United States General Accounting Office

GAO

Report to the Congress

July 1989

FINANCIAL AUDIT

Export-Import Bank's 1988 and 1987 Financial Statements

GAO/AFMD-89-94

GAO

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

Comptroller General
of the United States

B-197710

July 25, 1989

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, 1988 and 1987, and our reports on the bank's system of internal accounting controls and on its compliance with applicable laws and regulations. We conducted our examination pursuant to 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

We believe that the bank's financial statements continue to be misleading because they do not reflect the material losses that are likely to result from the uncollectibility of a portion of its foreign loans, accrued interest receivable, and its estimated recoveries on claims it paid because of defaults under its insurance and guarantee programs. As we previously reported, this condition has existed since fiscal year 1983. We estimate that as of September 30, 1988, cumulative losses on these items ranged from $3.7 billion to $6.2 billion. In addition, for the first time, the bank's financial statements reflect a negative reserve for defaults and contingencies (deficit). The reported deficit, which we believe will continue to increase in the future, is primarily due to the bank's negative interest rate spread.

We are sending copies of this report to the Director of the Office of Management and Budget; the Secretary of the Treasury; the Chairmen of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs; and the Board of Directors of the Export-Import Bank of the United States.

Brian P. Crowley

for Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviation

FCIA	Foreign Credit Insurance Association

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

We have audited the accompanying statements of financial condition of the Export-Import Bank of the United States as of September 30, 1988 and 1987, and statements of loss and reserve for contingencies and defaults (deficit), and statements of cash flow for the years then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. In addition to this report on our audit of the bank's 1988 and 1987 financial statements, we are reporting on our study and evaluation of internal accounting controls and compliance with laws and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The bank's financial statements do not reflect an allowance for the estimated losses that are likely to be sustained due to the uncollectibility of a portion of the $11.6 billion in outstanding loans, accrued interest receivable, and estimated recoveries on rescheduled claims, as required by generally accepted accounting principles. In fiscal year 1988 the bank's reported assets include loans and accrued interest receivable of $10.3 billion to foreign countries, of which $4.9 billion in principal and accrued interest is delinquent or has been rescheduled. In addition, assets include $2.1 billion in estimated recoveries on claims the bank paid because of defaults under its insurance and guarantee programs including $1.3 billion related to rescheduled claims.

If an allowance had been established, we estimate that the bank's total assets would have decreased and the bank's reserve for contingencies and defaults (deficit) would have increased by amounts ranging from $3.7 billion to $6.2 billion as of September 30, 1988, and by $3.3 billion to $5.0 billion as of September 30, 1987. Establishing such an allowance would result in a cumulative deficit of between $3.8 billion and $6.3 billion as of September 30, 1988, and between $3.0 billion and $4.7 billion as of September 30, 1987. Instead, because the bank did not establish a loss allowance, its deficit is stated as $116.4 million for 1988 and its reserve is stated as $312 million for 1987, as shown in the accompanying financial statements. Our loss allowance estimate is based on the resale values of loans to less developed countries in the secondary market for such loans, as well as on an assessment of the bank's foreign loan portfolio activity and actual and estimated recoveries from claim payments.

In our opinion, because of the material effect of not establishing an allowance to reflect the amount of estimated losses on its direct loans, accrued interest receivable, and rescheduled insurance and guarantee claims, 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 September 30, 1988 and 1987, or the results of its operations or its cash flows for the years then ended.

The Bank's Financial Outlook

The bank frequently lends money at lower interest rates than its cost of borrowings from the Federal Financing Bank, resulting in a negative interest rate spread on loans that are made. As of September 30, 1988, the interest rate paid on the bank's debt to the Federal Financing Bank exceeded the interest rate on the bank's loan portfolio by approximately 4.4 percent—1.8 percent more than the negative spread as of September 30, 1987. The interest rate paid on the current Federal Financing Bank debt will continue to exceed the interest earnings rate on the current loan portfolio at least through 1993. Beginning in May 1987, the bank has acted to improve the yield on its new loans by assessing a one-time exposure fee on the loans it makes. Although this fee will not improve the yield on most of the current portfolio, it will diminish the effect of the negative interest rate spread on any future loans. However, based on the past performance of the bank's portfolio, we do not believe that this fee will compensate for losses arising from both the negative interest rate spread and delinquencies. Because the bank is continuing to report losses, the bank's reserve for contingencies and defaults has been steadily depleted, leaving at the end of fiscal year 1988 the bank's reported reserve in a deficit position for the first time ever.

As discussed in note 11, under the Export-Import Bank Act of 1945, as amended, the bank may have up to $6 billion in loans outstanding at any one time from the Department of the Treasury. In addition, the bank has unlimited borrowing authority from the Federal Financing Bank. Thus, the bank can continue to operate regardless of its losses and deficit.

