

GAO

Report to the Congress

August 1987

# FINANCIAL AUDIT

## Export-Import Bank's 1986 and 1985 Financial Statements



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United States  
General Accounting Office  
Washington, D.C. 20548

Comptroller General  
of the United States

August 31, 1987

To the President of the Senate and the  
Speaker of the House of Representatives

This report presents our adverse opinion on the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1986 and 1985, and our reports on the bank's system of internal accounting controls and on its compliance with applicable laws and regulations.

We believe that the bank's financial statements continue to be misleading because they do not reflect the material losses that have been incurred or are likely to result from the uncollectibility of a portion of its foreign loans and its estimated recoveries on claims it paid because of defaults under its insurance and guarantee programs. We believe the bank should have established an allowance for losses as of September 30, 1986, of between \$2.7 and \$3.8 billion. Had the bank established such an allowance, it would have reported a deficit ranging from \$1.9 to \$3.0 billion, instead of a reserve of \$773 million.

Our report on internal accounting controls discloses that significant internal accounting control weaknesses that could affect the bank's financial statements existed at the bank's insurance agent, the Foreign Credit Insurance Association (FCIA). Because FCIA services insurance policies for and cedes its net income to the bank, the effectiveness of FCIA's internal accounting control system is important to the bank.

Our report on compliance with laws and regulations discloses that had the bank recorded a loss allowance for its loans and estimated recoveries as required by generally accepted accounting principles, it would have had to notify the Congress of its diminished equity position as early as fiscal year 1984, in accordance with section 14 of the Export-Import Bank Act, as amended.

The bank is a wholly owned government corporation whose purpose is to aid the U.S. export community in financing and facilitating the export of goods and services. We conducted our examinations pursuant to 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Board of Directors of the Export-Import Bank of the United States.

*Charles A. Bowsher*

Charles A. Bowsher  
Comptroller General  
of the United States



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## Abbreviation

FCIA Foreign Credit Insurance Association



Comptroller General  
of the United States

B-197710

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

We have examined the statements of financial condition of the Export-Import Bank of the United States as of September 30, 1986 and 1985, the related statements of income (loss) and reserve for contingencies and defaults, and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In addition to this report on our examination of the bank's 1986 and 1985 financial statements, we are also reporting on our study and evaluation of internal accounting controls and compliance with laws and regulations.

The bank's assets include a significant number of loans to foreign countries for which payments are delinquent or for which payment terms have been rescheduled. They also include estimated recoveries on claims the bank paid because of defaults under its insurance and guarantee programs. For the most part, the bank considers the claims to be fully recoverable. The bank's financial statements do not reflect a provision for estimated losses that are likely to be sustained due to the uncollectibility of a portion of the \$15.5 billion in outstanding loans and estimated recoveries on claims, as required by generally accepted accounting principles. If such an allowance had been established, we estimate that the bank's total assets and reserve for contingencies and defaults would have been decreased by amounts ranging from \$2.7 to \$3.8 billion as of September 30, 1986, and by \$1.1 to \$1.9 billion as of September 30, 1985. Establishing such an allowance would result in a cumulative deficit of between \$1.9 and \$3.0 billion as of September 30, 1986, and between zero and \$800 million as of September 30, 1985. Instead, because the bank did not establish an allowance for losses, its reserves are stated as \$773 million and \$1.1 billion for 1986 and 1985, respectively, as shown in the accompanying financial statements.

Our estimates were developed using different assumptions. The lower boundary of our estimate represents allowance amounts adequate to cover those countries whose entire credit balance is delinquent or rescheduled and where the status of that debt has not improved since



the analysis we did for our 1985 report. The upper boundary of the estimate includes additional allowances for loans to and estimated recoveries from other countries that are experiencing severe debt repayment difficulties. Our estimates are based on several factors, including widely used international debt and country risk assessments. Our loss allowance estimate for 1986 was also based on information about the resale value of less developed countries' loans in the emerging secondary market for such loans, as well as an assessment of the bank's foreign loan portfolio activity and actual and estimated recoveries from claim payments for the year.

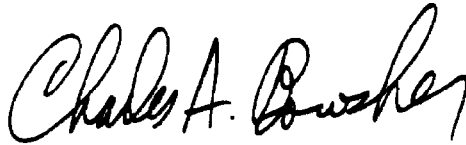
As discussed in notes 1 and 5 to the financial statements, the bank changed from a cash to an accrual basis of accounting for its insurance and guarantee programs effective October 1, 1985. We concur with this change which we previously recommended in a letter to the Chairman of the Board of Directors of the bank. Because it was not practicable to restate prior years' financial statements, the bank's fiscal year 1985 financial statements include a \$33.4 million cumulative adjustment to income for conversion to an accrual basis for claim losses.

¶ The Omnibus Budget Reconciliation Act of 1986 established a loan sale program to improve federal credit management and to generate budgetary receipts. Under the program, the bank shall take actions to ensure that sufficient loans are sold to generate no less than \$1.5 billion by the end of fiscal year 1987. Additional loan sales are planned that would generate an additional \$5.2 billion through fiscal year 1992. As of June 30, 1987, the bank had received about \$848 million of its \$1.5 billion goal. We believe that, under this program, the bank will collect on the higher quality loans first, leaving it with a higher percentage of problem loans and reducing its future income. This reduction, in turn, will exacerbate the financial difficulties the bank has faced in recent years.

In our opinion, because of the material effect of not establishing an allowance to reflect the amount of estimated losses on its direct loan and insurance and guarantee programs, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of the bank as of

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September 30, 1986 and 1985, or the results of its operations and changes in its financial position for the years then ended.

A handwritten signature in black ink, reading "Charles A. Bowsher". The signature is written in a cursive style with a large, looping initial "C".

Charles A. Bowsher  
Comptroller General  
of the United States

June 30, 1987



# Report on Internal Accounting Controls

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We have examined the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1986 and 1985, and have issued our opinion thereon. As part of our examinations, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1986. Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1985, is presented in GAO/AFMD-86-60, dated June 25, 1986.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the bank's financial statements. For purposes of this report, we have classified the significant internal accounting controls into the following categories:

- expenditures,
- financial reporting,
- insurance and guarantee claims expense,
- insurance and guarantee premium and fees income,
- loans, and
- treasury.

