Office of Inspector General
Export-Import Bank
of the United States

Audit of the Export-Import Bank of the United States Fiscal Year 2017 Financial Statements

December 14, 2017
OIG AR 18 02

Office of Inspector General

To: Scott P. Schloegel, First Vice President and
Vice Chairman of the Board (Acting)

Inci Tonguch-Murray, Acting Senior Vice President and
Chief Financial Officer and Deputy CFO

David Sena, Senior Vice President of Board Authorized Finance

From: Terry L. Settle, Assistant Inspector General for Audits Terry L. Settle

Subject: Audit of the Export-Import Bank of the United States FY 2017 Financial Statements (Report No. OIG-AR-18-02)

Date: December 14, 2017

This memorandum transmits KPMG LLP's audit reports of the Export-Import Bank of the United States' (EXIM Bank) financial statements for fiscal year 2017. Under a contract monitored by this office, we engaged the independent public accounting firm of KPMG LLP to perform the audit. The contract required the audit to be performed in accordance with United States generally accepted government auditing standards and Office of Management, Budget Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements* and the Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) *Financial Audit Manual*.

In its audit of EXIM Bank, KPMG LLP found:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- there were no material weaknesses in internal control; however, a deficiency was identified that was considered to be a significant deficiency, and
- there were no instances of reportable noncompliance with laws and regulations or other matters it tested.

KPMG LLP is responsible for the attached auditor's reports dated December 14, 2017, and the conclusions expressed in the reports. We do not express opinions on EXIM Bank's financial statements, internal control or conclusions on compliance with laws and regulations.

We appreciate the cooperation and courtesies provided to KPMG LLP and this office during the audit. If you have questions, please contact me at (202) 565-3498 or terry.settle@exim.gov. You can obtain additional information about the Export-Import Bank Office of Inspector General and the Inspector General Act of 1978 at www.exim.gov/about/oig.

cc: Troy Fuhriman, Acting Senior Vice President and General Counsel
Jeffrey Goettman, Executive Vice President and Chief Operating Officer
Kenneth Tinsley, Senior Vice President and Chief Risk Officer
Howard Spira, Senior Vice President and Chief Information Officer
Nicole Valtos, Vice President and Deputy Chief Operating Officer
Maria Fleetwood, Vice President, Acquisition and Business Services Division
Patricia Wolf, Controller, Office of the Chief Financial Officer
Nathalie Herman, Vice President, Treasurer
Cristopolis Dieguez, Director, Internal Controls and Compliance
Armando Mieles, Partner, KPMG LLP

Export-Import Bank of the United States

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SECTION 1

INDEPENDENT AUDITORS' REPORT

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Board of Directors and Inspector General
Export-Import Bank of the United States:

Report on the Financial Statements

We have audited the accompanying financial statements of the Export-Import Bank of the United States (EXIM Bank), which comprise the balance sheet as of September 30, 2017, and the related statements of net cost, changes in net position, and combined statements of budgetary resources for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Export-Import Bank of the United States as of September 30, 2017, and its net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Accompanying Prior Period Financial Statements

The accompanying financial statements of the Export-Import Bank of the United States as of September 30, 2016 and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated November 10, 2016.

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis of Results of Operations and Financial Condition and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Other Information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of EXIM Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EXIM Bank's internal control over financial reporting and compliance.

KPMG LLP

Washington, D.C.
December 13, 2017

Export-Import Bank of the United States

SECTION 2

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors and Inspector General
Export-Import Bank of the United States:

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, the financial statements of Export-Import Bank of the United States (EXIM Bank), which comprise the balance sheet as of September 30, 2017, and the related statements of net cost, changes in net position, and combined statements of budgetary resources for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2017, we considered EXIM Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EXIM Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of EXIM Bank's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified one deficiency in internal control, described in Exhibit I, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EXIM Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

KPMG

EXIM Bank’s Response to our Finding

EXIM Bank’s response to the significant deficiency identified in our audit is included in Exhibit I. EXIM Bank’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of EXIM Bank’s internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EXIM Bank’s internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
December 13, 2017

Cash Flow Model Documentation

Background

The Export-Import Bank (EXIM Bank) is the official export credit agency of the United States. EXIM Bank is an independent, self-sustaining Executive Branch agency with a mission of supporting American jobs by facilitating the export of U.S. goods and services. When private sector lenders are unable or unwilling to provide financing, EXIM Bank fills in the gap for American businesses by equipping them with the financing tools necessary to compete for global sales. Because it is backed by the full faith and credit of the United States, EXIM assumes credit and country risks that the private sector is unable or unwilling to accept. Presently EXIM Bank has the following broad types of programs aligned with its mission: Long Term Loans and Guarantees; Medium Term Loans, Guarantees, and Insurance; and Short Term Insurance. Under the *Federal Credit Reform Act of 1990* (FCRA), EXIM Bank is required to perform periodic interest rate and technical re-estimates of the subsidy cost of its loan, guarantee, and insurance programs. These reestimates are calculated using internally developed cash flow models. Specifically, in carrying out re-estimate calculations for financial statements, EXIM Bank uses a Loss Rate Factor (LRF) Model; German-Kolhagen (GK) Model; and Cash Flow (CF) Model.

Condition

During our audit, we reviewed EXIM Bank's models, management processes, documentation, and controls related to the financial statement re-estimates, which affect the allowance for losses and liability for loan guarantees reported in the financial statements.

The CF model combines historical data, with the probability of default (PD), recovery rate assumptions, the output from the GK and LRF models, as well as data from the Economist Intelligence Unit (EIU) country ranking data, to calculate future cash flows for each deal. These future cash flows, are then input into the format required by the Office Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs, to generate subsidy re-estimates in accordance with the FCRA. We noted the following relating to the CF model that collectively, we consider to be a significant deficiency:

- The model documentation should be enhanced to complement Standard Operating Procedures and other existing documents to describe, conceptually, how the CF model should work, and to provide sufficient details for an independent party to evaluate whether the actual model implementation is consistent with the conceptual model design. Additionally, management should provide more details on the qualitative considerations (i.e., these are in addition to the qualitative factors applied in the model) reflected in the model, supporting estimates above the model performance.

- The LRF model calculates lifetime PDs, i.e., the estimated PDs over the entire term of each deal. As deals age and show performance, industry practice would suggest that the total PD over the remaining life of a deal should be different from the lifetime PD. In other words, a deal with a lifetime PD of 10 percent in year 1, should have a remaining PD smaller than 10 percent in year 10, because it has performed as scheduled for 9 years. However, the current version of the CF model does not adjust the lifetime PDs to account for the age and performance of each deal. Instead, it spreads out the entire lifetime PD from the LRF over the remaining term, regardless of whether the deal is 1 year old, 5 years old, or 10 years old.

- The estimated defaults are heavily concentrated during the next 2 to 3 years, even if deals have 5, 10, 15, or more years remaining. As a result, the Net Present Value (NPV) of these defaults is likely higher than if the same amount of defaults were spread out throughout the remaining life of each deal, because defaults further out into the future are more heavily discounted. Further, we found no detailed documentation justifying the application of the defaults as represented in the CF model.

Criteria

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* states:

- Principle 10.03, *Appropriate Documentation of Transactions and Internal Control,* "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act,* states the following:

- Paragraph 17, Agencies must accumulate sufficient relevant and reliable data on which to base cash flow projections. It is important to note that agencies should prepare all estimates and re-estimates based upon the best available data at the time the estimates are made. Agencies should prepare and report re-estimates of the credit subsidies, in accordance with SFFAS No. 2, 18, and 19, to reflect the most recent data available as discussed in the re-estimate section of this technical release. The OMB Circular A-11 also provides guidance on re-estimating credit subsidies. Guidance on the types of supporting documentation that is acceptable is found in paragraphs 20-22 of this technical release."

- Paragraph 20, "Documentation must be provided to support the assumptions used by the agency in the subsidy calculations. This documentation will not only facilitate the agency's review of the assumptions, a key internal control, it will also facilitate the auditor's review. Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results with little or no outside explanation or assistance. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purposes of reconstructing the estimate."

- Paragraph 24, "Document the agency's cash flow model(s) used, the rationale for selecting the specific methodologies, and the degree of calibration within the model(s). Also, document the sources of information, the logic flow, and the mechanics of the model(s) including the formulas and other mathematical functions. In addition, document the controls over the model(s) used by the agency in preparing cash flow worksheets. Further, document that the cash flow model(s) reflect the terms of the loan contracts and, in a loan guarantee program, the loan guarantee contracts. Additional details regarding internal control are discussed in the specific fund/program procedures and controls section of the technical release."

- Paragraph 40, "The cash flow estimation process, including all underlying assumptions, should be reviewed and approved at the appropriate level including revisions and updates to the original model."

Cause

The existing CF model and credit reform re-estimate process was not documented at a sufficient level of detail to enable an independent reviewer to assess the reasonableness of the cash flow model, its assumptions, and relevant qualitative considerations.

Effect

The CF is an integral part of the financial reporting process because it used for re-estimate calculations in the most significant balances and estimates at EXIM Bank. Management re-estimates calcualtion using the aforementioned model relies on complex computations and qualitative conisderations. As a result, if the CF model is not suficiently documented, it could inhibit proper review, transparency, and governance of the FCRA re-estimate process, which could lead to a misstatement of the financial statements.

Recommendations

With respect to the cash flow model, we recommend that EXIM Bank management:

1. Consider enhancing the model documentation to articulate how the cash flow model works and the rationale used in the models. The documentation should be at a sufficient level of detail to enable a reviewer to independently analyze the model.
2. Assess periodically the need to modify the cash flow model to adjust the lifetime PD assumption to account for the age and performance of each deal.
3. Document, in sufficient detail, additional qualitative considerations used by management to calculate re-estimates for financial statement reporting, that clearly bridges the gap between model historical performance and the resulting calculations. The documentation should include a quantification of the impact of these qualitative considerations on the outputs of the cash flow model.

Management's Response

EXIM Bank concurs with the recommendations. EXIM Bank, with the respect to the cash flow model, will enhance the model documentation clearly articulating how the model works and the rationale used in the model. Additionally, EXIM Bank will document the rationale associated with the qualitative considerations. These considerations reflect EXIM Bank's reasonable reserve levels that are higher than current default experience. Finally, EXIM Bank will review the lifetime PD assumptions to account of the age and performance of each deal.