However, as a result of the factors discussed in the preceding paragraphs, it may be unable to repay its current debt as well as any additional borrowings, possibly shifting the burden of its losses to the Federal Financing Bank or the Treasury.

Brian P. Crowley

for Charles A. Bowsher
Comptroller General
of the United States

April 7, 1989

Report on Internal Accounting Controls

We have audited the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1988 and 1987, and have issued our opinion thereon. As part of our audits, we have 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, 1988. Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1987, is presented in GAO/AFMD-88-48, dated May 19, 1988.

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.

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.

Our study and evaluation of internal accounting controls did not disclose any material internal accounting control weaknesses. However, during the course of our audit, we identified several internal accounting control matters which, although not material to the financial statements, merit corrective action to strengthen the bank's internal accounting controls. These matters are being reported separately to the bank.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1988 and 1987, and have issued our opinion thereon. Our audits 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, 1988. Our report on compliance with laws and regulations for the year ended September 30, 1987, is presented in GAO/AFMD-88-48, dated May 19, 1988.

The bank's management is responsible for compliance with laws and regulations. In connection with our audits, referred to above, we selected and tested transactions and records to determine the bank's compliance with laws and regulations, noncompliance with which could have a material effect on the bank's financial statements.

As part of our audit, we reviewed and tested compliance with provisions of the Export-Import Bank Act of 1945 (12 U.S.C. 635); Public Law 100-202, Title IV—Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988 (101 Stat. 1329-152); the Government Corporation Control Act; and related regulations. 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 audit, 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.

Statements of Financial Condition

ASSETS	September 30, 1988	September 30, 1987
	(Dollars in Millions)	
Cash in U.S. Treasury	$ 5.1	$ 251.3
Investments in U.S. Treasury Securities (Note 1)	87.6	443.0
Loans Receivable (Notes 1,2,3,7 and 9):		
Current Loans	7,175.1	6,691.7
Delinquent Loans	2,730.2	4,521.6
	9,905.3	11,213.3
Excess of Estimated Claim Recoveries over Estimated Future Claim Payments (Notes 4 and 5)	1,655.9	1,435.7
Accrued Interest and Fees Receivable (Notes 2 and 3):		
Current Interest and Fees	233.0	241.3
Delinquent Interest	179.4	347.2
	412.4	588.5
Other Assets:		
Due from Private Export Funding Corp. (Note 6)	.8	66.9
Due from Foreign Credit Insurance Assoc. (Note 6)	3.3	5.3
Other Receivables and Miscellaneous Assets	5.2	2.0
	9.3	74.2
Total Assets	$12,075.6	$14,006.0
LIABILITIES, AND EQUITY		
Borrowings:		
Notes Payable to Federal Financing Bank (Note 11)	$10,957.6	$12,463.5
Other Liabilities:		
Accrued Interest Payable	101.1	113.6
Collections Held Pending Disposition	30.1	25.5
Deferred Fee Income (Note 1)	13.7	9.8
Other Credits	4.4	3.7
	149.3	152.6
Total Liabilities	11,106.9	12,616.1
Equity:		
Capital Stock Held by U.S. Treasury	1,000.0	1,000.0
Unexpended Appropriations (Note 8)	85.1	78.1
Reserve for Contingencies and Defaults(Deficit)(Note 10)	(116.4)	311.8
Total Liabilities, and Equity	$12,075.6	$14,006.0

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

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

	Fiscal Year Ended September 30, 1988	Fiscal Year Ended September 30, 1987
	(Dollars in Millions)	
INTEREST INCOME:		
Interest on Loans	$ 734.5	$ 1,113.9
Interest on Rescheduled Claims	72.8	78.2
Interest on Treasury Investments	40.2	27.2
Total Interest Income	847.5	1,219.3
INTEREST EXPENSE:		
Interest on U.S. Government Borrowings	$ 1,353.5	$ 1,603.9
Other Interest Expense	6.9	11.6
Total Interest Expense	1,360.4	1,615.5
Net Interest Expense	(512.9)	(396.2)
Net Loan Recoveries (Write-offs) (Note 10)	(1.8)	6.0
Net Interest Expense After Loans Written Off, Net of Recoveries	(514.7)	(390.2)
NON-INTEREST INCOME:		
Commitment Fees	9.3	8.0
Exposure Fees	8.6	4.7
Insurance Premiums and Guarantee Fees	49.0	36.0
Other Income	.9	.1
Total Non-Interest Income	$ 67.8	$ 48.8
NON-INTEREST EXPENSE:		
Administrative Expenses	19.4	18.4
Claim Loss Expenses (Recoveries)-Net (Note 4)	(70.5)	(20.7)
Other Expenses	32.4	.8
Total Non-Interest Expense	$ (18.7)	$ (1.5)
Loss Before Extraordinary Item	(428.2)	(339.9)
EXTRAORDINARY ITEM: Penalty for Early Retirement of Debt (Note 11)	-0-	(121.0)
Net Loss	(428.2)	(460.9)
RESERVE FOR CONTINGENCIES AND DEFAULTS (DEFICIT)		
Beginning of Fiscal Year	$ 311.8	$ 772.7
End of Fiscal Year	$ (116.4)	$ 311.8