Our study and evaluation included all of the control categories listed above except for treasury. For that category, we found it more efficient to rely solely on substantive audit tests.

The bank's management is responsible for establishing and maintaining an effective system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over the bank's assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless

occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the second paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the bank's system of internal accounting controls taken as a whole or on any of the categories of controls identified in the second paragraph. Although our study and evaluation did not disclose any material internal accounting control weaknesses at the bank, our study and evaluation did disclose the following internal accounting control weaknesses at the bank's insurance agent that merit the bank's attention.

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## Internal Control Weaknesses Existed at the Bank's Insurance Agent

The Foreign Credit Insurance Association (FCIA) is an association of insurance companies under contract with the bank to market and administer insurance policies by billing and collecting premiums, processing and paying certain claims, and pursuing recovery on certain claims on behalf of the bank. In 1986, FCIA insurance accounted for \$4.4 billion of export credit insurance on which the bank assumed all of the risk of loss. The bank's financial statements reflect, on an accrual basis, the premium income and claims, including recoveries, for policies FCIA administers for the bank. In addition, the bank's financial statements include the net income (loss) of FCIA. Because the bank relies on FCIA to accurately report financial information to it for inclusion in the bank's financial statements, weaknesses in FCIA's internal accounting control system could directly affect the bank.

In connection with the financial audit of FCIA's fiscal year 1986 financial statements, FCIA's independent auditors made a study and evaluation of its internal accounting controls. Their study and evaluation disclosed that a weak overall internal control environment existed which resulted in the following conditions they believed to be material weaknesses:

- transactions were not accurately or promptly processed, summarized, and reported;
- recorded balances and related transaction activity were not periodically substantiated and evaluated;
- conversion of data to new computer systems was not adequately controlled; and

- alternative accounting procedures and internal controls were not instituted to compensate for incomplete computer systems development.

These internal accounting control weaknesses raised questions about the reliability of FCIA's records and required FCIA to take corrective action to reconcile or adjust its accounts. Subsequent to September 30, 1986, FCIA corrected its accounting records and, in June 1987, its auditors rendered an unqualified opinion on FCIA's fiscal year 1986 and 1985 financial statements. Further, in regard to its conversion to new computer systems, FCIA is currently testing the software, modifying and improving the computer programs, and verifying converted data to ensure the accuracy of the data processed through the new systems and the reliability of the resulting reports.

Through our review and evaluation of the auditors' working papers and selective testing of transactions, we also determined that FCIA's accounting records were not materially misstated as of September 30, 1986, and, therefore, the weaknesses did not affect our opinion on the bank's fiscal year 1986 financial statements. However, the weaknesses noted merit the bank's attention.

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## Conclusions and Recommendation

Because FCIA is the bank's insurance agent responsible for \$4.4 billion of export credit insurance for which the bank assumes all risk of nonpayment, an effective internal accounting control system is necessary to ensure that accounting information is properly processed by FCIA and correctly reported to the bank. If FCIA's internal accounting control system is not effective, the bank does not have adequate assurance that premium income and collections, claims, and recoveries on claims are timely and accurately reported to it. Further, the bank has little assurance that income FCIA cedes to it and which the bank reports on its statement of income (loss) and reserve for contingencies and defaults is fairly presented.

Accordingly, we recommend that the Chairman direct the bank's Controller to monitor and report on FCIA's progress toward resolving its internal accounting control system weaknesses, including completing and implementing its new computer systems, to ensure financial information is accurately processed by FCIA and correctly reported to the bank for inclusion in its financial statements.

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## Other Opportunities for Improvement

During the course of our examination, we also identified several other internal accounting control matters which, although not material, nonetheless merit corrective action to strengthen the bank's internal accounting controls. Accordingly, we are reporting them separately to the bank.

All of the above conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the bank's fiscal year 1986 financial statements, and this report does not affect our June 30, 1987, opinion on the fiscal year 1986 financial statements.

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## Agency Comments

We did not request official written comments on this report. However, we provided a draft of this report to appropriate bank officials and have incorporated their comments. The bank's Controller agreed that the internal accounting control weaknesses at FCIA need correction and stated that he has been monitoring the situation since it was first identified.

# Report on Compliance With Laws and Regulations

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We have examined the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1986 and 1985, and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1986. Our report on compliance with laws and regulations for the year ended September 30, 1985, is presented in GAO AFMD-86-60, dated June 25, 1986.

In our opinion, the bank complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. In connection with our examination, nothing came to our attention that caused us to believe that the bank was not in compliance with the terms and provisions of laws and regulations for those transactions not tested. However, we noted one compliance matter that we believe merits attention.

To ensure that the Congress has an opportunity to prevent the bank's equity position from deteriorating below a level at which the bank would lose its credibility as an independent institution, the Congress enacted the Export-Import Bank Act Amendments of 1983. This act added section 14 to the Export-Import Bank Act of 1945 (12 U.S.C. 635i-2) to require the bank to report to the Congress if its equity falls below 50 percent of its capital and retained earnings as of September 30, 1983. Since the bank's capital and retained earnings were almost \$2.8 billion as of September 30, 1983, an equity level of almost \$1.4 billion would have activated the reporting requirement.

Had the bank followed generally accepted accounting principles and recorded an allowance for losses on loans and estimated recoveries, the bank would have had to notify the Congress in fiscal year 1984 regarding its weakened capital position. Although the bank has told the Congress that its equity will fall below \$1.4 billion by the first quarter of fiscal year 1988, the bank's refusal to establish an allowance for losses has resulted in the notification requirement not being triggered.

The compliance matter discussed above was considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and does not affect our June 30, 1987, opinion on the bank's financial statements.



