. Similar to the accounting treatment afforded the retirement programs, the actuarial data related to the health and life insurance programs is maintained by OPM and is not available on an individual employer basis.

Ex-Im Bank's liability to employees for accrued annual leave, included in other liabilities, was \$2.3 million at September 30, 1999 and 1998.

## 10. STATUTORY LIMITATIONS

Under provisions of the Export-Import Bank Act, as amended in fiscal year 1997, Ex-Im Bank is limited to \$75.0 billion of loans, guarantees and insurance outstanding at any one time. At September 30, 1999 and 1998, Ex-Im Bank's outstanding commitments and statutory authority used were as follows (in \$ millions):

	1999	1998
Outstanding Loans	\$10,125.7	\$ 8,566.1
Undisbursed Loans	2,901.9	3,611.8
Outstanding Claims	4,511.0	3,342.5
Guarantees	34,063.1	33,352.9
Insurance	6,816.0	5,712.1
<b>Total</b>	<b>\$58,417.7</b>	<b>\$54,585.4</b>

Congress provides an appropriation to cover the subsidy cost of the transactions committed. Transactions can be committed only to the extent that appropriated funding is available to cover such costs. In fiscal years 1999 and 1998, Congress placed no limit on the total amount of loans, guarantees and insurance that could be committed in those years, provided that the \$75.0 billion limit established by the Export-Import Bank Act was not exceeded.

Ex-Im Bank's net credit subsidy appropriations were \$775.0 million and \$683.0 million for fiscal years 1999 and 1998, respectively. During fiscal year 1999, Ex-Im Bank entered into commitments for loans of \$902.7 million using \$53.0 million of the appropriation (\$16.4 million for tied aid) and commitments for guarantees and insurance of \$12,164.9 million using \$623.5 million of the appropriation. During fiscal year 1998, Ex-Im Bank entered into commitments for loans of \$85.9 million using \$8.2 million of the appropriation, tied aid commitments of \$16.6 million using \$8.2 million of the appropriation, and commitments for guarantees and insurance of \$10,447.0 million using \$712.2 million of the appropriation.

## 11. COMMITMENTS AND CONTINGENCIES

### Enabling Legislation

In accordance with its enabling legislation, continuation of Ex-Im Bank as an independent corporate agency of the United States is subject to periodic extensions granted by Congress. Congressional authorization has been extended through September 30, 2001.

### Financial Instruments with Off-Balance Sheet Risk

In addition to the risks associated with its loans and claims receivable, Ex-Im Bank is subject to credit risk for financial instruments not reflected in its Statement of Financial Position. These financial instruments consist of (1) guarantees and insurance that provide repayment protection against political and commercial risks and (2) guarantees of letters of credit underlying future loan disbursements. Political risks covered by Ex-Im Bank involve nonpayment as a result of war, cancellation of an existing export or import license, expropriation, confiscation of or intervention in a buyer's business, or transfer risk (failure of foreign government authorities to transfer foreign deposits into dollars). However, losses due to currency devaluation are not considered a political risk by Ex-Im Bank. Commercial risks involve nonpayment for reasons such as deterioration of markets, unanticipated competition and buyer insolvency. Ex-Im Bank generally does not hold collateral or other security to support its medium- and short-term financial instruments with off-balance sheet risk, except for credits supporting export of aircraft and a variety of security arrangements made in the case of project risk transactions. When issuing working capital guarantees, Ex-Im Bank frequently requires the guaranteed party to obtain collateral or a third-party guarantee from the debtor. The amount of collateral is based on management's credit evaluation. All Ex-Im Bank guarantees and insurance benefits carry the full faith and credit of the United States Government.

The risks associated with the overall portfolio of off-balance sheet financial instruments differ from those associated with the loan portfolio. Loans are spread more evenly than guarantees over the entire risk spectrum, while off-balance sheet financial instruments are concentrated in relatively lower risk countries. Also, exporters and financial intermediaries who use Ex-Im Bank's short-term insurance bear a portion of losses resulting from nonpayment.

Following is a summary of Ex-Im Bank's off-balance sheet risk at September 30, 1999 and 1998 (in \$ millions):

	FY 1999		
	Total	Commitments Unused	Outstanding*
Guarantees	\$34,063.1	\$10,084.1	\$23,979.0
Insurance	6,816.0	5,430.0	1,386.0
Guarantees of Letters of Credit	2,901.9	2,901.9	-
<b>Total</b>	<b>\$43,781.0</b>	<b>\$18,416.0</b>	<b>\$25,365.0</b>

  

	FY 1998		
	Total	Commitments Unused	Outstanding*
Guarantees	\$33,352.9	\$10,517.5	\$22,835.4
Insurance	5,712.1	4,128.7	1,583.4
Guarantees of Letters of Credit	3,611.8	3,611.8	-
<b>Total</b>	<b>\$42,676.8</b>	<b>\$18,258.0</b>	<b>\$24,418.8</b>

\*Shipment of goods has taken place.

Ex-Im Bank is exposed to credit loss with respect to the amount at risk in the event of nonpayment by other parties in the agreements. The commitments shown above are agreements to lend monies and issue guarantees and insurance so long as there is no violation of any condition established in the credit agreement.