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

Statements of Cash Flows

	Fiscal Year Ended September 30, 1988	Fiscal Year Ended September 30, 1987
	(Dollars in Millions)	
Cash Flows From Operating Activities		
Net Loss	$ (428.2)	$ (460.9)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Penalty for Early Retirement of Debt	-0-	121.0
Increase in Estimated Claim Recoveries	(220.2)	(280.3)
Decrease(Increase) in Accrued Interest and Fees Receivable	176.1	(40.7)
Decrease(Increase) in Due to Private Export Funding Corporation	66.1	(25.9)
Decrease in Accrued Interest Payable	(12.5)	(14.6)
Amortization of Appropriations for Tied Aid Credit	(.7)	-0-
Loan Writeoffs (Note 10)	1.9	.3
Increase in Other Assets	(1.2)	(5.8)
Increase (Decrease) in Other Liabilities	9.2	(1.3)
Net Cash Provided by Operating Activities	(409.5)	(708.2)
Cash Flows From Investing Activities		
Loan Disbursements	(511.6)	(477.5)
Repayments of Loans Receivable	1,817.7	3,605.1
Net Cash Provided from Investing Activities	1,306.1	3,127.6
Cash Flows From Financing Activities		
Repayments of Federal Financing Bank Borrowings	(1,688.8)	(2,316.0)
Borrowings from the Federal Financing Bank (Note 11)	183.0	511.0
Appropriations for Tied Aid Credit (Note 8)	7.6	78.1
Repayments of U.S. Institutional Borrowings	-0-	(5.9)
Penalty for Early Retirement of Debt	-0-	(121.0)
Net Cash Provided by Financing Activities	(1,498.2)	(1,853.8)
Net Increase(Decrease) in Cash and Cash Equivalents	$ (601.6)	$ 565.6
Cash and Cash Equivalents at Beginning of Year	$ 694.3	$ 128.7
Cash and Cash Equivalents at End of Year	$ 92.7	$ 694.3
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest (net of amount capitalized)		$1,354.1

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

Notes to Financial Statements

Note 1: Enabling Legislation and Basic Accounting Policies

A. Enabling Legislation and Statutory Limitations

The Export-Import Bank of the United States (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, the Government Corporation Control Act, and Title IV of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988.

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, 1988, the committed and uncommitted authority to lend, guarantee, and insure and the Bank's commitments and contingent liabilities were:

	Commitments and Contingent Liabilities	Statutory Authority Charges
	(Dollars in Millions)	
Outstanding Loans	$ 9,905.3	$ 9,905.3
Undisbursed Loans	1,944.9	1,944.9
Estimated Recoveries on Disbursed Claims (Note 4)	1,796.2	1,796.2
Guarantees	5,730.3	1,432.6
Insurance	8,533.0	2,133.2
Committed Balance		17,212.2
Uncommitted Balance		22,787.8
Total	$27,909.7	$40,000.0

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 1987, the limitations were $680.0 million for loans and $11,355.0 million for guarantees and insurance. In that year the Bank authorized $598.9 million in loans and received $78.1 million in appropriations for war chest authorizations, and authorized $7,949.5 million in guarantees and insurance. For FY 1988, the Bank was limited to $692.9 million of new loan and war chest authorizations, and $13,405.5 million of new guarantee and insurance commitments. FY 1988 authorization limitations included a carryover from FY 1987 of $2.9 million for loans and $3,405.5 million for guarantees and insurance. During the year, the Bank authorized $685.3 million of loans and received $7.6 million in appropriations for war chest authorizations, and authorized $5,734.6 million of guarantees and insurance (see Note 8). For FY 1989 the Bank's limitations are $695.0 million (plus any cancellations of FY 1988 authorizations that take place in FY 1989) for loans and $17,866.4 million for guarantees and insurance. FY 1989 authorization limitations include a carryover from FY 1988 of $7,666.4 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.

B. General

Eximbank's accounting records are maintained on an accrual basis except that no provision for loss on uncollectible loans receivable is made.

The Bank's statements reflect the results of significant contractual agreements with the Foreign Credit Insurance Association (FCIA), as well as with the Private Export Funding Corporation (PEFCO) (See Note 6).

C. Loan Losses

Loans are written off and charged to income when Eximbank determines that the outstanding principal balance is uncollectible.

D. Accrued Interest Receivable

Loans receivable delinquent 90 days or more are placed on a non-accrual status when the Bank determines that it is likely that significant time will elapse before the obligor is able to resume regular servicing of its debt. Any accrued but unpaid interest previously recorded on such loans is reversed against current period interest income.