Export-Import Bank of the United States

SECTION 3

FINANCIAL STATEMENTS

Balance Sheets

(in millions)	As of September 30, 2017	As of September 30, 2016
ASSETS		
Intragovernmental		
Fund Balance with the U.S. Treasury (Note 2)	$6,578.5	$4,513.4
Total Assets - Intragovernmental	**6,578.5**	**4,513.4**
Public		
Loans Receivable, Net		
Direct Loans Receivable, Net (Note 3A)	20,064.3	23,581.1
Receivables from Subrogated Claims, Net (Note 3E)	202.2	146.0
Total Loans Receivable, Net	**20,266.5**	**23,727.1**
Accounts Receivable (Note 6)	10.9	12.0
Total Assets - Public	**20,277.4**	**23,739.1**
Total Assets	**$26,855.9**	**$28,252.5**
LIABILITIES		
Intragovernmental		
Borrowings from the U.S. Treasury (Note 9)	$24,645.3	$25,021.6
Accounts Payable to the U.S. Treasury (Note 8)	1,243.8	1,277.5
Total Liabilities - Intragovernmental	**25,889.1**	**26,299.1**
Public		
Payment Certificates (Note 9)	25.1	41.5
Accounts Payable	7.6	7.1
Guaranteed Loan Liability (Note 3G)	984.0	1,359.2
Other Liabilities (Note 7, 10)	157.0	191.3
Total Liabilities - Public	**1,173.7**	**1,599.1**
Total Liabilities	**$27,062.8**	**$27,898.2**
NET POSITION		
Capital Stock	$1,000.0	$1,000.0
Unexpended Appropriations	215.9	216.5
Cumulative Results of Operations	(1,422.8)	(862.2)
Total Net Position	**(206.9)**	**354.3**
Total Liabilities and Net Postion	**$26,855.9**	**$28,252.5**

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

Statements of Net Costs

(in millions)	For the Year Ended September 30, 2017	For the Year Ended September 30, 2016
Loans		
Program Costs	$1,152.0	$39.9
Less: Earned Revenue	(936.0)	(839.7)
Net Cost of Loans	**$216.0**	**($799.8)**
Gurantees		
Program Costs	($129.4)	$416.0
Less: Earned Revenue	(413.9)	(522.0)
Net Cost of Guarantees	**($543.3)**	**($106.0)**
Insurance		
Program Costs	$19.2	($44.6)
Less: Earned Revenue	(14.6)	(13.3)
Net Cost of Insurance	**$4.6**	**($57.9)**
Net Excess Program (Revenue) over Cost	**($322.7)**	**($963.7)**
Administrative Costs (Note 3K)		
Administrative Costs	$135.1	$114.7
Less: Administrative Expenses Reimbursed	(0.4)	(0.4)
Net Administrative Costs	**$134.7**	**$114.3**
Net Costs of Operations (Note 13)	**($188.0)**	**($849.4)**

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

Statements of Changes in Net Position

	For the Year Ended September 30, 2017			
(in millions)	Capital Stock	Unexpended Appropriations	Cumulative Results of Operations	Total
Beginning Balance	$1,000.0	$216.5	($862.2)	**$354.3**
Budgetary Financing Sources				
Appropriations Received - IG	-	5.7	-	**5.7**
Appropriations Received - Reestimate	-	87.2	-	**87.2**
Appropriations Used	-	(93.3)	93.3	**-**
Offsetting Collections	-	-	125.4	**125.4**
Transfer Without Reimbursement	-	-	(11.1)	**(11.1)**
Other Adjustments	-	(0.2)	0.2	**-**
Other Financing Sources				
Imputed Financing	-	-	3.2	**3.2**
Other Non-Entity Activity (Note 8)	-	-	(959.6)	**(959.6)**
Total Financing Sources	**-**	**(0.6)**	**(748.6)**	**(749.2)**
Net Cost of Operations	-	-	**(188.0)**	**(188.0)**
Net Change	-	**(0.6)**	**(560.6)**	**(561.2)**
Ending Balance	**$1,000.0**	**$215.9**	**($1,422.8)**	**($206.9)**

	For the Year Ended September 30, 2016			
(in millions)	Capital Stock	Unexpended Appropriations	Cumulative Results of Operations	Total
Beginning Balance	$1,000.0	$216.2	($994.5)	**$221.7**
Budgetary Financing Sources				
Appropriations Received - IG	-	6.0	-	**6.0**
Appropriations Received - Reestimate	-	239.9	-	**239.9**
Appropriations Used	-	(245.6)	245.6	**-**
Offsetting Collections	-	-	105.1	**105.1**
Transfer Without Reimbursement	-	-	(1,071.3)	**(1,071.3)**
Other Adjustments	-	-	(0.2)	**(0.2)**
Other Financing Sources				
Imputed Financing	-	-	3.7	**3.7**
Total Financing Sources	**-**	**0.3**	**(717.1)**	**(716.8)**
Net Cost of Operations	-	-	**(849.4)**	**(849.4)**
Net Change	-	**0.3**	**132.3**	**132.6**
Ending Balance	**$1,000.0**	**$216.5**	**($862.2)**	**$354.3**

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

Combined Statements of Budgetary Resources

(in millions)	For the Year Ended September 30, 2017 Budgetary	Non-Budgetary Credit Reform Financing Account	Total
Budgetary Resources:			
Unobligated Balance Brought Forward, October 1	$519.5	$2,151.3	$2,670.8
Adjustment to Unobligated Balance Brought Forward (Note 14)	-	-	-
Unobligated Balance Brought Forward, October 1 as Adjusted	519.5	2,151.3	2,670.8
Recoveries of Prior-Year Unpaid Obligations	3.0	155.9	158.9
Unobligated Balance of Borrowing Authority Withdrawn (-)(Note 14)	-	(135.0)	(135.0)
Other Changes in Unobligated Balance	(2.2)	-	(2.2)
Unobligated Balance From Prior Year Budget Authority, Net	520.3	2,172.2	2,692.5
Appropriations (Discretionary and Mandatory)	92.9	-	92.9
Borrowing Authority (Discretionary and Mandatory) (Note 14)	-	1,100.0	1,100.0
Spending Authority From Offsetting Collections (Discretionary and Mandatory)	121.5	2,789.3	2,910.8
Total Budgetary Resources (Note 14)	$734.7	$6,061.5	$6,796.2
Status of Budgetary Resources:			
Obligations Incurred (Note 14)	$217.9	$1,607.7	$1,825.6
Unobligated Balance, End of Year:			
Apportioned	232.0	4,453.8	4,685.8
Unapportioned	284.8	-	284.8
Total Unobligated Balance, End of Year (Note 14)	516.8	4,453.8	4,970.6
Total Status of Budgetary Resources	$734.7	$6,061.5	$6,796.2
Change in Obligated Balance:			
Unpaid Obligations, Brought Forward, October 1	$146.4	$3,088.5	$3,234.9
Adjustment to Unpaid Obligations Start of Year (Note 14)	-	-	-
Obligations Incurred	217.9	1,607.7	1,825.6
Outlays (Gross)	(217.2)	(2,570.2)	(2,787.4)
Recoveries of Prior-Year Unpaid Obligations	(3.0)	(155.9)	(158.9)
Unpaid Obligations, End of Year	144.1	1,970.1	2,114.2
Uncollected Payments:			
Uncollected Payments, Federal Sources Brought Forward, Oct 1	-	(104.0)	(104.0)
Change in Uncollected Payments, Federal Sources	-	-	-
Uncollected Customer Payments From Federal Sources, End of Year	-	(104.0)	(104.0)
Memorandum (Non-Add) Entries:			
Obligated Balance, Start of Year	146.4	2,984.5	3,130.9
Obligated Balance, End of Year, Net	$144.1	$1,866.1	$2,010.2
Budget Authority and Outlays, Net:			
Budget Authority, Gross (Discretionary and Mandatory)	$214.4	$3,889.3	$4,103.7
Actual Offsetting Collections (Discretionary and Mandatory)	(132.6)	(5,021.3)	(5,153.9)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	$81.8	($1,132.0)	($1,050.2)
Outlays, Gross (Discretionary and Mandatory)	217.2	2,570.2	2,787.4
Actual Offsetting Collections (Discretionary and Mandatory)	(132.6)	(5,021.3)	(5,153.9)
Outlays, Net (Discretionary and Mandatory)	$84.6	($2,451.1)	($2,366.5)
Distributed Offsetting Receipts (-)	-	(1,019.7)	(1,019.7)
Agency Outlays, Net (Discretionary and Mandatory)	$84.6	($3,470.8)	($3,386.2)

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

Combined Statements of Budgetary Resources

(in millions)	Budgetary	Non-Budgetary Credit Reform Financing Account	Total
	For the Year Ended September 30, 2016		
Budgetary Resources:			
Unobligated Balance Brought Forward, October 1	$556.9	$2,780.9	$3,337.8
Adjustment to Unobligated Balance Brought Forward (Note 14)	-	(62.7)	(62.7)
Unobligated Balance Brought Forward, October 1 as Adjusted	556.9	2,718.2	3,275.1
Recoveries of Prior-Year Unpaid Obligations	2.3	1,043.0	1,045.3
Other Changes in Unobligated Balance	(0.4)	(1.9)	(2.3)
Unobligated Balance From Prior Year Budget Authority, Net	558.8	3,759.3	4,318.1
Appropriations (Discretionary and Mandatory)	245.9	-	245.9
Borrowing Authority (Discretionary and Mandatory) (Note 14)	-	(1,022.9)	(1,022.9)
Spending Authority From Offsetting Collections (Discretionary and Mandatory)	126.8	2,037.7	2,164.5
Total Budgetary Resources (Note 14)	$931.5	$4,774.1	$5,705.6
Status of Budgetary Resources:			
Obligations Incurred (Note 14)	$412.0	$2,622.8	$3,034.8
Unobligated Balance, End of Year:			
Apportioned	260.3	2,151.3	2,411.6
Unapportioned	259.2	-	259.2
Total Unobligated Balance, End of Year (Note 14)	519.5	2,151.3	2,670.8
Total Status of Budgetary Resources	$931.5	$4,774.1	$5,705.6
Change in Obligated Balance:			
Unpaid Obligations, Brought Forward, October 1	$126.8	$7,495.7	$7,622.5
Adjustment to Unpaid Obligations Start of Year (Note 14)	-	$62.7	$62.7
Obligations Incurred	412.0	2,622.8	3,034.8
Outlays (Gross)	(390.1)	(6,049.7)	(6,439.8)
Recoveries of Prior-Year Unpaid Obligations	(2.3)	(1,043.0)	(1,045.3)
Unpaid Obligations, End of Year	146.4	3,088.5	3,234.9
Uncollected Payments:			
Uncollected Payments, Federal Sources Brought Forward, Oct 1	-	(104.6)	(104.6)
Change in Uncollected Payments, Federal Sources	-	0.6	0.6
Uncollected Customer Payments From Federal Sources, End of Year	-	(104.0)	(104.0)
Memorandum (Non-Add) Entries:			
Obligated Balance, Start of Year	$126.8	$7,391.1	$7,517.9
Obligated Balance, End of Year, Net	$146.4	2,984.5	$3,130.9
Budget Authority and Outlays, Net:			
Budget Authority, Gross (Discretionary and Mandatory)	$372.7	$2,037.7	$2,410.4
Actual Offsetting Collections (discretionary and mandatory)	(142.5)	(3,483.6)	(3,626.1)
Change in Uncollected Customer Payments From Federal Sources (Discretionary and Mandatory)	-	0.6	0.6
Budget Authority, Net (Discretionary and Mandatory)	$230.2	($1,445.3)	($1,215.1)
Outlays, Gross (Discretionary and Mandatory)	$390.1	$6,049.7	$6,439.8
Actual Offsetting Collections (Discretionary and Mandatory)	(142.5)	(3,483.6)	(3,626.1)
Outlays, Net (Discretionary and Mandatory)	$247.6	$2,566.1	$2,813.7