# Financial Statements

## Statements of Financial Condition

	September 30, 1986	September 30, 1985
<b>ASSETS</b>		
Cash in U.S. Treasury and Commercial Banks	\$ 4,300,000	\$ 23,100,000
Investments in U.S. Securities	124,400,000	72,800,000
Loans Receivable (Notes 1,2, and 7):		
Current Loans	11,516,600,000	13,202,200,000
Delinquent Loans	2,824,600,000	2,673,400,000
	<u>14,341,200,000</u>	<u>15,875,600,000</u>
Excess of Estimated Claim Recoveries over Estimated Future Claim Payments (Note 5)	1,155,400,000	1,028,600,000
Accrued Interest and Fees Receivable (Note 2)		
Current Interest and Fees	324,500,000	352,200,000
Delinquent Interest	223,300,000	305,300,000
	<u>547,800,000</u>	<u>657,500,000</u>
Other Assets:		
Net Due from Private Export Funding Corporation (Note 6)	43,100,000	36,500,000
Due from Foreign Credit Insurance Association (Note 6)	-0-	200,000
Other Receivables and Miscellaneous Assets	1,400,000	1,100,000
	<u>44,500,000</u>	<u>37,800,000</u>
	<u>\$ 16,217,600,000</u>	<u>\$17,695,400,000</u>
<b>LIABILITIES, CAPITAL AND RESERVE</b>		
Borrowings (Note 9):		
Notes Payable to Federal Financing Bank	\$ 14,268,400,000	\$15,409,000,000
Notes Payable to U.S. Institutions	5,900,000	8,700,000
	<u>14,274,300,000</u>	<u>15,417,700,000</u>
Other Liabilities:		
Accrued Interest Payable	128,200,000	132,800,000
Collections Held Pending Disposition	25,900,000	24,900,000
Deferred Fee Income	10,200,000	9,100,000
Due to Foreign Credit Insurance Association (Note 6)	600,000	-0-
Other Credits	5,700,000	5,300,000
	<u>170,600,000</u>	<u>172,100,000</u>
Total Liabilities	14,444,900,000	15,589,800,000
Capital Stock Held by U.S. Treasury	1,000,000,000	1,000,000,000
Reserve for Contingencies and Defaults (Note 8)	772,700,000	1,105,600,000
	<u>\$ 16,217,600,000</u>	<u>\$17,695,400,000</u>

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

Financial Statements

Statements of Income (Loss) and Reserve for Contingencies and Defaults

	Fiscal Year Ended September 30, 1986	Fiscal Year Ended September 30, 1985
<b>REVENUES</b>		
Interest on Loans	\$ 1,319,700,000	\$ 1,446,600,000
Interest on Rescheduled Claims	90,400,000	31,400,000
Commitment Fees	13,000,000	16,400,000
Application Fees	7,500,000	6,500,000
Insurance Premiums and Guarantee Fees	34,500,000	38,500,000
Other Income (Note 9)	26,800,000	24,300,000
Total Revenues	<u>\$ 1,491,900,000</u>	<u>\$ 1,563,700,000</u>
<b>EXPENSES</b>		
Interest on U.S. Government Borrowings	\$ 1,768,700,000	\$ 1,826,500,000
Interest on Certificates of Beneficial Interest Borrowings	-0-	100,000
Interest on U.S. Institutional Borrowings	400,000	600,000
Interest on Private Export Funding Corporation Borrowings	-0-	1,100,000
Administrative Expenses	17,400,000	18,500,000
Claim Losses Incurred (Note 5)	13,900,000	78,100,000
Loans Written Off, net of recoveries (Note 8)	1,800,000	4,800,000
Other Expenses	14,800,000	11,600,000
Total Expenses	<u>\$ 1,817,000,000</u>	<u>\$ 1,941,300,000</u>
Net Loss Before Adjustment	(325,100,000)	(377,600,000)
Adjustment for Conversion to Accrual Basis for Claim Losses (Note 5)	<u>(7,800,000)</u>	<u>33,400,000</u>
Net Loss	\$ (332,900,000)	\$ (344,200,000)
<b>RESERVE FOR CONTINGENCIES AND DEFAULTS</b>		
Beginning of Fiscal Year	<u>\$ 1,105,600,000</u>	<u>\$ 1,449,800,000</u>
End of Fiscal Year	<u>\$ 772,700,000</u>	<u>\$ 1,105,600,000</u>

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

# Financial Statements

## Statements of Changes in Financial Position

	Fiscal Year Ended September 30, 1986	Fiscal Year Ended September 30, 1985
<b>FUNDS PROVIDED</b>		
Net Loss	\$ (332,900,000)	\$ (344,200,000)
Borrowings from the Federal Financing Bank (Note 9)	801,000,000	1,382,000,000
Borrowings from U.S. Treasury	-0-	47,400,000
Repayments of Loans Receivable	2,439,800,000	2,250,200,000
Repayments of Loans Purchased Pursuant to Guarantee and Insurance Agreements	-0-	37,100,000
Loans Receivable Written Off, Net of Recoveries (Note 8)	1,100,000	3,900,000
Net Change in Accrued Interest and Fees Receivable	109,700,000	55,300,000
Sale of Repossessed Equipment	-0-	9,400,000
Other - Net	3,000,000	56,200,000
Net Change in Accrued Interest Payable	-0-	3,000,000
Total Funds Provided	<u>3,021,700,000</u>	<u>3,500,300,000</u>
<b>FUNDS APPLIED</b>		
Loan Disbursements	906,500,000	1,382,900,000
Loans Purchased Pursuant to Guarantee and Insurance Agreements	-0-	264,400,000
Net Addition to Investments in U.S. Securities	51,600,000	45,700,000
Repayments of Federal Financing Bank Borrowings	1,941,600,000	1,662,800,000
Repayments of U.S. Treasury Borrowings	-0-	47,400,000
Repayments of Private Export Funding Corporation Borrowing	-0-	15,300,000
Repayments of U.S. Institutional Borrowings	2,800,000	3,700,000
Repayments of Certificates of Beneficial Interest	-0-	6,100,000
Loan Disbursements for Private Export Funding Corporation - Net	6,600,000	9,500,000
Net Change in Excess of Estimated Claim Recoveries over Estimated Claim Payments	126,800,000	44,400,000
Net Change in Accrued Interest Payable	<u>4,600,000</u>	<u>-0-</u>
Total Funds Applied	<u>3,040,500,000</u>	<u>3,482,200,000</u>
<b>NET INCREASE (DECREASE) IN FUNDS DURING THE PERIOD</b>		
Cash - Net	<u>\$ (18,800,000)</u>	<u>\$ 18,100,000</u>

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

## Notes to Financial Statements

Note 1: Enabling Legislation and Basic Accounting Principles

Eximbank is an independent corporate agency of the United States, which was first organized as a District of Columbia banking corporation in 1934. The primary legislation governing its operations consists of the Export-Import Bank Act of 1945, as amended through October 15, 1986, and the Government Corporation Control Act.