E. Investments in U.S. Treasury Securities

Investments in U.S. Treasury securities represent short-term investments of 90 days or less with the Department of the Treasury and are carried at cost. These securities are redeemed as needed for daily operations with no penalty paid upon redemption.

F. Estimated Future Claim Payments and Recoveries

Liabilities for estimated losses and loss adjustment expenses, including claims Incurred But Not Reported (IBNR), are accrued based upon historical and anticipated loss experience. The excess of estimated claim recoveries over estimated future claim payments reflects Eximbank's estimate of the amount of recoveries from prior and future claim payments in excess of the amount of future payments to be made on these claims.

G. Loan Fees

Commitment fees on the Bank's direct loans are accrued monthly on the undisbursed loan balance outstanding during the month.

During FY 1987, the Bank charged an application fee of 2 percent on direct loan authorizations. The fee was recognized as income immediately.

Beginning on May 1, 1987, the Bank eliminated the application fee and replaced it with a risk related exposure fee. In accordance with Financial Accounting Standards Board (FASB) Statement No. 91, issued in December, 1986, beginning in fiscal year 1989 this fee will be recognized as an adjustment to the yield over the life of the loan. Prior to that time this fee was recognized as income when received.

H. Guarantee and Insurance Fees

Income is deferred when collected for front-end fees under guarantees and insurance policies, and carried in the liability account "Deferred Fee Income". Deferred fee income is amortized on a straight line basis over the life of the insurance policies or guarantees.

Note 2: Delinquent Loans

Loans with any installments of principal and 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 below. The delinquent interest figure shown on the table represents interest to the due date of the delinquent installments.

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Country	Total Outstanding Principal as of September 30, 1988	Delinquent Installments as of September 30, 1988			Delinquent Installments as of September 30, 1987		
		Principal	Interest	Total	Principal	Interest	Total
		(Dollars in Thousands)					
Algeria	$ 76,710.7	$ 440.8	$ 136.4	$ 577.2	-0-	-0-	-0-
Antigua	750.0	750.0	1,451.8	2,201.8	750.0	1,339.3	2,089.3
Argentina	246,719.2	81,054.3	37,928.9	118,983.2	56,773.3	26,280.7	83,054.0
Bolivia	26,003.6	5,003.4	3,733.9	8,737.3	-0-	-0-	-0-
Brazil	800,664.1	360,737.2	102,142.0	462,879.2	244,020.3	87,116.0	331,136.3
Cameroon	23,590.3	2,948.8	-0-	2,948.8	-0-	-0-	-0-
Cen. African. Rep.	3,071.7	544.1	272.9	817.0	-0-	-0-	-0-
China	26,386.0	26,386.0	31,345.9	57,731.9	26,386.0	30,550.7	56,936.7
Chile	-0-	-0-	-0-	-0-	1,674.4	-0-	1,674.4
Colombia	63,249.5	8,661.7	2,307.6	10,969.3	6,631.4	3,706.5	10,337.9
Costa Rica	18,756.7	6,166.8	5,486.0	11,652.8	3,599.0	3,522.7	7,121.7
Cote D'Ivoire	-0-	-0-	-0-	-0-	880.0	5,259.2	6,139.2
Cuba	36,266.6	36,266.6	56,853.2	93,119.8	36,266.6	54,860.0	91,126.6
Dominican Republic	59,847.1	14,288.4	7,103.3	21,391.7	5,588.6	3,045.9	8,634.5
Ecuador	-0-	-0-	-0-	-0-	906.9	2,278.8	3,185.7
Egypt	-0-	-0-	-0-	-0-	2,619.7	1,573.3	4,193.0
Gabon	15,770.8	1,238.5	571.7	1,810.2	1,851.3	1,292.2	3,143.5
Guinea	6,111.6	713.2	403.7	1,116.9	-0-	-0-	-0-
Guyana	2,500.0	2,500.0	1,212.6	3,712.6	2,500.0	1,212.6	3,712.6
Haiti	9,177.8	2,872.3	86.9	2,959.2	2,163.9	89.7	2,253.6
Honduras	3,016.7	1,635.6	491.1	2,126.7	714.8	269.2	984.0
Indonesia	25,403.6	1,518.5	-0-	1,518.5	-0-	-0-	-0-
Jamaica	20,392.0	338.8	744.1	1,082.9	8,228.7	1,917.5	10,146.2
Jordan	14,392.7	1,799.1	1,727.1	3,526.2	-0-	-0-	-0-
Liberia	2,394.7	1,091.8	786.1	1,877.9	692.6	603.7	1,296.3
Mexico	108,991.3	14,294.6	9,581.0	23,875.6	38,709.1	25,084.1	63,793.2
Morocco	32,799.5	-0-	1,513.2	1,513.2	4,168.0	3,204.5	7,372.5
Mozambique	18,772.7	8,386.2	6,666.2	15,052.4	5,913.8	7,704.0	13,617.8
Nicaragua	12,185.7	11,688.5	6,306.9	17,995.4	10,694.0	5,883.0	16,577.0
Niger	2,508.0	529.1	129.9	659.0	-0-	-0-	-0-
Nigeria	284,794.7	15,669.8	13,389.6	29,059.4	7,013.3	30,100.3	37,113.6