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

Notes to the Financial Statements

1. Summary of Significant Accounting and Reporting Policies

Enabling Legislation and Mission

The Export-Import Bank of the United States ("EXIM", "EXIM Bank", or "the Bank") is an independent executive branch agency and a wholly owned U.S. government corporation that was first organized as a District of Columbia banking corporation in 1934, and is exempt from federal, state, and local income taxes. EXIM Bank is the official export credit agency of the United States. EXIM Bank's operations subsequent to September 30, 1991, are subject to the provisions of the Federal Credit Reform Act (FCRA) of 1990, Public Law (P.L.) 101-508, which became effective October 1, 1991. In accordance with its Charter (12 USC 635 et seq.), continuation of EXIM Bank's functions in furtherance of its objectives and purposes is subject to periodic extensions granted by Congress. The Export-Import Bank Reauthorization Act of 2015 ("the Reauthorization Act of 2015") extended the Bank's charter until September 30, 2019. The mission of EXIM Bank is to support U.S. exports by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing or where such support is necessary to level the playing field due to financing provided by foreign governments to their exporters that are in competition for export sales with U.S. exporters. The Bank's Charter requires reasonable assurance of repayment for the transactions the Bank authorizes, and the Bank closely monitors credit and other risks in its portfolio. In pursuit of its mission of supporting U.S. exports, EXIM Bank offers four financial products: loan guarantees, working capital guarantees, direct loans and export credit insurance. All EXIM Bank obligations carry the full faith and credit of the U.S. government.

During Fiscal Year (FY) 2015 and FY 2016, the Bank's authority to approve transactions lapsed from July 1, 2015 to December 4, 2015. In addition, since July 20, 2015, the Board of Directors of the Bank has lacked a quorum for the transaction of business and, as a result, the Bank is unable to approve medium and long term transactions over $10.0 million.

EXIM Services

Loans and guarantees extended under the medium-term loan program typically have repayment terms of one to seven years, while loans and guarantees extended under the long-term loan program usually have repayment terms in excess of seven years. Generally, both the medium-term and long-term loan and guarantee programs cover up to 85 percent of the U.S. contract value of shipped goods.

Under the Working Capital Guarantee Program, EXIM Bank provides repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. The working capital guarantee may be approved for a single loan or a revolving line of credit. EXIM Bank's working capital guarantee protects the lender from default by the exporter for 90 percent of the loan principal and interest.

EXIM Bank's export-credit insurance policies help U.S. exporters sell their goods overseas by protecting them against the risk of foreign-buyer or other foreign-debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and cover short-term or medium-term sales.

Basis of Accounting

EXIM Bank reports under generally accepted accounting principles (GAAP) in the United States. GAAP for federal entities are the standards and other authoritative pronouncements prescribed by the Federal Accounting Standards Advisory Board (FASAB). Although EXIM Bank is not required to comply with all sections of the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, revised as of August 15, 2017 A-136, EXIM Bank follows the format and content outlined by Circular A-136 when preparing the financial statements and footnotes.

EXIM's Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position are prepared using the accrual basis of accounting. This basis requires recognition of the financial effects of transactions, events, and circumstances in the periods when those transactions, events, and circumstances occur, regardless of when cash is received or paid. EXIM also uses budgetary accounting to facilitate compliance with legal constraints and to track its budget authority at the various stages of execution, including commitments, obligation, and eventual outlay. The Statements of Budgetary Resources are presented on a combined basis and are prepared using budgetary accounting methods.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and net position and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and costs during the reporting period. The most significant of these estimates are the allowances for losses on loans receivable, subrogated claims receivable, and guarantees and insurance. EXIM Bank uses its historical default and recovery experience to calculate loss estimates. Actual results may differ from those estimates.

Funds Balance with Treasury

Cash balances are held by U.S. Treasury on behalf of EXIM to make expenditures, pay liabilities, and disburse funds for loan obligations. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

Loans Receivables, Net

Loan obligations are carried at principal and interest receivable amounts less an allowance for credit losses. From time to time, EXIM Bank restructures financial terms because the obligor or country has encountered financial difficulty and EXIM Bank has determined that providing relief in this manner will enhance the ability to collect the loan.

Receivables from Subrogated Claims, Net

Receivables from subrogated claims represent the outstanding balance of payments that were made on claims that were submitted to EXIM Bank in its capacity as guarantor or insurer under EXIM Bank's export guarantee or insurance programs. Receivables from subrogated claims are carried at principal and interest receivable amounts less an allowance for claim losses. Under the subrogation clauses in its guarantee and insurance contracts, EXIM Bank receives all rights, title and interest in all amounts relating to claims paid under insurance policies and guarantees and therefore establishes an asset to reflect such rights.

Accrued Interest

Interest is accrued on loans and claims as it is earned. Generally, loans and subrogated claims receivable delinquent 90 days or more are placed on a nonaccrual status unless they are well-secured and significant collections have been received. At the time that a loan or claim is placed on nonaccrual status, any accrued but unpaid interest previously recorded is reversed against current-period interest income. The interest on these loans is accounted for on a cash basis until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Accounting for Capitalized Interest on Rescheduled Loans and Subrogated Claims

Rescheduling agreements frequently allow for EXIM Bank to add uncollected interest to the principal balance of rescheduled loans and subrogated claims receivable (i.e., capitalized interest). When capitalized, any accrued interest receivable is reversed against current period’s interest income. The amount of interest that was capitalized and included in the principal balance is recorded as income when cash collections occur and only after all principal not related to the capitalized interest is paid. An allowance is established for all uncollected capitalized interest.

Allowance for Losses on Loans, Guarantees, Insurance and Subrogated Claims

The allowance for losses provides for estimated losses inherent in the loan, claim, guarantee and insurance portfolios. The allowance is established through a provision charged to earnings. Write-offs are charged against the allowance when management believes the uncollectibility of a loan or claim balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the credits in light of historical and market experience, the nature and volume of the credit portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing worldwide economic and political conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance for EXIM Bank's credit-reform credits represents the amount of estimated credit loss associated with the applicable credit. The credit loss is defined as the net present value of estimated loan, guarantee and insurance defaults less subsequent estimated recoveries. EXIM Bank has established cash-flow models for expected defaults, fees and recoveries to estimate the credit loss for each approved credit. EXIM Bank uses recent historical loss experience and other factors in developing the expected loss factors.

The net credit loss of credit-reform loans, guarantees, and insurance is re-estimated annually in accordance with OMB guidelines and Statement of Federal Financial Accounting Standards (SFFAS) 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees. The re-estimates adjust the allowance for credit losses to account for actual activity and changes in the financial and economic factors that affect the repayment prospects over time.

Accounting for Guarantees in a Foreign Currency

At the time of authorization, EXIM Bank records the authorization amount as the U.S.-dollar equivalent of the foreign-currency obligation based on the exchange rate at that time. At the end of each fiscal year, EXIM Bank determines the dollar equivalent of the outstanding balance for each foreign-currency guarantee based on the exchange rate at the end of the year and adjusts the guarantee loan liability accordingly.

Borrowings from the U.S. Treasury

EXIM Bank's outstanding debt is borrowings from the U.S. Treasury. Borrowings from the U.S. Treasury are used to finance medium-term and long-term loans. These borrowings carry a fixed rate of interest.

Accounts Payable to the U.S. Treasury

Accounts payable to the U.S. Treasury include the results of the re-estimate of the portfolio's expected losses as required under FCRA. The payable represents funds that are held in credit-reform financing accounts that are determined to be in excess of amounts needed to cover future defaults. The payable also includes expired budget authority no longer available for obligation that will be returned to the U.S. Treasury.

Payment Certificates

Payment certificates represent EXIM Bank's outstanding liability related to specific claims for which EXIM Bank is paying the guaranteed lender as the guaranteed installments become due. Payment certificates are issued by EXIM Bank in exchange for the foreign importer's defaulted note which was guaranteed by EXIM Bank. Payment certificates carry the same repayment terms and interest rate as the guaranteed foreign importer's note. Payment certificates are backed by the full faith and credit of the U.S. government and are freely transferable.

Fees and Premia

EXIM Bank charges a risk-related exposure fee under both the loan and guarantee programs that is collected on each loan disbursement or shipment of goods under the guarantee policy. This fee is amortized over the life of the credit using the effective yield method.

On working capital guarantees, EXIM Bank charges an up-front facility fee, which, due to the short-term nature of the contracts, is credited to income as collected. Premia charged under insurance policies are recognized as income using a method that generally reflects the exposure over the term of the policy.

Appropriated Capital

Beginning in FY 2008, fees collected in excess of expected credit losses are used to reimburse the U.S. Treasury for appropriations provided for program and administrative costs, resulting in a net appropriation of zero. Appropriations received, if any, are returned to the U.S. Treasury when the period of availability ends.

Congress has appropriated certain sums specifically for EXIM Bank's tied-aid activities. Tied-aid is government-to-government concessional financing of public-sector capital projects in developing countries. Tied-aid terms usually involve total maturities longer than 20 years, lower than market interest rates and/or direct grants.

Capital Stock

Capital stock represents the value of stock held by the U.S. Government, related to the Bank's incorporation as a U.S. government corporation.

Imputed Financing
A financing source is imputed by EXIM Bank to provide for pension and other retirement benefit expenses recognized by EXIM Bank but financed by the Office of Personnel Management (OPM). EXIM Bank follows OPM guidance released annually when calculating the imputed cost (OPM Benefits Administration Letter, Number 16-304 dated July 2016).

Liquidating Account Distribution of Income
EXIM Bank maintains a liquidating account which accumulates the repayment on loans and claims issued prior to the FCRA. At the end of each fiscal year, EXIM Bank transfers the cash balance in this account to the U.S. Treasury.

Income Taxes
As an agency of the Federal Government, EXIM is generally exempt from all income taxes imposed by any governing body, whether it be a federal, state, commonwealth, local, or foreign government.

Prior Year Reclassifications
Certain prior year amounts have been reclassified to conform with the current year presentation.