The commitment authority of Eximbank under the Export-Import Bank Act to lend, guarantee, and insure is limited to \$40 billion outstanding at any one time. Loans are charged against the \$40 billion limitation at 100 percent of their authorized amount. Guarantees and insurance are charged against the \$40 billion limitation at not less than 25 percent of Eximbank's contractual liability, with the proviso that the aggregate amount of guarantees and insurance so charged may not exceed \$25 billion outstanding at any one time. Thus, Eximbank's contractual commitments outstanding at any one time could reach \$58.75 billion, consisting of \$25 billion of guarantees and insurance outstanding, resulting in a \$6.25 billion charge against the \$40 billion limitation, and \$33.75 billion (additional commitments) charged at 100 percent against the limitation.

At September 30, 1986, the committed and uncommitted authority to lend, guarantee, and insure and the Bank's commitments and contingent liabilities were:

(\$ Millions)

	<u>Commitments and Contingent Liabilities</u>	<u>Statutory Authority Charges</u>
Total Statutory Authority		<u>\$40,000.0</u>
Outstanding Loans	\$14,341.2	\$14,341.2
Undisbursed Loans	2,380.2	2,380.2
Estimated Recoveries		
on Disbursed Claims (Note 5)	1,277.0	1,277.0
Guarantees	6,278.1	1,569.5
Insurance	7,937.2	<u>1,984.3</u>
Committed Balance		<u>21,552.2</u>
Uncommitted Balance		<u>18,447.8</u>
Total	<u>\$32,213.7</u>	<u>\$40,000.0</u>

Limitations on the amount of loans, and guarantees and insurance which may be committed by the Bank are established each year by legislation enacted by Congress. For FY 1985, the limitations were \$3,865.0 million for loans and \$10,000.0 million for guarantees and insurance. In that year the Bank authorized \$659.4 million in loans and \$7,849.6 million in guarantees and insurance. For FY 1986, the Bank was limited to \$1,058.6 million of new loan

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authorizations and \$11,484.0 million of new guarantee and insurance commitments. During the year, the Bank authorized \$577.4 million of loans and \$5,507.8 million of guarantees and insurance. For FY 1987 the Bank's limitations are \$680 million for loans and \$11,355.0 million for guarantees and insurance.

Since its inception, the Bank's Charter has been periodically renewed by Congress. The Charter currently expires on September 30, 1992.

Eximbank's accounting records are maintained on an accrual basis with the exception of write-offs of loans, interest beyond the due date on rescheduled claims included in country-wide reschedulings, and through FY 1985, for the payment of claims on guarantees and insurance policies. Beginning with FY 1986, claims on guarantees and insurance policies have been accounted for on an accrual basis. All adjustments related thereto have been made as of September 30, 1985 to the FY 1985 financial statements to reflect the change to an accrual basis.

Loans are written off and charged to income when Eximbank determines that the outstanding principal balance is uncollectable. Interest on delinquent loans receivable is accrued until such time as Eximbank determines on a case-by-case basis that a particular delinquent loan should be non-accruing. Through FY 1985, claims, except for those treated as purchases of assets, had been charged to income in the year paid. Later recoveries of amounts written off or of amounts which had been charged to income when paid had been treated as income in the year received. Until the conversion of claims to an accrual basis, Eximbank treated the payment of claims as a purchase of an asset when the prospect of repayment justified such treatment.

Income is deferred when collected for front-end fees under guarantees and insurance policies, and carried in the liability account "Deferred Fee Income". Fees are applied to income when earned.

All receipts in excess of operational cash needs are invested in short-term securities of the U.S. Treasury. These securities, valued at cost, are redeemed as needed for daily operations.

Eximbank's financial statements are not consolidated with those of any other entity. However, the Bank's statements do reflect the results of contractual agreements entered into with the Private Export Funding Corporation (PEFCO) and the Foreign Credit Insurance Association (FCIA) (See Note 6).

#### Note 2: Delinquent Loans

Loans with any installments of principal or interest past due 90 days or more are classified as delinquent on the Statement of Financial Condition. The outstanding principal amount of all delinquent loans is summarized on a comparative basis (see table below). The delinquent interest figure shown on the table represents interest to the due date of the delinquent installments. Included in the delinquent interest amount is \$14.2 million on rescheduled claims as of September 30, 1986.

# Financial Statements

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(Thousands)