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Country	Total Outstanding Principal as of September 30, 1988	Delinquent Installments as of September 30, 1988 Principal	Interest	Total	Delinquent Installments as of September 30, 1987 Principal	Interest	Total
		(Dollars in Thousands)					
Panama	5,919.3	1,000.0	360.1	1,360.1	-0-	-0-	-0-
Peru	49,122.7	28,380.8	18,992.6	47,373.4	21,514.0	16,357.2	37,871.2
Philippines	-0-	-0-	-0-	-0-	5,782.6	9,438.4	15,221.0
Poland	322,026.7	90,422.3	78,863.8	169,286.1	78,514.3	57,680.6	136,194.9
Spain	-0-	-0-	-0-	-0-	3,037.5	254.3	3,291.8
Sudan	21,516.7	3,959.5	7,576.6	11,536.1	3,182.3	6,460.8	9,643.1
Tanzania	17,415.5	1,589.5	1,558.2	3,147.7	-0-	-0-	-0-
Venezuela	1,219.4	573.5	360.9	934.4	3,019.0	3,576.2	6,595.2
Yugoslavia	260,836.1	29,234.4	10,368.4	39,602.8	1,146.1	1,824.8	2,970.9
Zaire	51,315.9	-0-	852.9	852.9	2,600.7	12,169.3	14,770.0
Zambia	49,502.1	2,515.7	8,051.1	10,566.8	1,111.4	2,806.7	3,918.1
Other	10,105.2	854.0	405.9	1,259.9	1,344.3	57.4	1,401.7
Total	$ 2,730,206.9	$766,053.8	$419,762.5	$1,185,816.3	$589,997.9	$407,519.6	$997,517.5
Less: Interest due on Loans Non-Accruing for Financial Reporting Purposes			(286,768.2)	(286,768.2)		(100,144.4)	(100,144.4)
Add: Interest From Due Date to End of Fiscal Year on Delinquent Installments			46,418.6	46,418.6		39,789.8	39,789.8
Total Delinquent Loans		$766,053.8	$179,412.9	$945,466.7	$589,997.9	$347,165.0	$937,162.9

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 $2,183.4 million and $708.9 million at September 30, 1988 and 1987, respectively.

Note 3: Rescheduled Loans

From time to time Eximbank extends 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 to ultimately service the debt.

The rescheduled loan installments of principal and interest by country during FY 1988 and FY 1987 were:

	FY 1988			FY 1987		
Country	Principal	Interest	Total	Principal	Interest	Total
			(Dollars in Millions)			
Argentina	$ 1.9	$ 2.4	$ 4.3	$ -0-	$ (.2)	$ (.2)
Bolivia	.1	(.4)	(.3)	16.9	3.3	20.2
Central African Republic	-0-	-0-	-0-	.3	-0-	.3
Chile	3.3	-0-	3.3	2.8	-0-	2.8
Congo	-0-	-0-	-0-	2.6	1.1	3.7
Cote D'Ivoire	10.3	11.4	21.7	13.8	-0-	13.8
Ecuador	1.3	-0-	1.3	-0-	-0-	-0-
Egypt	5.7	2.8	8.5	-0-	-0-	-0-
Gabon	3.1	1.9	5.0	-0-	-0-	-0-
Jamaica	11.4	2.1	13.5	-0-	-0-	-0-
Mexico	63.5	12.5	76.0	194.9	49.0	243.9
Morocco	8.9	6.4	15.3	2.7	1.0	3.7
Mozambique	-0-	-0-	-0-	6.2	2.5	8.7
Niger	1.0	-0-	1.0	.5	.1	.6
Nigeria	10.4	43.9	54.3	-0-	-0-	-0-
Philippines	13.9	28.3	42.2	-0-	-0-	-0-
Tanzania	1.3	.2	1.5	8.2	4.1	12.3
Uganda	1.1	.1	1.2	-0-	-0-	-0-
Yugoslavia	40.7	-0-	40.7	68.0	-0-	68.0
Zaire	25.0	26.4	51.4	23.5	18.9	42.4
Zambia	-0-	-0-	-0-	-0-	(.2)	(.2)
	$202.9	$138.0	$340.9	$340.4	$ 79.6	$420.0

The outstanding balances related to rescheduled installments included in loans receivable as of September 30, 1988 and 1987 were $3,893.6 million and $3,720.4 million, respectively.

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The total amount of rescheduled loans outstanding as of September 30, 1988 includes principal of $1,829.2 million and interest of $136.0 million which have one or more installments past due 90 days or more. As of September 30, 1987 delinquent rescheduled principal and interest on rescheduled loans was $1,819.7 million and $134.3 million, respectively. These loans are included in the delinquent classification of the Statement of Financial Condition.