2. Fund Balance with the U.S. Treasury

Fund balances as of September 30, 2017 and September 30, 2016 were as follows:

(in millions)	FY 2017	FY 2016
Revolving Funds	$5,917.7	$3,847.6
General Funds - Unexpended Appropriations	546.3	538.9
General Funds - Offsetting Collections	114.5	126.9
Total	$6,578.5	$4,513.4
Status of Fund Balance with the U.S. Treasury		
Unobligated Balance		
Available	$4,685.8	$2,411.6
Expired	284.2	259.2
Canceled and Unavailable	2.2	0.5
Obligated Balance Not Yet Disbursed	506.3	1,842.1
Reserved Funds	1,100.0	-
Total	$6,578.5	$4,513.4

Revolving funds are credit-reform financing accounts. Included in the credit-reform financing accounts are disbursed appropriations, exposure fees collected, and interest paid by the U.S. Treasury to EXIM Bank on the balances in the account. These funds are available to cover losses in EXIM Bank's credit programs. Unexpended appropriated funds and unexpended offsetting collections are deposited in a noninterest-bearing account at the U.S. Treasury. These funds are available to EXIM Bank when the credit activity to which they relate takes place or to finance administrative expenses. Upon disbursement of the related loans or shipment of goods under guarantee or insurance policies, the funds become available to either subsidize the related loan disbursement or to be invested in the credit-reform financing accounts to fund the credit costs of the guarantee and insurance policies. Unallocated cash represents collections pending final application to the applicable loan or guarantee.

Reserved Funds consist of the amounts held for a specific purpose in accordance with the reserve requirement as defined by the Reauthorization Act of 2015 (FY 2016). Based on this Act, the Bank shall build to and hold in reserve, to protect against future losses, an amount that is not less than 5 percent of the aggregate amount of disbursed and outstanding loans, guarantees, and insurance of the Bank. As requested by the Reauthorization Act of 2015, per the reserve requirement effective in FY 2017, the Bank has set aside $1,100 million funds to protect against future losses in addition to the total allowance of $2,577.8 million reserved in accordance with FCRA and SFFAS 2, Accounting for Direct Loans and Guarantees, as disclosed in Note 3L, Allowance and Exposure Summary. Therefore, EXIM has available reserves and allowance for losses totaling $3,677.8 million (5.3 percent of the total outstanding balance of loans, guarantees and insurance) as of September 30, 2017. The Bank reviews the reserve levels in the financing accounts on an annual basis, to be compliant with the reserve requirement.

Unobligated available funds represent unexpired appropriations and offsetting collections and funds held in credit-reform financing accounts. Unobligated expired funds represent appropriations and offsetting collections that are no longer available for new obligations.

Unobligated canceled funds represent appropriations that are no longer available and are returned to the U.S. Treasury in subsequent years. Obligated balance not yet disbursed represents appropriations, offsetting collections and funds held in the loan financing account awaiting disbursement.

As of September 30, 2017 and September 30, 2016, there were no unreconciled differences between U.S. Treasury records and balances reported on EXIM Bank's general ledger.

3. Direct Loan, Loan Guarantees and Export-Credit Insurance Programs, Nonfederal Borrowers

EXIM Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. EXIM Bank extends to a company's foreign customer a fixed-rate loan covering up to 85 percent of the U.S. contract value. The buyer must make a cash payment to the U.S. exporter of at least 15 percent of the U.S. contract value. EXIM Bank's direct loans generally carry the fixed-interest rate permitted for the importing country and term under the "Arrangement on Guidelines for Officially Supported Export Credits" negotiated among members of the Organisation for Economic Co-operation and Development (OECD).

EXIM Bank loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. EXIM Bank guarantees to a lender that, in the event of a payment default by the borrower, it will pay to the lender the outstanding principal and interest on the loan. EXIM Bank's guarantee covers the commercial and political risks for 85 percent of the U.S. contract value.

EXIM Bank's export-credit insurance helps U.S. exporters sell their goods overseas by protecting them against the risk of foreign-buyer or other foreign-debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and cover short-term or medium-term sales.

Credit Reform

The primary purpose of the FCRA is to measure more accurately the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending.

As part of the FCRA, OMB established the Interagency Country Risk Assessment System (ICRAS) to provide a framework for uniformly measuring country risk for the U.S. government's international credit programs across the various agencies that administer them. The ICRAS methodology determines the risk levels for lending to both sovereign governments and non-sovereign borrowers.

ICRAS rates every country to which U.S. government agencies have outstanding loans or loan guarantees or are anticipating making new credits available. ICRAS rates countries on the basis of economic and political/social variables. There are 11 sovereign and 9 non-sovereign risk categories and each country receives two ratings: a sovereign-risk rating and a private-risk rating. ICRAS currently has risk ratings for 204 sovereign and 202 non-sovereign markets.

FY 2017 and FY 2016 Activity

Beginning in FY 2008, fees collected in excess of expected credit losses (offsetting collections) are used to cover the Bank’s administrative costs and credit program needs for providing new direct loans, guarantees.

EXIM Bank received a $5.7 million appropriation in FY 2017 and $6.0 million in FY 2016 for the Office of Inspector General (OIG) administrative costs.

New loans, guarantees and insurance result in a program cost (or subsidy cost) when the net present value of expected cash disbursements exceeds expected cash receipts. Cash receipts typically include fees or premia, loan principal and interest, and cash disbursements typically include claim payments and loan disbursements. EXIM Bank uses recent historical loss experience and other factors in developing the expected loss factors.

When the present value of expected cash receipts exceeds the present value of expected cash disbursements, a "negative" credit subsidy (or program revenue) arises.

Starting in FY 2008, EXIM Bank has operated on a self-sustaining basis using program revenue to fund current year administrative expenses and program costs. During FY 2017, EXIM Bank collected $118.4 million of receipts in excess of estimated credit losses. Out of these offsetting collections, $110.7 million was used to fund administrative expenses, and $7.7 million was retained and is available for obligation until September 30, 2020. During FY 2016, EXIM Bank collected $400.8 million of receipts in excess of estimated credit losses. Out of these offsetting collections, $106.9 million was used to fund administrative expenses, $283.9 million was sent to the U.S. Treasury, and $10.0 million was retained and is available for obligation until September 30, 2019.

Administrative costs are the costs to administer and service EXIM Bank's entire credit portfolio. The program costs are obligated to cover the estimated subsidy costs at the time loans, guarantees and insurance are committed. As the loans are disbursed, or when the insured or guaranteed event has taken place (generally when the related goods are shipped), the obligated amounts are used to cover the estimated subsidy costs related to the disbursements and shipments. The portion of the obligated amounts related to EXIM Bank's lending programs is used to partially fund the loan disbursements, while the portions related to EXIM Bank's guarantee and insurance programs are invested in an interest-bearing account with the U.S. Treasury. Prior to loan disbursement or the insured or guaranteed event, all of the appropriated funds and offsetting collections are held in a non-interest-bearing U.S. Treasury account.

Allowances for Losses

The process by which EXIM Bank determines its allowances for losses for each fiscal year involves assessing the repayment risk of the credit, which includes both commercial and political risk factors, then calculating the loss reserve based on the percentage of loss associated with the risk level assigned to the credit.

Sovereign risk is associated with an obligor that conveys the full faith and credit of its country. To rate sovereign obligors, EXIM Bank relies on the risk levels assigned to sovereign countries by ICRAS.

Non-sovereign obligors are divided into four categories for risk assessment purpose: (1) obligors in workout status; (2) obligors rated by third-party rating agencies, such as, Standard & Poor's and Moody's; (3) obligors not rated but publicly traded on local exchanges; and (4) obligors neither rated nor publicly traded on local exchanges.

After the political and commercial risks of the transaction are assessed, the transaction is assigned a risk rating based on the standard ICRAS classification. A major determinant of the risk rating is the sovereign-risk rating of the country in which the obligor is located. Credit enhancements such as the availability of liens and off-shore escrow accounts are taken into account.

For pre-credit-reform and non-impaired loans receivable, EXIM Bank determines the allowance using historical default and recovery rates. The allowance for losses on this exposure is calculated using the credit loss estimate method. This is an estimate of the loss expected due to credit risk and does not include non-credit factors.

Loss reserves on pre-credit-reform impaired credits are determined using OMB rates. Impaired credits are defined as those transactions risk rated from 9 to 11, or on the verge of impairment due to political, commercial, operational and/or technical events or unforeseeable circumstances that have affected the borrower's ability to service repayment of EXIM Bank credits.

The allowance for losses for post credit-reform loans, guarantees and insurance are determined by the credit loss calculated at authorization and subsequent adjustments made to the allowance as a result of the annual re-estimate.

Re-Estimate on Portfolio Expected Losses

The estimated credit loss of the outstanding balance of loans, guarantees and insurance is re-estimated annually in accordance with OMB guidelines and SFFAS 2 and 19. This re-estimate indicates the appropriate balance necessary in the financing accounts to ensure sufficient funds to pay future estimated claims.

EXIM Bank uses recent historical loss experience and other factors in developing the expected loss factors. In the event that the balance in the financing accounts exceeds the re-estimate level, the difference will not be needed to cover future estimated claims and will be returned to the U.S. Treasury. In the event that the balance in the financing accounts is less than the re-estimate level, the FCRA provides that the difference will be transferred to EXIM Bank from a general appropriation account authorized for this purpose.

Every year, EXIM Bank re-evaluates the methods used for calculating the reserves needed to cover expected losses. The Bank uses historical experience to estimate the probability of default as well as the loss given default. The probability of default (PD) is the likelihood that a transaction would go into default while the loss given default (LGD) gives the estimated loss, net of recoveries and expenses, if a default were to occur. Multiplying PD times LGD provides expected loss factors across programs and budget cost level (BCL) categories. EXIM Bank uses recent historical loss experience and other factors in developing the expected loss factors.

EXIM Bank incorporates a quantitative and qualitative framework to calculate loss reserves. This framework has continuously evolved and been refined over the years.

In FY 2016, EXIM Bank updated qualitative adjustments in its loss model, of which a subset are built into the quantitative framework. Those built into the quantitative framework include factors such as loss curves for sovereign guaranteed transactions and asset backed aircraft. Those not built into the quantitative framework look at minimum levels of expected losses, the global macroeconomic environment, and the recent growth in the Bank's portfolio.

As of September 30, 2017, the credit loss re-estimate of FY 1992 through FY 2017 commitments outstanding balances indicated that there was a net excess of $310.8 million in the financing accounts. The transfer of the net downward re-estimate to the U.S. Treasury will take place in FY 2018.

As of September 30, 2016, the credit loss re-estimate of FY 1992 through FY 2016 commitments outstanding balances indicated that a net excess of $932.5 million in the financing accounts. The transfer of the net downward re-estimate to the U.S. Treasury took place in FY 2017.

A. Direct Loans

EXIM Bank's loans receivable, as shown on the Balance Sheets, are net of an allowance for loan losses. The value of assets related to direct loans is not comparable to expected proceeds from the sale of the loans.

To calculate the allowance for loan losses for direct loans obligated prior to FY 1992, each of the 11 risk levels is identified with a loss percentage to determine the overall allowance for credit losses as described above. In addition, certain credits and capitalized interest included in gross loans receivable are reserved at 100 percent. At September 30, 2017 and September 30, 2016 the total allowance for direct loans obligated prior to FY 1992, including capitalized interest, equaled 33.4 percent and 29.0 percent, respectively, of gross loans and interest receivable.