Substantially all of Ex-Im Bank's off-balance sheet financial instruments involve credits located outside of the United States. Following is a breakdown of such total commitments at September 30, 1999, by major geographic area (in \$ millions):

	Guarantees	Insurance	Guarantees of Letters of Credit	Total
Asia	\$10,554.9	\$256.6	\$1,406.9	\$12,218.4
Latin America	8,252.8	1,727.7	1,337.6	11,318.1
New Independent States (NIS)	3,558.7	11.3	-	3,570.0
Africa/Middle East	5,459.4	93.1	120.0	5,672.5
United States/Other	1,538.0	-	7.7	1,545.7
Eastern Europe - Non-NIS	1,784.9	17.9	1.0	1,803.8
Western Europe/Canada	2,914.4	160.7	28.7	3,103.8
S/T Insurance (unshipped)	-	4,548.7	-	4,548.7
<b>Total</b>	<b>\$34,063.1</b>	<b>\$6,816.0</b>	<b>\$ 2,901.9</b>	<b>\$43,781.0</b>

At September 30, 1999, Ex-Im Bank's largest commitments at risk were in the following countries and industries (in \$ millions):

Country	Industry	
China	Air Transportation	\$15,073.6
Mexico	Power Generation	4,919.7
Brazil	Financial Services	4,723.9
Turkey	Oil and Gas	4,621.1



Changes in the allowance for off-balance sheet risk for fiscal years 1999 and 1998 are as follows (in \$ millions):

	1999	1998
Balance at Beginning of Year	\$6,430.7	\$4,196.7
Provision (Credited)/Charged to Operations	(95.6)	2,234.0
Balance at End of Year	\$6,335.1	\$6,430.7

#### Leasing Activities

Ex-Im Bank has no capital leases. Operating lease arrangements are renewable annually. These leases consist primarily of rental of office space. Office space is leased primarily from the General Services Administration through the Public Buildings Fund. Lease expenses, included in administrative expenses, were \$4.0 million and \$4.7 million for fiscal years 1999 and 1998, respectively.

#### Pending Litigation

As of the end of fiscal year 1999, Ex-Im Bank was named in several legal actions, virtually all of which involved claims under the guarantee and insurance programs. It is not possible to predict the eventual outcome of the various actions; however, it is management's opinion that these claims will not result in liabilities to such an extent they would materially affect the financial position or results of operations of Ex-Im Bank.

#### Project Finance

In certain project finance cases, Ex-Im Bank's assistance during the construction period generally is in the form of a political risk guarantee to the private lender. At the end of the construction period, the borrower has the option of converting the private guaranteed financing to an Ex-Im Bank direct loan or to a comprehensive guarantee. As of September 30, 1999, Ex-Im Bank had \$1,309.2 million of such contingent loan commitments outstanding.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments to which Ex-Im Bank has a contractual obligation to deliver cash to or a contractual right to receive cash from another entity were estimated based on the methods and assumptions identified with each class of financial instrument listed below.

#### Loans and Subrogated Claims Receivables and Financial Instruments with Off-Balance Sheet Risk

Substantially all of these instruments involve credit risks that private lenders or guarantors would not accept. However, as discussed in Note 2, the Credit Reform Act requires Ex-Im Bank to calculate the net present value of the cost of its credit programs based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows, and estimated discount rates. The values derived by applying these assumptions to Ex-Im Bank's loans, claims and financial instruments with off-balance sheet risk approximate their fair values.

### Borrowings and Claims Payable

The fair value of these instruments were estimated based on discounting the future cash flows using interest rates currently available to Ex-Im Bank for Department of the Treasury debt with comparable maturities. The Department of the Treasury interest rate plus one percent was used for claims payable as this is the rate available in the claim document.

(in \$ millions)	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Cash Equivalents	\$1,306.2	\$1,306.2	\$555.6	\$555.6
Loans Receivable, Net	5,830.7	7,389.9	4,525.5	5,965.1
Receivable From Subrogated Claims, Net	2,316.9	2,536.7	1,658.6	1,864.0
Financial Liabilities:				
Off-balance Sheet Financial Instruments	6,335.1	6,335.1	6,430.7	6,430.7
Borrowings From Treasury	6,602.8	6,602.8	3,955.8	3,955.8
Claim Payment Certificates	1,222.0	1,188.6	506.7	480.1
Claims Payable	63.1	57.7	32.7	30.0

Use of different methods and assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different. In addition, settlement at the reported fair value may not be possible due to contractual constraints or other reasons unique to federally backed credits.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
Export-Import Bank of the United States

In our opinion, the accompanying statement of financial position and the related statements of operations, changes in capital and retained earnings/accumulated deficit, and cash flows present fairly, in all material respects, the financial position of the Export-Import Bank of the United States (Ex-Im Bank) at September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of Ex-Im Bank's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 1999, on our consideration of Ex-Im Bank's internal control over financial reporting and our testing of its compliance with laws, regulations, contracts and grants.

PRICEWATERHOUSECOOPERS LLP

October 28, 1999

# REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Export-Import Bank of the United States

We have audited the financial statements of the Export-Import Bank of the United States (Ex-Im Bank) as of and for the year ended September 30, 1999, and have issued our report thereon dated October 28, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## COMPLIANCE

As part of obtaining reasonable assurance about whether Ex-Im Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. For purposes of this report, we have categorized the provisions of laws, regulations, contracts and grants we tested as part of obtaining such reasonable assurance into the following categories:

- Personnel engagement, maintenance, and separation
- Budget preparation and execution
- Debt authorization and restrictions
- Deposits and investments restrictions
- Procurement policies and procedures
- Enabling legislation authorizations and restrictions

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Ex-Im Bank's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Ex-Im Bank in a separate letter dated October 28, 1999.

This report is intended solely for the information and use of the board of directors, management of Ex-Im Bank, and the Congress, and should not be used by anyone other than these specified parties.

*PRICEWATERHOUSECOOPERS LLP*

October 28, 1999

*NOTES*