Rescheduled loans are generally made at a floating rate of interest which is 50 basis points over the cost of funds to the Bank. Interest income included in net income for FY 1988 and FY 1987 on the total rescheduled debt is $(4.4) million and $183.3 million, respectively.

The amount of undisbursed commitments to debtors having previously rescheduled debt outstanding is $138.7 million and $107.7 million as of September 30, 1988 and 1987, respectively.

Note 4: Excess of Estimated Claim Recoveries over Estimated Future Claim Payments

As of September 30, 1988 and 1987, estimates were made for claim payments and associated recoveries related to claims not yet filed with Eximbank but which were anticipated to be filed (IBNR). In addition, estimates were made of recoveries to be collected on claims which had been paid as of September 30, 1988 and 1987, but which were partially or fully unrecovered as of those dates. The following is a summary of the computations for the excess of estimated claim recoveries over estimated future claim payments:

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	September 30, 1988		September 30, 1987	
	(Dollars in Millions)			
Estimated recovery of rescheduled claims		$1,295.2		$1,004.0
Estimated recovery of claims not rescheduled:				
Claims previously paid and unrecovered	$501.0		$ 587.0	
Claims filed pending payment	73.9		170.1	
IBNR recoveries net of related expenses	213.9		129.5	
Total estimated recovery of unrescheduled claims		788.8		886.6
Total estimated recoveries		$2,084.0		$1,890.6
LESS:				
IBNR claims payable (a)		(270.1)		(159.9)
Estimated future payments for claims filed but unpaid		(158.0)		(295.0)
Excess of estimated total claim recoveries over estimated future claim payments.		$1,655.9		$1,435.7

(a) IBNR is the estimated liability for claims incurred but not yet reported to Eximbank.

The excess of estimated claim recoveries over estimated future claim payments of $1,655.9 million and $1,435.7 million is shown as a net asset on the Statement of Financial Condition. The amount of anticipated recoveries from claims paid in the past exceeded new claims to be paid as of September 30, 1988 and 1987. Consequently, there was a balance of estimated claim recoveries of $1,655.9 million and $1,435.7 million over estimated future claim payments at those dates.

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Guarantee and insurance claim losses are as follows:

	FY 1988	FY 1987
	(Dollars in Millions)	
Excess of estimated total claim recoveries over estimated future claim payments at fiscal year end	$ (1,655.9)	$ (1,435.7)
Less: Excess of estimated total claim recoveries over estimated future claims at fiscal year beginning	(1,435.7)	(1,155.4)
Change	(220.2)	(280.3)
Fiscal Year Activity:		
Claims Paid	252.4	429.3
Claim Recoveries	(106.6)	(172.8)
Legal Expenses Paid	3.9	3.1
Claim Loss Expenses (Recoveries), Net of FCIA Operating Expenses	$ (70.5)	$ (20.7)

The total value of repossessed assets as of the end of FY 1988 was $2.0 milllion. This is just over .1 of one percent of the estimated claim recovery value. This comparies to a figure of $3.5 million as of the end of FY 1987.

Note 5: Rescheduled Claims

The estimated recovery of rescheduled claims is included in the "Excess of Estimated Claim Recoveries over Estimated Future Claim Payments" on the Statement of Financial Condition. The rescheduled claims outstanding at FY 1988 and FY 1987 were $1,317.9 million and $1,027.6 million, respectively. The difference between the $1,317.9 million and $1,027.6 million rescheduled claims outstanding at September 30, 1988 and 1987, respectively, and the estimated recovery of rescheduled claims of $1,295.2 million and $1,004.0 million at those dates represents the estimated unrecoverable balance.

Guarantee and insurance claims paid by Eximbank which were rescheduled during FY 1988 and FY 1987 under country-wide debt consolidation agreements are summarized in the following table.

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Country	FY 1988 Rescheduled Claims	FY 1987 Rescheduled Claims
	(Dollars in Millions)	
Argentina	$ 1.1	$ (3.4)
Bolivia	-0-	.5
Brazil	.7	-0-
Chile	2.1	.7
Congo	.7	5.3
Costa Rica	(.7)	-0-
Cote D'Ivoire	1.2	.3
Dominican Republic	-0-	(2.9)
Ecuador	3.5	6.6
Egypt	6.7	-0-
Gabon	6.7	-0-
Guinea	-0-	1.8
Jamaica	.6	-0-
Mexico	68.2	63.5
Morocco	13.8	(.2)
Mozambique	-0-	3.8
Nigeria	90.6	-0-
Philippines	97.6	-0-
Tanzania	-0-	.5
Yugoslavia	2.3	2.3
Zaire	40.5	32.1
Zambia	-0-	(.1)
Total	$335.6	$110.8

	FY 1988	FY 1987
	(Dollars in Millions)	
Rescheduled claims outstanding beginning of period	$1,027.6	$ 971.7
Plus: Claims rescheduled (see above table)	335.6	110.8
Less: Repayments	(45.3)	(54.9)
Rescheduled claims outstanding at end of period	$1,317.9	$1,027.6

Installments of rescheduled claims delinquent 90 days or more totalled $23.8 million ($10.9 principal and $12.9 interest) at September 30, 1988 and $51.1 million ($22.9 principal and $28.2 interest) at September 30, 1987. The outstanding principal balance of these rescheduled claims totalled $162.6 million and $591.9 million at September 30, 1988 and 1987, respectively.