Country	Total Outstanding Principal as of September 30, 1986	Delinquent Installments September 30, 1986			Delinquent Installments September 30, 1985		
		Principal	Interest	Total	Principal	Interest	Total
Antigua	\$ 750.0	\$ 750.0	\$ 1,227.1	\$ 1,977.1	\$ 750.0	\$ 1,114.0	\$ 1,864.0
Argentina	179,800.0	18,912.1	9,302.6	28,214.7	71,606.0	36,745.1	108,351.1
Bolivia	23,179.3	11,393.1	909.4	12,302.5	11,416.2	788.7	12,204.9
Brazil	763,443.9	145,565.6	90,106.1	235,671.7	54,524.6	34,757.6	89,282.2
China	26,386.0	26,386.0	29,757.7	56,143.7	26,386.0	28,899.5	55,285.5
Costa Rica	10,649.1	738.1	924.8	1,662.9	3,528.8	1,976.8	5,505.6
Cote D'Ivoire	62,682.6	2,002.7	3,842.7	5,845.4	3,882.9	2,820.8	6,703.7
Cuba	36,266.6	36,266.6	52,871.5	89,138.1	36,266.6	50,719.4	86,986.0
Ecuador	8,141.8	8.8	1,540.5	1,549.3	2,599.1	379.2	2,978.3
Guyana	2,500.0	2,000.0	994.4	2,994.4	1,500.0	774.5	2,274.5
Haiti	11,361.1	1,825.3	103.3	1,928.6	859.3	-0-	859.3
Honduras	4,280.6	993.4	367.8	1,361.2	72.7	10.9	83.6
Jamaica	29,809.7	2,026.8	1,944.1	3,970.9	1,844.9	771.3	2,616.2
Mexico	274,085.6	20,360.5	9,661.8	30,022.3	13,759.9	6,959.6	17,719.5
Mozambique	16,300.3	9,024.9	3,945.2	12,970.1	6,418.7	2,756.3	9,175.0
Nicaragua	12,185.7	9,699.7	6,075.0	15,774.7	8,099.6	4,845.3	12,944.9
Nigeria	294,340.4	1,713.6	3,054.0	4,767.6	-0-	67.2	67.2
Peru	49,162.7	13,806.1	13,654.7	27,460.8	7,834.1	6,446.6	14,280.7
Poland	94,065.8	63,835.3	22,095.1	85,930.4	166,407.0	59,781.7	226,188.7
Sri Lanka	8,389.7	838.8	465.1	1,303.9	-0-	-0-	-0-
Sudan	21,516.7	1,574.2	4,071.3	5,645.5	394.9	867.3	1,262.2
Tanzania	13,723.6	5,547.4	3,092.0	8,639.4	3,012.8	1,979.9	4,992.7
Venezuela	27,812.0	9,423.7	2,069.7	11,493.4	12,140.4	2,049.6	14,190.0
Yugoslavia	350,000.0	1,629.0	2,319.9	3,948.9	36,037.7	3,811.6	39,849.3
Zaire	174,325.6	4,827.8	11,340.8	16,168.6	1,700.0	3,928.9	5,628.9
Other	329,417.6	2,807.2	1,841.8	4,649.0	21,361.0	16,863.5	38,224.5
Total	\$ 2,824,584.4	\$393,956.7	\$ 277,578.4	\$ 671,535.1	\$489,403.2	\$270,115.3	\$759,518.5
Less: Interest due on Loans Non-							
Accruing for Financial							
Reporting Purposes							
			(111,243.2)	(111,243.2)		(72,915.9)	(72,915.9)
Add: Accrued Interest from							
Last Due Date to Sept. 30							
			56,940.6	56,940.6		108,100.6	108,100.6
Total Delinquent Loans							
		\$393,956.7	\$ 223,275.8	\$ 617,232.5	\$489,403.2	\$305,300.0	\$794,703.2

The countries listed above are not necessarily the obligor of the delinquent loans. Some of the loans are to private parties in those countries.

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The delinquent loans to China were made in 1946 to the then recognized government of China. The delinquent loans to Cuba were made between 1951 and 1958, when a prior government existed. The outstanding balance of non-accruing loans was \$713.3 million at September 30, 1986 and \$250.5 million at September 30, 1985.

## Note 3: Rescheduled Loans

From time to time Eximbank must extend the repayment date of some or all principal installments of a loan to a new schedule because the obligor or country has encountered temporary financial difficulty and the Directors of Eximbank have determined that providing relief in this manner will aid collectability and enable the obligor ultimately to service the debt.

The rescheduled loan installments of principal and interest by country during FY 1986 and FY 1985 were:

Country	FY 1986			FY 1985		
	Principal	Interest	Total	Principal	Interest	Total
Argentina	\$ 90.2	\$ 44.9	\$135.1	\$ -0-	\$ -0-	\$ -0-
Brazil	-0-	(1.1)	(1.1)	190.2	91.9	282.1
Central African Republic	.5	-0-	.5	-0-	-0-	-0-
Chile	2.3	-0-	2.3	-0-	-0-	-0-
Costa Rica	4.9	1.8	6.7	-0-	-0-	-0-
Cote D'Ivoire	9.2	2.5	11.7	9.9	2.5	12.4
Dominican Rep.	12.2	13.1	25.3	-0-	-0-	-0-
Ecuador	3.6	-0-	3.6	-0-	-0-	-0-
Jamaica	4.2	.9	5.1	14.7	3.2	17.9
Liberia	-0-	-0-	-0-	.3	-0-	.3
Mauritania	.3	-0-	.3	3.2	2.0	5.2
Mexico	5.9	-0-	5.9	20.7	.8	21.5
Morocco	14.3	5.8	20.1	3.6	1.2	4.8
Niger	1.0	.2	1.2	1.0	.2	1.2
Panama	1.2	-0-	1.2	-0-	-0-	-0-
Peru	-0-	-0-	-0-	.1	-0-	.1
Philippines	12.3	27.4	39.7	10.1	14.1	24.2
Poland	145.0	86.5	231.5	-0-	-0-	-0-
Sudan	-0-	-0-	-0-	3.0	1.8	4.8
Yugoslavia	94.0	-0-	94.0	89.8	-0-	89.8
Zaire	25.9	20.1	46.0	3.2	5.6	8.8
Zambia	15.7	8.1	23.8	8.7	3.6	12.3
	<u>\$442.7</u>	<u>\$210.2</u>	<u>\$652.9</u>	<u>\$358.5</u>	<u>\$126.9</u>	<u>\$485.4</u>

The outstanding balances related to rescheduled installments included in loans receivable as of September 30, 1986 was \$3,564.1 million and as of September 30, 1985 was \$3,052.4 million.

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The total amount of rescheduled loans outstanding as of September 30, 1986 includes principal of \$1,769.4 million and interest of \$137.1 million which have one or more installments past due 90 days or more. As of September 30, 1985 delinquent rescheduled principal and interest of \$1,731.4 million and \$179.4 million, respectively, were included in rescheduled loans outstanding. These loans are included in the delinquent classification of the Comparative Statement of Financial Condition.

Interest income included in net income for FY 1986 and FY 1985 on the total rescheduled debt is \$105.1 million and \$276.2 million respectively.

The amount of undisbursed commitments to debtors having previously rescheduled debt outstanding as of September 30, 1986 is \$103.5 million and \$17.4 million as of September 30, 1985.