The allowance for loss calculated for direct loans obligated since the beginning of FY 1992 equals the amount of credit loss incurred to support the loan obligation. The credit loss is the amount of loss estimated to be incurred on the transaction, as previously described. At September 30, 2017, and September 30, 2016, the allowance for loan losses on credit-reform credits equaled 3.4 percent and 1.8 percent, respectively, of the outstanding loans and interest receivable balance.

At September 30, 2017, and September 30, 2016, the allowance for both pre-credit-reform and post credit-reform loans equaled 3.9 percent and 2.2 percent, respectively, of the total loans and interest receivable.

The outstanding balances related to rescheduled installments included in loans receivable at September 30, 2017 and September 30, 2016, were $543.9 million and $633.0 million, respectively.

The net balance of loans receivable at September 30, 2017, and September 30, 2016, consists of the following:

FY 2017 (in millions)	Loans Receivable Gross	Interest and Fee Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Loans Obligated Prior to FY 1992	$331.4	$20.2	($117.6)	$234.0
Loans Obligated After FY 1991	20,371.0	162.3	(703.0)	19,830.3
Total	$20,702.4	$182.5	($820.6)	$20,064.3

FY 2016 (in millions)	Loans Receivable Gross	Interest and Fee Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Loans Obligated Prior to FY 1992	$339.6	$1.4	($98.9)	$242.1
Loans Obligated After FY 1991	23,611.0	163.5	(435.5)	23,339.0
Total	$23,950.6	$164.9	($534.4)	$23,581.1

(in millions)	FY 2017	FY 2016
Direct Loans Disbursed During Year	$771.1	$3,415.8

B. Program Cost and Re-Estimate Expense for Direct Loans by Component

The table below discloses the interest, defaults, fees, and re-estimate amounts associated with program cost disbursed in the current fiscal year on loan authorizations made in the current and prior fiscal years and the current year loss re-estimate.

(in millions)	FY 2017	FY 2016
Interest	($73.5)	($233.6)
Defaults	30.8	100.3
Fees and Other Collections	(49.3)	(163.7)
Total Program Cost	(92.0)	(297.0)
Net Re-estimate –Technical	39.6	(560.4)
Net Re-estimate – Interest	182.0	(210.3)
Total Net Re-estimate	221.6	(770.7)
Total Direct Loan Program (Cost) and Re-Estimate Expense	$129.6	($1,067.7)

C. Program Cost Rates for Direct Loans by Program and Component

In FY 2017 and FY 2016 EXIM did not authorize direct loans that are associated with program costs.

D. Schedule for Reconciling Direct Loan Allowance Balances

The table below discloses the components of the direct-loan allowance for post-1991 direct loans.

(in millions)	FY 2017	FY 2016
Post-1991 Direct Loans		
Beginning Balance of the Allowance Account	$435.5	$1,425.5
Current Year Program Cost *(see Note 3B for Component Breakdown)*	(92.0)	(297.0)
Loans Written Off	-	(42.6)
Program-Cost Allowance Amortization	161.1	64.6
Capitalized Interest	17.4	108.1
Fees Recognized in Income	(51.9)	(46.2)
Miscellaneous Recoveries and (Costs)	10.8	(6.2)
Ending Balance Before Re-estimate	481.4	1,206.2
Net Re-estimate – Technical	39.6	(560.4)
Net Re-estimate – Interest	182.0	(210.3)
Ending Balance of the Allowance Account	$703.0	$435.5

Program-cost allowance amortization is calculated, as required by SFFAS 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees, as the difference between interest revenue and interest expense.

E. Defaulted Guaranteed Loans

The allowance for defaulted guaranteed loans is calculated using the allowance for loss method as formerly described. Capitalized interest included in gross defaulted guaranteed loans receivable is reserved at 100 percent. The total allowance equaled 79.3 percent of gross defaulted guaranteed loans and interest receivable at September 30, 2017, and 87.9 percent at September 30, 2016.

FY 2017 (in millions)	Defaulted Guaranteed Loans Receivable, Gross	Interest and Fee Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans, Net
Defaulted Guaranteed Loans				
Obligated Prior to FY 1992	$49.3	$1.6	($20.2)	$30.7
Obligated After FY 1991	924.1	0.4	(753.0)	171.5
Total	$973.4	$2.0	($773.2)	$202.2

FY 2016 (in millions)	Defaulted Guaranteed Loans Receivable, Gross	Interest and Fee Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans, Net
Defaulted Guaranteed Loans				
Obligated Prior to FY 1992	$52.1	$1.6	($27.3)	$26.4
Obligated After FY 1991	1,149.2	0.5	(1,030.1)	119.6
Total	$1,201.3	$2.1	($1,057.4)	$146.0

F. Guaranteed Loans and Insurance

EXIM Bank is exposed to credit loss with respect to the amount of outstanding guaranteed loans and insurance policies in the event of nonpayment by obligors under the agreements. The commitments shown below are agreements to lend monies and issue guarantees and insurance as long as there is no violation of the conditions established in the credit agreement.

(in millions)	FY 2017	FY 2016
Gross Outstanding Principal of Guaranteed Loans and Insurance, Face Value	$47,369.4	$55,173.5
Undisbursed Principal of Guaranteed Loans and Insurance, Face Value	2,871.0	5,280.5
Total Principal of Guaranteed Loans and Insurance, Face Value	$50,240.4	$60,454.0
Amount of Principal That is Guaranteed and Insured by EXIM Bank	$50,240.4	$60,454.0
Gross Amount of Guaranteed Loans and Insurance Disbursed During Year, Face Value	$4,214.9	$7,221.5
Amount of Guaranteed Loans and Insurance Disbursed During Year that is Guaranteed and Insured by EXIM Bank	$4,214.9	$7,221.5

G. Liability for Loan Guarantees and Insurance

The liability for loan guarantees and insurance balances of $984.0 million at September 30, 2017 and $1,359.2 million at September 30, 2016 represent post FY 1991 guarantees and insurance credits.

H. Program Cost and Re-Estimate Expense for Loan Guarantees and Insurance by Component

The table below discloses defaults, fees and re-estimate amounts associated with the program cost disbursed in the current year on loan guarantee and insurance authorizations made in the current and prior fiscal years and the current year loss re-estimate. The total program cost also includes modifications made on these authorizations.

(in millions)	FY 2017	FY 2016
Defaults	$20.9	$91.3
Fees and Other Collections	(46.6)	(176.2)
Total Program Costs	(25.7)	(84.9)
Net Re-estimate – Technical	(419.2)	(127.1)
Net Re-estimate – Interest	(113.2)	(34.7)
Total Net Re-estimate	(532.4)	(161.8)
Total Loan Guarantee and Insurance Program (Cost) and Re-Estimate Expense	($558.1)	($246.7)

I. Program Cost Rates for Loan Guarantees and Insurance by Component

The program cost rates disclosed below relate to the percent of program costs on loan guarantee and insurance authorizations made in the reporting fiscal year which are associated with program costs. Because these rates only pertain to authorizations from the reporting fiscal year, these rates cannot be applied to the guarantees of loans disbursed during the reporting fiscal year to yield the program cost, which could result from disbursements of loans from both current and prior years.

	FY 2017	FY 2016
Defaults	2.3%	1.3%
Fees and Other Collections	(3.1)	(2.3)
Total	(0.8)%	(1.0)%

J. Schedule for Reconciling the Allowance for Loan Guarantee Balances

The table below discloses the components of the allowance for loan guarantees.

(in millions)	FY 2017	FY 2016
Post-1991 Loan Guarantees		
Beginning Balance of the Allowance Account	$ 1,359.2	$ 1,435.6
Current Year Program Cost	(25.7)	(84.9)
(See Note 3H for Component Breakdown)		
Program Cost Allowance Amortization	490.0	439.8
Fees Recognized in Income	(300.8)	(239.3)
Other	(6.3)	(30.2)
Ending Balance Before Re-estimate	1,516.4	1,521.0
Net Re-estimate – Technical	(419.2)	(127.1)
Net Re-estimate – Interest	(113.2)	(34.7)
Ending Balance of the Allowance Account	$ 984.0	$ 1,359.2

K. Administrative Costs

All of the Bank's administrative expenses are attributed to the support of the Bank's loan, guarantee and insurance programs. Administrative expenses are not allocated to individual programs.

(in millions)	FY 2017	FY 2016
Total Administrative Expense	$134.8	$114.3

L. Allowance and Exposure Summary

The allowance for losses for EXIM Bank credits authorized after the FCRA equates to the amount of estimated credit loss associated with the applicable loans, claims, guarantees, and insurance. According to SFFAS 2, *Accounting for Direct Loans and Guarantees*, direct loans disbursed and outstanding are recognized as assets at the present value of their estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as the allowance for credit losses. For guaranteed loans outstanding, the present value of estimated net cash flows of the loan guarantee is recognized as a guaranteed loan liability.

(in millions)	FY 2017	FY 2016
Pre-Credit-Reform Allowance		
Allowance for Loan Losses	$117.6	$98.9
Allowance for Defaulted Guarantees	20.2	27.3
Total Pre-Credit-Reform Allowance	137.8	126.2
Credit-Reform Allowance		
Allowance for Loan Losses	703.0	435.5
Allowance for Defaulted Guarantees and Insurance	753.0	1,030.1
Liability for Loan Guarantees and Insurance	984.0	1,359.2
Total Credit-Reform Allowance	2,440.0	2,824.8
Total Allowance for Loan Losses	820.6	534.4
Total Allowance for Guarantees and Insurance	1,757.2	2,416.6
Total Allowance	$2,577.8	$2,951.0
Total Outstanding Balance of Loans, Guarantees and Insurance	$69,045.2	$80,325.4
Percent Allowance to Outstanding Balance	3.7%	3.7%
Total Exposure	$72,478.9	$87,262.4
Percent Allowance to Exposure	3.6%	3.4%

4. Accrual of Interest

The weighted-average interest rate on EXIM Bank's loan and rescheduled claim portfolio at September 30, 2017 was 2.65 percent (2.78 percent on performing loans and rescheduled claims). The weighted-average interest rate on EXIM Bank's loan and rescheduled claim portfolio at September 30, 2016, was 2.67 percent (2.77 percent on performing loans and rescheduled claims). Interest income is recognized when collected on non-rescheduled claims.

Generally, the accrual of interest on loans and rescheduled claims is discontinued when the credit is delinquent for more than 90 days.

EXIM Bank had a total of $953.3 million and $37.1 million of loans and rescheduled claims, respectively, in nonaccrual status at September 30, 2017. EXIM Bank had $843.2 million and $41.5 million of loans and rescheduled claims, respectively, in nonaccrual status at September 30, 2016. Had these credits been in accrual status, interest income would have been $15.6 million higher as of September 30, 2017 (amount is net of interest received of $17.5 million), and $11.7 million higher in FY 2016 (amount is net of interest received of $17.2 million).