Note 6: Significant Contractual Relationships

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.

Premiums written and earned by FCIA for FY 1988 and FY 1987 were $13.3 million and $11.4 million, respectively for commercial, and $15.2 million and $8.9 million, respectively, for political for a total of $28.5 million and $20.3 million. FCIA's general and administrative expenses were $12.4 million and $10.6 million for those years. Premium revenues are ceded to Eximbank. Eximbank recognizes the premium revenues generated by the insurance program over the life of the insurance policies. The net amount of these activities due from FICA to Eximbank as of September 30, 1988 and 1987 was $3.3 million and $5.3 million, respectively.

Private Export Funding Corporation

The Private Export Funding Corporation (PEFCO) is an organization owned by private sector banks and industrial companies which makes fixed interest rate loans to foreign borrowers when such loans are not available from traditional private sector lenders on competitive terms. 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 million short-term revolving credit line at the disposal of PEFCO;

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 that regard, PEFCO has waived such protection with respect to all fixed rate loan commitments heretofore made and which may be made through September 30, 1989; and

5. Retain a broad measure of supervision over PEFCO's major financial management decisions.

PEFCO's export loans outstanding which were guaranteed by Eximbank on September 30, 1988 and September 30, 1987 were $1,041 million and $1,299 million, respectively. PEFCO had undisbursed commitments at the end of FY 1988 of $681 million, and had $402 million of such undisbursed commitments at the end of FY 1987. These commitments are included in Eximbank's contingent liability for guarantees shown in Note 1. Cumulative claim payments made to PEFCO since inception of the agreements total $407.5 million.

In FY 1980, Eximbank and PEFCO agreed to share in providing a total of $1,350 million of U.S. export financing at fixed rates of interest. Eximbank's share of the total was $251 million and PEFCO's share was $1,099 million.

Eximbank services these loans for PEFCO and has guaranteed PEFCO's interest charges. This guarantee includes a return to PEFCO of .35 percent of the outstanding loan balance in addition to the interest charges, but does not guarantee that PEFCO will earn a profit. Eximbank disburses funds under the total loan commitment to the borrowers, including PEFCO's portion, and is subsequently reimbursed by PEFCO. When Eximbank receives a payment related to these loans, it transfers PEFCO's portion on the date paid. Should interest received on the loan be less than interest due PEFCO under the terms of the guarantee, Eximbank charges its interest expense for the difference. During fiscal year 1988, Eximbank's interest expense related to these loans was $6.2 million. The following table shows the transactions between Eximbank and PEFCO:

	FY 1988	FY 1987
	(Dollars in Millions)	
Total Disbursements on PEFCO and Related Loans	$ 33.9	$ 34.7
Disbursements Attributable to PEFCO's Portion	$ 26.3	$ 27.2
Amount Due From PEFCO	$ .8	$ 66.9

During FY 1988, PEFCO reimbursed Eximbank for $97.0 million in August, 1988, for disbursements on their behalf. There were no reimbursements during FY 1987.

The Bank does not distribute PEFCO's share of the interest until PEFCO pays its share of loan principal distribution. Subsequent interest earnings are paid to PEFCO upon collection by the Bank based on the earnings rate the Bank has guaranteed to PEFCO under this agreement.

Note 7: Loan Asset Sales

Eximbank was required, under Public Law 99-509, to sell sufficient loans in FY 1987 to provide a net reduction in outlays of not less than $1,500 million for FY 1987. Eximbank's actual net loan asset sales of $1,901 million were accomplished primarily by obligors repurchasing their loans from Eximbank at par.

Although not required, Eximbank's net loan asset sales were $640 million in FY 1988.

Note 8: Appropriations from the U.S. Treasury

Eximbank was authorized, under Public Law 99-591, to receive appropriations of up to $100 million for tied aid credits in accordance with the provisions of the Export-Import Bank Act Amendments of 1986. On September 30, 1987, Eximbank received $78.1 million in appropriations from the U.S. Treasury consisting of a reimbursement of $36.0 million representing the concessionary interest rate element of certain mixed credits made in FY 1986, and $42.1 million for the grant portion of certain mixed credits authorized in FY 1987. The $36.0 million will be amortized as a yield adjustment over the remaining life of the applicable mixed credit loans. The remaining $42.1 million of the $78.1 million appropriation is being expended as the grants are disbursed.