Note 4: Rescheduled Claims

Guarantee and insurance claims which were rescheduled during FY 1986 and FY 1985 under country-wide debt consolidation agreements are summarized in the following table.

Country	(\$ Millions)	
	FY 1986 Rescheduled Claims	FY 1985 Rescheduled Claims
Argentina	\$ 32.8	\$ 20.9
Brazil	-0-	69.5
Chile	1.5	-0-
Costa Rica	.9	-0-
Cote D'Ivoire	1.7	3.6
Dominican Republic	27.4	21.2
Ecuador	.7	.4
Guinea	-0-	1.6
Jamaica	3.5	7.9
Mexico	6.3	188.5
Morocco	17.7	6.9
Mozambique	-0-	1.5
Peru	-0-	1.1
Philippines	-0-	18.2
Sudan	-0-	.5
Yugoslavia	12.7	6.2
Zaire	36.3	17.8
Zambia	16.2	8.7
Total	<u>\$157.7</u>	<u>\$374.5</u>



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	(Millions)	
	<u>FY 1986</u>	<u>FY 1985</u>
Rescheduled claims outstanding beginning of period	\$ 984.2	\$ 756.9
Plus: Claims rescheduled (see above table)	157.7	374.5
Less: Adjustments (a)	(134.0)	(110.1)
Less: Repayments	<u>(36.2)</u>	<u>(37.1)</u>
Rescheduled claims outstanding at end of period	<u>\$ 971.7</u>	<u>\$984.2</u>

(a) Adjustments represent net reversals of amounts previously recorded as asset purchases which were not included in the final country-wide rescheduling agreements during FY 1986 and FY 1985 and a portion of rescheduled claims to private borrowers who have not made local currency deposits to central banks.

Rescheduled claims delinquent 90 days or more totalled \$28.0 million (\$13.8 principal and \$14.2 interest) at September 30, 1986 and \$5.6 million (\$3.2 principal and \$2.4 interest) at September 30, 1985. The outstanding balance of these claims totalled \$443.3 million and \$35.4 million at September 30, 1986 and 1985 respectively.

Note 5: Excess of Estimated Claim Recoveries over Estimated Future Claim Payments

As of September 30, 1986, estimates were made for claim payments and associated recoveries related to claims not yet filed with Eximbank but which were anticipated to be filed and which were related to events which occurred on or before September 30, 1986 (IBNR). In addition, estimates were made of losses on claims filed with Eximbank as of September 30, 1986, but unpaid as of that date. Also, estimates were made of recoveries to be collected on claims which had been paid as of September 30, 1986, but which were partially or fully unrecovered as of that date. The following is a summary of the computation for the excess of estimated claim recoveries over estimated future claim payments:

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	Millions	
	September 30, 1986	September 30, 1985
Estimated recovery of rescheduled claims	\$ 944.2	\$ 835.6
Estimated recovery of claims not rescheduled:		
Claims previously paid and unrecovered	\$340.0	\$ 340.9
Claims filed pending payment	166.0	148.7
IBNR* recoveries net of related expenses	<u>81.5</u>	<u>37.1</u>
Total estimated recovery of unrescheduled claims	<u>587.5</u>	<u>526.7</u>
Total estimated recoveries	\$1,531.7	\$1,362.3
LESS:		
IBNR* claims payable	(104.2)	(58.7)
Estimated future payments for claims filed but unpaid	<u>(264.9)</u>	<u>(275.0)</u>
Excess of estimated total claim recoveries over estimated future claim payments prior to adjustment for interest capitalized beyond the due date	\$1,162.6	\$1,028.6
Adjustment for interest beyond the due date on rescheduled claims included in estimated recoveries, converted to cash basis	<u>(7.2)</u>	<u>N/A</u>
Excess of estimated claim recoveries over estimated future claim payments	<u>\$1,155.4</u>	<u>\$1,028.6</u>

\* IBNR = Estimated liability for claims incurred but not yet reported to Eximbank.

The above amount of \$1,155.4 million is shown as a net asset on the financial statements. The amount of anticipated recoveries from claims paid in the past exceeds new claims to be paid as of September 30, 1986. Consequently, there is a balance of estimated claim recoveries of \$1,155.4 million over estimated future claim payments.

The adjustment of \$7.2 million in interest beyond the due date reduces the amount recoverable to the amount originally due to Eximbank. Formerly this interest was included in recovery estimates as it is included in the rescheduling agreements.

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Guarantee and insurance claim losses for FY 1986 are as follows:

(\$ Millions)

Case Reserves as of 9/30/86 plus interest beyond the due date	\$ (1,162.6)
Less: Case Reserves as of 9/30/85	(1,028.6)
Changes in Total Reserves	<u>(134.0)</u>
FY 1986 Activity:	
Claims Paid	242.5
Claim Recoveries	(97.8)
Legal Expenses Paid	<u>3.2</u>
Loss-claim accrual plus interest beyond the due date	13.9
Less: Interest beyond the due date included on country-wide reschedulings entered into force during FY 1986	(7.2) <sup>1/</sup>
FY 1986 Accrued interest on interest beyond the due date included in rescheduling principal	<u>(.6) <sup>1/</sup></u>
Net Loss-Claim Accrual FY 1986 Activity	<u>\$ 21.7</u>

<sup>1/</sup> On September 30, 1986 \$59,714.64, applied to the February 3, 1986 billing on arrearage debt, was attributable to the inclusion of interest beyond the due date on the billing.

An adjustment for the conversion of claim losses to the accrual basis was made as of September 30, 1985. The effect of the adjustment on the Statement of Income (Loss) is detailed as follows:

Excess of estimated claim recoveries over estimated future claim payments, excluding recoveries on amounts previously recorded as asset purchases	\$ 44.4
Less interest accrued on asset purchases pending implementation of formal rescheduling	<u>(11.0)</u>
Adjustment to income (loss) for conversion to accrual basis for claim losses	<u>\$ 33.4</u>

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Since it was not practicable to restate any prior year, the Bank included the cumulative effect of the recoveries in net income for FY 1985 in accordance with generally accepted accounting principles.

The \$44.4 million represents amounts previously not recorded as an asset. The reclassification of purchased assets did not have an impact on the Statement of Financial Condition.