5. Statutory Limitations on Lending Authority

Under its Charter, EXIM Bank's statutory lending limit in FY 2017 and FY 2016 was $135.0 billion of loans, guarantees, and insurance exposure at any one time. As of September 30, 2017, and September 30, 2016, EXIM Bank's statutory authority used was as follows:

(in millions)	FY 2017	FY 2016
Outstanding Guarantees	$46,290.5	$54,057.7
Outstanding Loans	20,702.4	23,950.6
Outstanding Insurance	1,078.9	1,115.8
Outstanding Claims	973.4	1,201.3
Total Outstanding	69,045.2	80,325.4
Undisbursed Loans	562.7	1,656.5
Undisbursed Guarantees	327.4	1,341.1
Undisbursed Insurance	2,543.6	3,939.4
Total Undisbursed	3,433.7	6,937.0
Total Exposure	$72,478.9	$87,262.4

Transactions can be committed only to the extent that budget authority is available to cover program costs. For FY 2017 and FY 2016, Congress placed no limit on the total amount of loans, guarantees and insurance that could be committed in those years, provided that the statutory authority established by the EXIM Bank's Charter was not exceeded.

During FY 2017, EXIM Bank committed $3,431.0 million for direct loans, guarantees, and insurance, using no budget authority and no tied-aid funds. During FY 2016, EXIM Bank committed $5,037.1 million for guarantees and insurance, using no budget authority and no tied-aid funds.

EXIM Bank has authorized guarantee transactions denominated in a foreign currency during FY 2017 totaling $14.5 million, and authorized $17.6 million during FY 2016, as calculated at the exchange rate at the time of authorization. EXIM Bank adjusts the allowance for all transactions denominated in a foreign currency using the various foreign-currency exchange rates at the end of the fiscal year.

For financial statement purposes, EXIM Bank defines exposure as the authorized outstanding and undisbursed principal balance of loans, guarantees, and insurance. It also includes the unrecovered balance of payments made on claims that were submitted to EXIM in its capacity as guarantor or insurer under the export guarantee and insurance programs. Exposure does not include accrued interest or transactions pending final approval. This corresponds to the way activity is charged against the Bank's overall $135.0 billion statutory lending limit imposed by Section 6(a) (2) of EXIM Bank's Charter.

Working capital guarantees may be approved for a single loan or a revolving line of credit, with an availability generally of one year. Guaranteed lenders do not report activity to EXIM Bank, the entire credit is assumed to be "disbursed" when the fee is paid to the Bank. The credit is recorded as repaid in one installment 180 days after the expiry date of the credit unless the Controller's office is notified before that time that a claim has been paid. Under the assumption that the exporter is using the credit up to the end of the expiry period, six months provides sufficient time for the guaranteed lender to report defaults to EXIM Bank in the event that the exporter does not repay the credit. If a claim is paid, the remaining outstanding balance of the credit associated with the claim is reduced to zero. Exposure is then reflected as an unrecovered claim.

Since there is typically a delay in reporting shipments under the insurance program, undisbursed balances remain on the books for 120 days after the expiry date to allow for the posting of shipments that took place within the period covered by the policy but were reported after the expiry date. These unreported shipments pose some liability in the form of claims that have been incurred but not yet reported (IBNR). Leaving the policy open past the expiry date provides a reserve for IBNR.

6. Accounts Receivable

As of September 30, 2017 and September 30, 2016 accounts receivable mainly consists of guarantee fee receivables.

7. Liabilities Not Covered by Budgetary Resources

EXIM Bank's liability to employees for accrued unfunded annual leave, included in Other Liabilities on the Balance Sheets, was $4.7 million as of September 30, 2017 and $4.5 million as of September 30, 2016. The liability will be paid from future administrative expense budget authority.

(in millions)	FY 2017	FY 2016
PUBLIC		
Current		
Accrued Annual Leave Liability	$4.7	$4.5
Total Other Liabilities Not Covered by Budgetary Resources	**4.7**	**4.5**
Total Other Liabilities Covered by Budgetary Resources	152.3	186.8
Total Other Liabilities *(see Note 10 for Component Breakdown)*	**$157.0**	**$191.3**

8. Non-Entity Assets

Non-Entity Assets are assets that are held by EXIM, but are not available for use in its operations. The main non-entity asset that EXIM carries is the downward subsidy re-estimates for its Loan and Guarantee Programs. At year-end EXIM accrues the current year re-estimates including the downward portion, which is sent to Treasury in the following fiscal year. As of September 30, 2017 the downward re-estimate was $959.6 million, which will be sent to Treasury in FY 2018. At September 30, 2016 the downward re-estimate was $1,019.7 million, which was sent to Treasury in FY 2017. The downward re-estimate is reflected in the Balance Sheet as an asset accounted in the Fund Balance with Treasury and as a liability accounted in the Accounts Payable to U.S. Treasury until the amount is paid to the U.S. Treasury.

(in millions)	FY 2017	FY 2016
Intragovernmental Entity		
Expired Funds Payable to Treasury	($284.2)	($257.8)
Intragovernmental Non-Entity		
Downward Re-estimate Payable to Treasury	(959.6)	(1,019.7)
Amounts Payable to U.S. Treasury	**($1,243.8)**	**($1,277.5)**

9. Debt

EXIM Bank's outstanding borrowings come from two sources: direct borrowing from the U.S. Treasury, and the assumption of repayment obligations of defaulted guarantees under EXIM Bank's guarantee program via payment certificates.

EXIM Bank's total debt at September 30, 2017, and September 30, 2016, is as follows:

(in millions)	FY 2017	FY 2016
U.S. Treasury Debt		
Beginning Balance	$25,021.6	$22,725.4
New Borrowings	1,855.6	3,705.7
Repayments	(2,231.9)	(1,409.5)
Ending Balance	**$24,645.3**	**$25,021.6**
Debt Held by the Public		
Beginning Balance	$41.5	$29.0
New Borrowings	0.0	37.0
Repayments	(16.4)	(24.5)
Ending Balance	**$25.1**	**$41.5**
Total Debt	**$24,670.4**	**$25,063.1**

EXIM Bank had $24,645.3 million of borrowings outstanding with the U.S. Treasury at September 30, 2017, and $25,021.6 million at September 30, 2016, with a weighted-average interest rate of 3.0 percent at both September 30, 2017 and September 30, 2016.

U.S. Treasury borrowings are repaid primarily with the repayments of medium-term and long-term loans. To the extent repayments on the underlying loans, combined with commitment and exposure fees and interest earnings received on the loans, are not sufficient to repay the borrowings, appropriated funds are available to EXIM Bank through the re-estimation process for this purpose. The full amount of the borrowings is expected to be repaid by FY 2033.

Payment certificates are issued by EXIM Bank in exchange for the foreign obligor's original note that was guaranteed by EXIM Bank on which EXIM Bank has paid a claim and carries the same repayment term and interest rate as the foreign obligor's note. Payment certificates are backed by the full faith and credit of the U.S. government and are freely transferable.

Outstanding payment certificates at September 30, 2017, and September 30, 2016, were $25.1 million, and $41.5 million, respectively. Maturities of payment certificates at September 30, 2017, are as follows:

(in millions) Fiscal Year	Amount
2018	$13.6
2019	9.7
2020	1.8
Total	$25.1

The weighted-average interest rate on EXIM Bank's outstanding payment certificates at September 30, 2017, and September 30, 2016, was 3.0 percent and 3.1 percent, respectively.

10. Other Liabilities

(in millions)	FY 2017	FY 2016
Intergovernmental		
Employer Contributions Payable	$0.4	$0.5
Total Integovernmental	**0.4**	**0.5**
Public		
Current		
Funds Held Pending Application	$0.2	$2.5
Administrative Expenses Payable	7.0	6.2
Miscellaneous Accrued Payable	0.7	0.7
Non Current		
Deferred Revenue	148.7	181.4
Total Public	**156.6**	**190.8**
Total Other Liabilities	**$157.0**	**$191.3**

As of September 30, 2017 and September 30, 2016, $148.7 million and $181.4 million respectively represent deferred revenue in the form of offsetting collections which are available to cover administrative expenses and program costs.

11. Operating Leases

EXIM Bank’s two Washington D.C. office spaces are leased from the General Services Administration through the Public Buildings Fund. Exim Bank’s office space in regional locations is leased through the U.S. Export Assistance Center. Total lease expenses, included in Administrative Costs on the Statements of Net Costs, were $9.2 million in FY 2017 and $8.1 million in FY 2016. EXIM Bank’s two occupancy agreements will be up for renewal in FY 2020 and both are cancellable. The future payments under the two agreements are as follows:

in millions

Fiscal Year	Amount
2018	$8.2
2019	8.2
2020	3.2
2021	-
Total	**$19.6**

12. Commitments and Contingencies

Pending Litigation

As of September 30, 2017, EXIM Bank was named in several legal actions, most of which involved claims under the guarantee and insurance programs, and others being tort claims. It is not possible to predict the eventual outcome of the various actions; however, it is management's opinion that there is a remote likelihood that these claims will result in a future outflow or other sacrifice of resources to such an extent that they would materially affect the financial position or results of operations of EXIM Bank.

13. Disclosures Related to the Statements of Net Costs

EXIM Bank’s Statements of Net Costs list the costs and revenues associated with each of the Bank’s lines of business, namely the loan, guarantee and insurance programs. The intragovernmental and public costs and revenues associated with each program, and administrative expenses, are disclosed below. EXIM Bank does not allocate administrative expenses by program.

Public Costs and Public Revenue
(in millions)

	Loans	Guarantees	Insurance	Administrative Expenses	Total
For the Year Ended September 30, 2017					
Intragovernmental Costs	$754.9	$15.3	$ -	$13.9	$784.1
Public Costs	397.1	(144.7)	19.2	121.2	392.8
Total Costs	$1,152.0	$129.4	$19.2	$135.1	$1,176.9
Intragovernmental Revenue	($104.4)	($64.4)	$0.7	-	($168.1)
Public Revenue	(831.6)	(349.5)	(15.3)	(0.4)	(1,196.8)
Total Revenue	($936.0)	($413.9)	($14.6)	(0.4)	($1,364.9)
Net Excess of Program (Revenue) Over Cost					**($188.0)**
For the Year Ended September 30, 2016					
Intragovernmental Costs	$763.6	$ -	$ -	$7.8	$771.4
Public Costs	(723.7)	416.0	(44.6)	106.9	(245.4)
Total Costs	$39.9	$416.0	($44.6)	$114.7	$526.0
Intragovernmental Revenue	($106.4)	($61.2)	$0.9	-	($166.7)
Public Revenue	(733.3)	(460.8)	(14.2)	(0.4)	(1,208.7)
Total Revenue	($839.7)	($522.0)	($13.3)	($0.4)	($1,375.4)
Net Excess of Program (Revenue) Over Cost					**($849.4)**

Intragovernmental costs include interest expense paid to the U.S. Treasury related to borrowings associated with the funding of credit-reform direct loans and administrative costs paid to other government agencies. Intragovernmental revenues represent interest from the U.S. Treasury on cash balances in the credit-reform financing accounts.