For FY 1988, Eximbank was authorized to receive appropriations of up to $110 million. Of this amount, only $7.6 million was received. This amount represented the grant portion of certain mixed credits authorized in FY 1988.

Note 9: Maturity Schedule of Outstanding Loans Receivable

As of September 30, 1988 about 68.8 percent of the $9,905.3 million outstanding loans receivable balance is projected to be due over the next five years and the remaining 31.2 percent is estimated to be due thereafter, as indicated below:

Fiscal Years of Maturities	Maturities	Outstanding Loan Balance	Weighted Average Rate
	(Dollars in Millions)		
1988	$ -	$ 9,905.3	7.22%
1989	1,545.0	8,360.3	7.24
1990	1,591.5	6,768.8	7.26
1991	1,388.7	5,380.1	7.27
1992	1,220.1	4,160.0	7.26
1993	1,069.0	3,091.0	7.23
	6,814.3		
1994 - 2018	3,091.0		
	$ 9,905.3		

In addition to the $9,905.3 million of outstanding loans, there are undisbursed loans totaling $1,944.9 million, most of which are expected to be disbursed over the next 2 to 5 years.

Note 10: 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. Until FY 1988, Eximbank's Reserve was available to cover such losses and contingencies, however, because of operating losses the reserve was depleted by the end of FY 1988. Even though the Bank is now operating with negative reserves, its activities will not be affected as the full faith and credit of the United States Government stands behind Eximbank.

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

	FY 1988			FY 1987		
	Principal	Interest	Total	Principal	Interest	Total
	(Dollars in Millions)					
Loans written off	$ 5.2	$ -0-	$ 5.2	$ .3	$-0-	$ .3
Less recoveries	3.3	.1	3.4	6.3	-0-	6.3
Net Loans Written off	$ 1.9	$ (.1)	$ 1.8	$(6.0)	$-0-	$(6.0)

Note 11: Borrowings from the U.S. Treasury and the Federal Financing Bank (FFB)

Eximbank has authority, under its Act, to borrow directly from the U.S. Treasury and to have up to $6 billion of such borrowings outstanding. 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 also used to reduce these borrowings on a daily basis.

The Bank borrows from the FFB to support its operational objectives. During the period ending September 30, 1988, Eximbank borrowed the following from the FFB:

Date	Amount	Rate	Final Maturity
	(Dollars in Millions)		
06/01/88	$ 164.0	9.219%	06/01/98
09/01/88	19.0	9.077	09/01/98
	$ 183.0		

On September 1, 1987, as a result of Congressionally mandated loan asset sales, Eximbank had excess liquidity which it used to prepay $670 million of borrowings owed to the FFB. A prepayment penalty of $121 million was paid and is shown as an extraordinary item on the financial statements.

As of September 30, 1988, about 62.7 percent of the Bank's $10,957.6 million long-term debt is due over the next five years as indicated below:

Fiscal Years of Maturities	Amount	Outstanding FFB Balance	Weighted Average Rate
	(Dollars in Millions)		
1988	$ -	$10,957.6	11.62%
1989	1,073.7	9,883.9	11.58
1990	1,393.8	8,490.1	11.53
1991	1,274.9	7,215.2	11.30
1992	1,426.5	5,788.7	10.92
1993	1,706.9	4,081.8	10.89
	6,875.8		
1994 - 1998	4,081.8		
	$10,957.6		

FFB borrowings subsequent to December 1, 1982, with an outstanding balance of $6,708.3 million as of September 30, 1988, include a provision for prepayment penalties. Borrowings prior to December 1, 1982, totalling $4,249.3 million as of September 30, 1988, indicate the notes may be prepaid without penalty based upon consent of FFB and Treasury. However, while no specific penalty is required, Treasury has not consented to prepayments without penalty. The penalty is equivalent to the present value of the difference in the future cash payments discounted at the current FFB interest rate.

Note 12: Pensions and Accrued Annual Leave

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

Total Eximbank (employer) matching contributions to the Civil Service Retirement System and Federal Employees Retirement System for all employees were approximately $938 thousand and $875 thousand for the fiscal years ended September 30, 1988 and 1987, respectively.

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Although Eximbank funds a portion of pension benefits under the Civil Service and Federal Employees Retirement Systems relating to its employees and makes the necessary payroll withholdings from them, Eximbank does not account for the assets of the Civil Service and Federal Employees Retirement Systems 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 for the Retirement Systems 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 $950 thousand at September 30, 1988 and $861 thousand at September 30, 1987.

Note 13: Lease Commitments

The Bank has no capital leases. Operating lease arrangements are renewable annually. These leases consist primarily of rental of the office space and EDP equipment. Office space is leased from General Services Administration through the Public Building Funds. The lease expenses were $2.5 million and $2.3 million for FY 1988 and FY 1987, respectively.

Note 14: Litigation

As of the end of FY 1988, 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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