The \$11.0 million was the removal of interest revenue on nonrescheduled estimated claim recoveries.

Beginning in FY 1986, interest beyond the due date which is calculated and included in principal on bilateral agreements, associated with country-wide reschedulings, is recognized as it is received over the term of the reschedulings. Formerly such amounts were included in gross income in the fiscal year that the reschedulings were entered into force. Identification and adjustment of such capitalized interest is not practical for FY 1985; therefore, the calculation on the preceding page only adjusts for additional interest included in gross income during FY 1986.

Note 6: Related Parties

Foreign Credit Insurance Association

The Foreign Credit Insurance Association (FCIA) is an association of primary insurance companies. Eximbank issues export credit insurance in cooperation with FCIA. Under a contractual agreement, Eximbank reinsures all of the commercial risks and in addition, insures all political risks, covers any operation expenses in excess of premiums, and has a majority on the FCIA Board of Directors. Under the contractual agreement with Eximbank, FCIA markets and administers the insurance policies, including billing and collecting premiums, processing and paying claims, and pursuing recovery on claims.

FCIA's FY 1986 and FY 1985 Statements of Income (Loss) which is stated on a statutory basis, includes \$12.2 and \$13.2 million commercial premium revenue, \$(49.3) and \$12.0 million expenses, netting to underwriting incomes of \$61.5 and \$1.2 million respectively. These amounts plus investment income of \$62 and \$162 thousand produce total incomes of \$61.6 and \$1.4 million, which were ceded to Eximbank for fiscal years 1986 and 1985. Total income (Loss) ceded to the Bank is settled through the due from FCIA account shown on the Comparative Statement of Financial Condition. The amount of ceded income due Eximbank was \$918 thousand and \$1,127 thousand as of September 30, 1986 and 1985 respectively. Additionally, FCIA, in servicing political risk only policies on Eximbank's behalf, earned premiums of \$10.0 million in FY 1986 and \$10.0 million in FY 1985. These premiums are included in Eximbank's insurance premium amount shown on the Comparative Statement of Income (Loss), as they are earned.

FCIA's direct losses and loss adjustment expenses paid in FY 1986 were \$51.7 million and recoveries net of expenses were \$25.4 million, as compared to direct losses and loss adjustment expenses of \$113.4 million and net recoveries of \$24.9 million in FY 1985. These totals, plus legal fees paid, less recoveries received directly by Eximbank, claims rescheduled, and other adjustments net to \$32.8 million in FY 1986 and \$33.6 million in FY 1985, which are included in Eximbank's net claim payments for the years presented.

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In FY 1985 Eximbank charged \$995 thousand against net income representing amounts distributed to FCIA's member companies as part of the buyout arrangements. These amounts are included in the net loss for insurance.

Private Export Funding Corporation

The Private Export Funding Corporation (PEFCO) has agreements with Eximbank which, for specified fees, provide that Eximbank will:

1. Guarantee the due and punctual payment of principal and interest on all export loans made by PEFCO;
2. Guarantee the due and punctual payment of interest on PEFCO long-term debt obligations when requested by PEFCO;
3. Hold a \$50,000,000 short-term revolving credit line at the disposal of PEFCO; and
4. Protect PEFCO against movements in interest rates adversely affecting the spread between PEFCO's fixed rate loan commitments to borrowers and the eventual cost of funding such commitments, except as this protection may be waived by PEFCO from time to time. In this connection, PEFCO has waived such protection with respect to all fixed rate loan commitments heretofore made and which may be made through September 30, 1987.
5. Retain a broad measure of supervision over PEFCO's major financial management decisions.

PEFCO's export loans outstanding which were guaranteed by Eximbank at September 30, 1986 and September 30, 1985 were \$1,236 million and \$1,431 million respectively. In addition, related undisbursed commitments were \$350 million in FY 1986 and \$421 million in FY 1985. The FY 1986 amounts are included in Eximbank's contingent liability for guarantees shown in Note 1. Cumulative claim payments made to PEFCO as of September 30, 1986 totaled \$234.6 million.

Included in the above guaranteed commitment total is the balance remaining under 16 export credits subject to a special agreement between Eximbank and PEFCO. In FY 1980, Eximbank and PEFCO agreed to share in providing a total of \$1,350.0 million of U.S. export financing at current fixed rates of interest quoted by Eximbank to foreign borrowers. Eximbank's share of the total was \$251 million and PEFCO's share was \$1,099.0 million. Under the arrangement, Eximbank reduced or increased the return on its credits in order to meet any shortfall or to receive any excess between the borrowers' interest payments and PEFCO's interest charges. During FY 1986, Eximbank reduced the interest income on its portion of the credits by \$5.8 million.

Eximbank made disbursements totaling \$23.2 million in connection with credits under the arrangement during FY 1986 and \$46.5 million in FY 1985. PEFCO's share of the FY 1986 amount is \$18.3 million and Eximbank's is \$4.9 million. In FY 1985, PEFCO's share was \$36.9 million and Eximbank's was \$9.6 million. As of September 30, 1986 PEFCO's \$43.6 million share of the disbursements remained outstanding, which will be reimbursed by PEFCO. This figure is \$6.7 million more than the outstanding disbursements to be reimbursed by PEFCO as of September 30,

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1985. PEFCO does not pay any interest to Eximbank on this amount; Eximbank retains all interest accrued on these loans prior to PEFCO's reimbursements. The \$43.1 million shown as due from the Private Funding Corporation is the net reimbursement due after the related interest and commitment fees are deducted.

In April 1986 and October 1984, PEFCO reimbursed Eximbank \$9.6 million and \$106.0 million for their share of the disbursements which remained outstanding on September 30, 1985 and September 30, 1984 respectively. In accordance with the arrangement, the interest rate charged by PEFCO on their share of the disbursements was determined by their borrowing cost at the time of borrowing and for these amounts was 13.017 percent for FY 1986 and 13.4 percent for FY 1985. The weighted average interest rate to the foreign borrowers on the amount of the disbursements is 8.9 percent for FY 1986 and 9.5 percent for FY 1985. The weighted average cost of Eximbank's borrowings from the FFB during the quarter at the time of the reimbursements was 8.172 percent in FY 1986 and 11.469 percent in FY 1985.