Public costs represent costs which the Bank incurs to support the business programs. These costs are comprised primarily of the provision for loss on the loan and guarantee portfolio, and administrative costs paid to the public. Public revenue represents income items which are generated as a result of operating the loan, guarantee and insurance programs. This revenue primarily relates to the fee and interest income on the outstanding credits.

14. Disclosures Related to the Combined Statements of Budgetary Resources

Combined Statements of Budgetary Resources disclose total budgetary resources available to the Bank and the status of such resources at September 30, 2017 and September 30, 2016. Activity impacting budget totals of the overall U.S. government budget is recorded in EXIM Bank's Combined Statements of Budgetary Resources budgetary accounts.

Activity which does not impact budget totals is recorded in EXIM Bank's Combined Statements of Budgetary Resources non-budgetary accounts. As of September 30, 2017 and September 30, 2016, the Bank's resources in budgetary accounts totaled $734.7 million and $931.5 million respectively. As of September 30, 2017 and September 30, 2016, the Bank's resources in non-budgetary accounts totaled $6,061.5 million, and $4,774.1 million respectively.

Adjustments to Beginning Balance of Budgetary Resources
EXIM Bank made no adjustments to the beginning budgetary resources during the period ended September 30, 2017. EXIM Bank made a $62.7 million adjustment to the beginning budgetary resources during the year ended September 30, 2016.

Apportionment Categories of Obligations Incurred
EXIM Bank funds are apportioned in Category B, which restricts the use of funds by program. The amount of Category B apportionments that were obligated in FY 2017 and FY 2016 totaled $1,825.6 million and $3,034.8 million, respectively.

Permanent Indefinite Appropriations
The FCRA requires an annual re-estimate of the credit loss allowance. In the event that there is an increase in estimated defaults, there is permanent and indefinite budget authority available for this purpose. The FY 2016 upward re-estimate received from the U.S. Treasury in FY 2017 was $87.2 million; while the downward re-estimate sent to the U.S. Treasury was $1,019.7 million. The FY 2015 upward re-estimate received from the U.S. Treasury in FY 2016 was $239.9 million; while the downward re-estimate sent to the U.S. Treasury was $1,518.6 million.

Available Borrowing Authority and Terms of Borrowing
EXIM Bank in part relies on borrowings from the U.S. Treasury to help fund the Bank's loan program. U.S. Treasury borrowings are repaid primarily with the repayments of medium-term and long-term loans. To the extent repayments on the underlying loans, combined with commitment and exposure fees and interest earnings received on the loans, are not sufficient to repay the borrowings, permanent and indefinite appropriated funds are available to EXIM Bank through the re-estimation process for this purpose. The full amount of the borrowings is expected to be repaid by FY 2033.

For FY 2017 EXIM Bank had a net increase in overall borrowing authority of $965.0 million while in FY 2016 EXIM Bank had a net decrease in overall borrowing authority of $1,022.9 million.

Unobligated Balances

Unobligated balances at September 30, 2017 totaled $4,970.6 million. Of the 4,970.6 million, $4,453.8 million represents the amount in the loan, guarantee and insurance financing accounts that is available to cover future defaults, and $284.8 million is unavailable for new obligations. Unobligated balances at September 30, 2016 totaled $2,670.8 million. Of the $2,670.8 million, $2,151.3 million represents the amount in the guarantee and insurance financing account that was available to cover future defaults, and $259.2 million was unavailable for new obligations.

Undelivered Orders

Undelivered orders are obligations that have not yet been disbursed by EXIM. Undelivered orders for the periods ended September 30, 2017, and 2016 were $2,078.6 million and $3,197.6 million.

Differences between Combined Statements of Budgetary Resources and Budget of U.S. Government

There are no material differences between the budgetary resources shown on the Combined Statements of Budgetary Resources and the Budget of the U.S. Government. The President's FY 2019 Budget with actual numbers for FY 2017 has not yet been published. EXIM Bank expects no material differences between the President's Budget and the FY 2017 reported results when the budget becomes available in February 2018.

15. Reconciliation of Net Cost of Operations to Budget

The following schedule reconciles the Net Cost of Operations to the Bank's budgetary and financial accounting. The reconciliation illustrates the relationship between net obligations derived from EXIM Bank's budgetary accounts and the net cost of operations derived from EXIM Bank's proprietary accounts by identifying and explaining key differences between the two numbers.

(in millions)	For the Year Ended September 30, 2017	For the Year Ended September 30, 2016
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$1,825.6	$3,034.8
Less: Spending Authority from Offsetting Collections and Recoveries	5,301.7	4,619.3
Net Obligations	(3,476.1)	(1,584.5)
Other Resources		
Imputed Financing from Costs Absorbed by Others	3.2	3.7
Total Resources Used To Finance Activities	**(3,472.9)**	**(1,580.8)**
Resources Used To Finance Items Not Part of Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	$1,120.6	$4,450.3
Resources That Fund Expenses in Prior Periods	(87.2)	(239.9)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
- Credit-Program Collections	3,795.5	2,199.7
Resources That Finance the Acquisition of Assets	(1,775.5)	(5,298.6)
Total Resources That Do Not Finance Net Cost of Operations	3,053.4	1,111.5
Total Resources Used To Finance the Net Cost of Operations	**(419.5)**	**(469.3)**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Allowance Amortization	$651.6	$504.5
Provision for Loss -- Pre-Credit-Reform Credits	(95.0)	89.0
Downward Re-estimate of Credit-Losses	(959.6)	(1,055.5)
Upward Re-estimate of Credit-Losses	648.8	87.2
Change in Receivables	(17.5)	(1.0)
Change in Payables	3.2	(4.3)
Total Components Requiring or Generating Resources in Future Periods	**231.5**	**(380.1)**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**$231.5**	**($380.1)**
Net Excess Program Costs Over (Revenue)	**($188.0)**	**($849.4)**

16. Related-Party Transactions

The financial statements reflect the results of agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies and financial services institutions, makes and purchases from private sector lenders, medium-term and long-term fixed-rate and variable-rate loans guaranteed by EXIM Bank to foreign borrowers to purchase U.S. made equipment “export loans”.

EXIM Bank’s credit and guarantee agreement with PEFCO provides that EXIM Bank will guarantee the due and punctual payment of interest on PEFCO’s secured debt obligations which EXIM Bank has approved, and grants to EXIM Bank a broad measure of supervision over PEFCO's major financial management decisions, including the right to have representatives be present in all meetings of PEFCO’s board of directors, advisory board, and exporters’ council, and to review PEFCO’s financials and other records. However, EXIM Bank does not have voting rights and does not influence normal operations. This agreement extends through December 31, 2020.

In addition, PEFCO has an agreement with EXIM Bank which provides that EXIM Bank will generally provide PEFCO with an unconditional guarantee covering the due and punctual payment of principal and interest on export loans PEFCO makes and purchases. PEFCO’s guarantees on the export loans plus the guarantees on the secured debt obligations aggregating $6,120.0 million at September 30, 2017 ($5,554.9 million related to export loans and $565.1 million related to secured debt obligations) and $5,721.3 million at September 30, 2016 ($4,991.0 million related to export loans and $730.3 million related to secured debt obligations), are included by EXIM Bank in the total for guarantee, insurance and undisbursed loans and the allowance related to these transactions is included in the Guaranteed Loan Liability on the Balance Sheets.

EXIM Bank received fees totaling $60.7 million in FY 2017 ($60.5 million related to export loans and $0.2 million related to secured debt obligations) and $51.6 million in FY 2016 ($51.3 million related to export loans and $0.3 million related to secured debt obligations) for the agreements, which are included in Fee and Other Revenue on the Statements of Net Costs.

17. Contributions to Employee Retirement Systems

All of EXIM Bank's employees whose appointments have federal status are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

In FY 2017 and FY 2016, EXIM Bank withheld 7.0 percent of CSRS employees' gross earnings. EXIM Bank's contribution was 7.0 percent of employees' gross earnings. This sum was transferred to the CSRS fund from which this employee group will receive retirement benefits.

For FERS, EXIM Bank withheld 0.8 percent of employees' gross earnings. EXIM Bank's contribution was 13.7 percent of employees' gross earnings in FY 2017 and FY 2016. This sum was transferred to the FERS fund from which the employee group will receive retirement benefits. An additional 6.2 percent of gross earnings, after pre-tax deductions are withheld up to the 2017 limit of $127,200 and 2016 limit of $118,500; that sum plus matching contributions by EXIM Bank are sent to the Social Security System from which the FERS employee group will receive Social Security benefits.

For FERS-Revised Annuity Employee (RAE), EXIM Bank withheld 3.1 percent of employee's group earnings. EXIM Bank's contribution was 11.9 percent of employee's gross earnings in FY 2017 and FY 2016. This sum was transferred to the Civil Service Retirement and Disability Fund from which the employee group will receive retirement benefits. An additional 6.2 percent of gross earnings, after pre-tax deductions are withheld up to the 2017 limit of $127,200 and 2016 limit of $118,500; that sum plus matching contributing by EXIM Bank are sent to the Social Security Administration from which the FERS employee group will receive Social Security benefits.

For FERS-Further Revised Annuity Employee (FRAE), EXIM Bank withheld 4.4 percent of employee's group earnings. EXIM Bank's contribution was 11.9 percent of employee's gross earnings in FY 2017 and FY 2016. This sum was transferred to the Civil Service Retirement and Disability Fund from which the employee group will receive retirement benefits. An additional 6.2 percent of gross earnings, after pre-tax deductions are withheld up to the 2017 limit of $127,200 and 2016 limit of $118,500; that sum plus matching contributing by EXIM Bank are sent to the Social Security Administration from which the FERS employee group will receive Social Security benefits.

FERS and CSRS employees may elect to participate in the Thrift Savings Plan (TSP). CSRS and FERS employees may contribute up to $18,000 of Internal Revenue Service Elective Deferral Limit. In addition, FERS employees receive an agency automatic 1 percent contribution from EXIM Bank based on the employee regular contributions. FERS employees receive agency matching contributions by EXIM Bank up to 4 percent for a maximum EXIM Bank contributions to the TSP of 5 percent.

Total EXIM Bank (employer) matching contributions to the TSP, CSRS and FERS for all employees, included in Administrative Costs in the Statements of Net Costs, were approximately $9.5 million in FY 2017 and $7.8 million in FY 2016.

Although EXIM Bank funds a portion of pension benefits under the CSRS and FERS relating to its employees and makes the necessary payroll withholdings for them, it has no liability for future payments to employees under these programs and does not account for the assets of the CSRS and FERS, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the OPM for the Retirement Systems and are not allocated to the individual employers. The excess of total pension expense over the amount contributed by EXIM Bank and its employees represents the amount of pension expense which must be financed directly by OPM. EXIM Bank recognizes an imputed cost and an imputed financing source, calculated using cost factors supplied by OPM, equal to the excess amount.