Note 7: Maturity Schedule of Outstanding Loans Receivable

As of September 30, 1986 about 68.1 percent of the \$14,341.2 million outstanding loans receivable balance is projected to be due over the next five years and the remaining 31.9 percent is estimated to be due thereafter, as indicated below:

<u>Fiscal Years of Maturities</u>	<u>Amount (\$ Millions)</u>	<u>Percent of Total</u>
1987	\$ 2,181.7	15.2%
1988	2,059.3	14.4
1989	1,999.4	13.9
1990	1,894.0	13.2
1991	1,640.3	11.4
	<u>9,774.7</u>	<u>68.1</u>
1992 - 2007	4,566.5	31.9
	<u>\$ 14,341.2</u>	<u>100.0%</u>

In addition to the \$14,341.2 million of outstanding loans, there are undisbursed loans totaling \$2,380.2 million, most of which are expected to be disbursed over the next 2-5 years.

Note 8: Loan Losses and Reserve for Contingencies and Defaults

The risk to Eximbank from potential loan losses is not susceptible to accurate measurement because of the unpredictable nature of future worldwide economic and political conditions. Eximbank's entire Reserve is available to cover such losses and contingencies. Eximbank's Charter provides for retention of net earnings of the Bank prior to the payment of dividends, to provide for a reasonable provision for possible losses. As of September 30, 1986, Eximbank has a Reserve for Contingencies and Defaults of \$772.7 million which is 5.3 percent of outstanding loans and 4.3 percent of outstanding loans, guarantees and insurance. On September 30, 1985 the Reserve for Contingencies and Defaults was \$1,105.6 million which was 7.0 percent of outstanding loans and 3.2 percent of world-wide commitments.

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Loans written off and recoveries on a cash basis are as follows:

	(\$ Millions)					
	Principal	FY 1986 Interest	Total	Principal	FY 1985 Interest	Total
Loans written off	\$10.1	\$ .7	10.8	\$ 4.3	\$1.0	\$5.3
Less recoveries	9.0	—	9.0	.5	—	.5
Net Loans						
Written off	<u>\$ 1.1</u>	<u>\$ .7</u>	<u>\$ 1.8</u>	<u>\$ 3.8</u>	<u>\$1.0</u>	<u>\$4.8</u>

Note 9: Borrowings from the U.S. Treasury and the Federal Financing Bank

Eximbank has authority, under its Act, to borrow directly from the U.S. Treasury and to have outstanding at any one time up to \$6 billion of such borrowings. Eximbank avails itself of this authority for its short-term needs on a daily basis at a 91-day Treasury bill rate. Excess cash is used to reduce these borrowings also on a daily basis.

Since May 1975, Eximbank has borrowed from the Federal Financing Bank (FFB) for its medium- and long-term needs. During the period ending September 30, 1986, Eximbank borrowed the following from the FFB:

Date	Amount (\$ Millions)	Rate	Final Maturity
12/02/85	\$ 417.0	9.600	12/01/95
12/02/85	261.0	9.261	12/01/95
03/03/86	3.0	8.172	03/01/96
06/02/86	120.0	8.093	06/01/96
09/02/86	-0-		
	<u>\$ 801.0</u>		

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As of September 30, 1986, about 55.4 percent of the Bank's \$14,268.4 million long-term debt is due over the next five years as indicated below:

<u>Fiscal Years of Maturities</u>	<u>Amount (\$ Millions)</u>	<u>Percent of Total</u>
1987	\$ 1,646.0	11.5%
1988	1,988.2	13.9
1989	1,120.2	7.9
1990	1,461.8	10.2
1991	1,693.4	11.9
	<u>7,909.6</u>	<u>55.4</u>
1992 - 1996	6,358.8	44.6
	<u>\$14,268.4</u>	<u>100.0%</u>

As Eximbank is usually a net borrower of funds, net short-term borrowings from the U.S. Treasury are repaid quarterly by borrowing from the FFB on a medium- and long-term basis at a U.S. Government agency borrowing rate appropriate to the term of the borrowing.

On days when Eximbank is a net investor, rather than a net borrower, of funds, the excess funds are invested in U.S. Treasury securities. Such investments earn interest at a market rate of interest determined by the Treasury. Interest earned on these securities, included in other income on the Statement of Income (Loss), was \$26.7 million in FY 1986 and \$24.2 million in FY 1985.

Note 10: Pensions and Accrued Annual Leave

Substantially all of Eximbank's employees are covered by the Civil Service Retirement System, which is currently two-tiered. For employees hired prior to January 1, 1984, Eximbank withholds approximately 7 percent of their gross earnings. Their contribution is then matched by Eximbank and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, Eximbank withholds, in addition to social security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution, as above. This second employee group will receive retirement benefits from the Civil Service Retirement System along with the Social Security System, to which they concurrently contribute.

Total Eximbank (employer) matching contributions to the Civil Service Retirement System for all employees were approximately \$798 thousand and \$813 thousand for the fiscal years ended September 30, 1986 and 1985 respectively.

Although Eximbank funds a portion of pension benefits under the Civil Service Retirement System relating to its employees and makes the necessary payroll withholdings from them, Eximbank does not account for the assets of the Civil Service Retirement System 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



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Management for the Retirement System and are not allocated to the individual employers. The Office of Personnel Management also accounts for all health and life insurance programs for retired federal employees.

Eximbank's liability to employees for accrued annual leave was \$663 thousand at September 30, 1986 and \$911 thousand at September 30, 1985.

Note 11: Lease Commitments

The Bank has no capital leases. Operating lease arrangements are renewable annually. These leases primarily consist of rental of the office space and EDP equipment. Penalty for early cancellation is immaterial. Office space is leased from General Services Administration through the Public Building Funds. The lease expenses were \$2,438 thousand and \$2,371 thousand for FY 1986 and FY 1985 respectively.

Note 12: Litigation

At the end of 1986, the Bank was named in several legal actions virtually all involving claims under the guarantee and insurance programs. Currently, 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 that they will materially affect the Bank's financial position.



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