OPM also accounts for the health and life insurance programs for current and retired civilian federal employees. Similar to the accounting treatment afforded the retirement programs, the actuarial data related to the health and life insurance programs is maintained by OPM and is not available on an individual-employer basis. EXIM Bank recognizes an imputed cost and an imputed financing source for the future cost of these other retirement benefits (ORB) at the time the employee's services are rendered. This ORB expense is calculated using cost factors supplied by OPM and must be financed by OPM.

Required Supplementary Information

Unaudited, see accompanying Auditor's Report

I. Combining Statement of Budgetary Resources

Exhibit 1 displays the unaudited Combining Statement of Budgetary Resources (SBR). The SBR provides information regarding how budgetary resources were made available, as well as their status at the end of the fiscal period.

Exhibit 1: Combining Statement of Budgetary Resources

For the Year Ended September 30, 2017

(in millions)	Program Account	Direct Loan Financing Account	Guaranteed Loan Financing Account	Pre-Credit Reform Financing Account	Other	Total
BUDGETARY RESOURCES						
Unobligated Balance Brought Forward, October 1	$ 519.5	$ 710.0	$ 1,441.3	$ -	$ -	$ 2,670.8
Adjustment To Unobligated Balance Brought Forward (Note 14)	-	-	-	-	-	-
Unobligated Balance Brought Forward, October 1 As Adjusted	519.5	710.0	1,441.3	-	-	2,670.8
Recoveries Of Prior Year Unpaid Obligations	3.0	135.0	20.9	-	-	158.9
Unobligated Balance Of Borrowing Authority Withdrawn (-) (Note 14)	-	(135.0)	-	-	-	(135.0)
Other Changes In Unobligated Balance	(2.2)	-	-	-	-	(2.2)
Unobligated Balance From Prior Year Budget Authority, Net	520.3	710.0	1,462.2	-	-	2,692.5
Appropriations (Discretionary And Mandatory)	92.9	-	-	-	-	92.9
Borrowing Authority (Discretionary And Mandatory) (Note 14)	-	594.0	506.0	-	-	1,100.0
Spending Authority From Offsetting Collections (Discretionary And Mandatory)	121.5	2,510.5	238.7	-	40.1	2,910.8
Total Budgetary Resources (Note 14)	**$ 734.7**	**$ 3,814.5**	**$ 2,206.9**	**$ -**	**$ 40.1**	**$ 6,796.2**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred (Note 14)	$ 217.9	$ 1,332.1	$ 275.6	$ -	$ -	$ 1,825.6
Unobligated Balance, End Of Year:						
Apportioned	232.0	2,482.4	1,931.3	-	40.1	4,685.8
Unapportioned	284.8	-	-	-	-	284.8
Total Unobligated Balance, End Of Year (Note 14)	516.8	2,482.4	1,931.3	-	40.1	4,970.6
Total Status Of Budgetary Resources	**$ 734.7**	**$ 3,814.5**	**$ 2,206.9**	**$ -**	**$ 40.1**	**$ 6,796.2**
			-			
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations, Brought Forward, October 1	$ 146.4	$ 2,976.1	$ 105.1	$ -	$ 7.3	$ 3,234.9
Adjustment To Unpaid Obligations Start Of Year (Note 14)						-
Obligations Incurred	217.9	1,332.1	275.6	-	-	1,825.6
Outlays (Gross) (-)	(217.2)	(2,225.6)	(337.3)		(7.3)	(2,787.4)
Recoveries Of Prior-Year Unpaid Obligations	(3.0)	(135.0)	(20.9)	-	-	(158.9)
Unpaid Obligations, End Of Year	144.1	1,947.6	22.5	-	-	2,114.2
Uncollected Payments:						
Uncollected Payments, Federal Sources Brought Forward, Oct 1	-	(12.1)	(91.9)	-	-	(104.0)
Change In Uncollected Payments, Federal Sources	-	-	-	-	-	-
Uncollected Customer Payments From Federal Sources, End Of Year	-	(12.1)	(91.9)	-	-	(104.0)
Memorandum (Non-Add) Entries						
Obligated Balance, Start Of Year	146.4	2,964.0	13.2	-	7.3	3,130.9
Obligated Balance, End Of Year, Net	**$ 144.1**	**$ 1,935.5**	**$ (69.4)**	**$ -**	**$ -**	**$ 2,010.2**
Budget Authority And Outlays, Net:						
Budget Authority, Gross (Discretionary And Mandatory)	$ 214.4	$ 3,104.5	$ 744.7	$ -	$ 40.1	$ 4,103.7
Actual Offsetting Collections (Discretionary And Mandatory)	(121.5)	(4,742.5)	(238.7)	(11.1)	(40.1)	(5,153.9)
Change In Uncollected Customer Payments From Federal Sources (Discretionary And Mandatory)	-	-	-	-	-	-
Budget Authority, Net (Discretionary And Mandatory)	**$ 92.9**	**$ (1,638.0)**	**$ 506.0**	**$ (11.1)**	**$ -**	**$ (1,050.2)**
Outlays, Gross (Discretionary And Mandatory)	$ 217.2	$ 2,225.6	$ 337.3	$ -	$ 7.3	$ 2,787.4
Actual Offsetting Collections (Discretionary And Mandatory)	(121.5)	(4,742.5)	(238.7)	(11.1)	(40.1)	(5,153.9)
Outlays, Net (Discretionary And Mandatory)	**$ 95.7**	**$ (2,516.9)**	**$ 98.6**	**$ (11.1)**	**$ (32.8)**	**$ (2,366.5)**
Distributed Offsetting Receipts (-)	-	(776.7)	(243.0)	-	-	(1,019.7)
Agency Outlays, Net (Discretionary And Mandatory)	**$ 95.7**	**$ (3,293.6)**	**$ (144.4)**	**$ (11.1)**	**$ (32.8)**	**$ (3,386.2)**

Other Information

Unaudited, see accompanying Auditor's Report

I. Payment Integrity

IPERIA Requirements

The Improper Payments Elimination and Recovery Improvement Act of 2012 "IPERIA" (P.L. No. 112-248) requires any "department, agency, or instrumentality in the executive branch of the United States" to review their payment programs to identify the program's susceptibility to "significant improper payments". Improper payments are payments distributed to the wrong entity, in the wrong amount, or for the wrong reason. Agency programs with "significant" improper payments are defined as those with annual improper payments exceeding either (1) 1.5 percent of total dollar value of program payments and $10.0 million, or, (2) $100.0 million.

If an agency payment program is found susceptible to significant improper payments, the institution is required to engage in a series of actions, including the requirement to obtain a statistically valid estimate of the annual amount of improper payments, in order to abide by the guidelines described in Appendix C to OMB Circular No. A-123, *Requirement for Effective Estimation and Remediation of Improper Payments.*

EXIM Methodology

EXIM has classified its payment programs to be short-term authorizations, medium-term authorizations, long-term authorizations, and cash control disbursements. Salary, locality pay, travel pay, purchase card use, and other employee payments are assessed as a part of administrative payments under the cash control disbursement program. The scope of each assessment is to analyze the integrity of the payment programs at all applicable points of the payment process, such as origination, disbursement, and review during the reporting year.

Improper Payment risk assessments are conducted one year in arrears (FY 2015 assessment was focused on payments made in the 2014 fiscal year. Similarly, in FY 2015, EXIM assessed the susceptibility of Improper Payments of the 2014 fiscal year. EXIM has received OMB approval to assess improper payments using this methodology.

In FY 2015, EXIM introduced enhanced quantitative and qualitative methodologies of review that were utilized as a part of the FY 2015 review of FY 2014 improper payments. The central tool used in the qualitative assessment of EXIM payment programs was the Risk Assessment Questionnaire, which was considerably updated in 2015 for specific programs. In doing this, the questionnaire could target specific questions that provided a better measurement to management. Department supervisors were tasked with and trained on completing the questionnaires.

The quantitative method for the Authorizations analysis uses the approach of identifying the credit standards in each program, and independently auditing the transaction documentation to determine compliance with the credit standards. If the standards are not met at the time of origination, the transaction is assumed to have an increased susceptibility of an improper payment.

Do Not Pay Initiative

In 2009, The Do Not Pay Initiative was passed into law intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries. EXIM has taken further steps to increase oversight and implement additional internal controls to decrease the susceptibility Improper Payments.

EXIM complies with all aspects of the Do Not Pay Initiative through its Character, Reputational, and Transaction Integrity “CRTI” process. All transactions in the three authorization based payment programs (Short, Medium, and Long-Term) undergo CRTI checks. As a part of CRTI, names of participants are searched within a database clearing house of over 20 directories to determine compliance with a variety of “Know your Customer” (KYC) and EXIM due diligence requirements.

OMB Risk-Factors

In addition, EXIM Bank assesses the risk of improper payments associated with payment programs and their underlying activities to be low risk only after each of the risk factors listed in OMB Circular No. A-123 Appendix C is addressed. They include the following:

1. Whether the program or activity reviewed is new to the agency
2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts
3. The volume of payments made annually
4. Whether payments or payment eligibility decisions are made outside of the agency
5. Recent major changes in program funding, authorities, practices, or procedures
6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate
7. Inherent risks of improper payments due to the nature of agency programs or operations
8. Significant deficiencies in the audit reports of the agency in but not limited to the agency Inspector General or the Government Accountability Office report audit findings or other relevant management findings that might hinder accurate Payment certification
9. Results from improper payment work

Recapture Audit Plan

EXIM updated its Recapture Audit Plan in 2016 to reflect and enhance the process needed to ensure timely recover of an improper payment. In the event that an improper payment occurs, EXIM’s Cash Department will work to recapture the improper payment.

If the improper payment is not recovered in a timely manner, EXIM can take further steps to ensure the prompt recapture of funds that consist of using EXIM Recovery Officers, local attorneys, and third party collectors.

Additionally, strong preventive and detective controls, such as multiple layers of review and independent audits are in place to help prevent or minimize improper payments and to detect them should they occur.

In FY 2015, EXIM tested transactions from the point of origin, at authorization, and through the disbursement. With a determination of low susceptibility of improper payments, no overpayments, and strong detective and preventive internal controls, the Bank did not deem it necessary or cost effective to implement a performance recapture program. Additionally, when the next recapture audit is conducted, EXIM will work with the Office and Management and Budget on a cost effectiveness analysis of a Recapture Audit.

Current IPERIA status for EXIM

EXIM was found to be fully compliant with IPERIA in FY 2015 by the Office of Inspector General. In accordance with the aforementioned act and internal requirements, EXIM Bank reviewed all payment programs for susceptibility to significant improper payments. The Bank concluded that none of the four programs were susceptible to significant improper payments and had met all reporting requirements of the IPERIA Act. For FY 2016, there were no additional programs added or significant changes to existing programs; therefore EXIM will perform the next extensive review of Improper Payments on the FY 2017 payments, which will be reported in the FY 2018 Annual Report.

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