

# Export-Import Bank of the United States

## Notes to the Financial Statements

For the Years Ended September 30, 2006 and 2005

### 1. Summary of Significant Accounting and Reporting Policies

#### Enabling Legislation and Mission

The Export-Import Bank of the United States (Ex-Im Bank) is an independent executive agency and a wholly owned U.S. government corporation that was first organized as a District of Columbia banking corporation in 1934. Ex-Im Bank is the official export-credit agency of the United States. Ex-Im Bank's operations subsequent to September 30, 1991, are subject to the provisions of the Federal Credit Reform Act (FCRA) of 1990 (P.L. 101-508), which became effective October 1, 1991. The Export-Import Bank Reauthorization Act of 2006 extended the Bank's charter until September 30, 2011.

Ex-Im Bank's mission is to support U.S. exports by providing export financing through its loan, guarantee and insurance programs in cases where either the private sector is unable or unwilling to provide financing or when 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. By facilitating the financing of U.S. exports, Ex-Im Bank helps companies create and maintain U.S. jobs. The Bank's charter requires reasonable assurance of repayment for the transactions it authorizes, and the Bank closely monitors credit and other risks in its portfolio. In pursuit of its mission of supporting U.S. exports, Ex-Im Bank offers four financial products: direct loans, loan guarantees, working capital guarantees and export-credit insurance. All Ex-Im Bank guarantees carry the full faith and credit of the U.S. government.

Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. Ex-Im 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. Ex-Im Bank's direct loans carry the lowest 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 Organization for Economic Cooperation and Development (OECD).

Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. Ex-Im 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. Ex-Im Bank's comprehensive guarantee covers all of the commercial and political risks for up to 85 percent of the U.S. contract value.

Ex-Im Bank extends medium-term and long-term direct loans and loan guarantees to foreign buyers of U.S. exports. 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, Ex-Im 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. Ex-Im Bank's working capital guarantee protects the lender from default by the exporter for 90 percent of the loan principal and interest.

Ex-Im Bank's Export-Credit Insurance Program 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

For FY 2006, the Bank changed reporting methodology from reporting under private-sector generally accepted accounting principles (GAAP) to reporting under generally accepted accounting principles for federal agencies (government GAAP). The decision to change accounting methodologies was prompted by various factors, notably the recognition by the American Institute of Certified Public Accountants (AICPA) of government accounting standards and Ex-Im Bank's determination that presenting statements under government GAAP is the preferable

method of presentation. The format of the financial statements and notes are in accordance with form and content guidance provided in Office and Management and Budget (OMB) Circular A-136.

### Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates are the allowances for losses and allowance for subsidy cost on loans receivable, subrogated claims receivable, guarantees and insurance. In prior years, Ex-Im Bank used proxy recovery rates developed by OMB to calculate loss estimates; however, Ex-Im Bank has incorporated actual historical recovery experience in calculating FY 2005 and FY 2006 loss estimates. Ex-Im Bank's historical recovery experience has been better than the proxy recovery rates previously provided by OMB.

### Loans Receivables, Net

Loans obligated prior to FY 1992 (precredit-reform credits) are carried at principal and interest receivable amounts less an allowance for loan losses. Loans obligated after FY 1991 (credit-reform credits) are carried at principal and interest receivable amounts less an allowance for subsidy cost.

From time to time, Ex-Im Bank extends the repayment date and may modify the interest rate of some or all principal installments of a loan because the obligor or country has encountered financial difficulty and Ex-Im 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 Ex-Im Bank in its capacity as guarantor or insurer under Ex-Im Bank's Guarantee or Export-Credit Insurance Programs. Receivables from subrogated claims are carried at principal and interest receivable amounts and an allowance for claim losses. Under the subrogation clauses in its guarantee and insurance contracts, Ex-Im Bank receives all rights, title and interest in all amounts relating to claims paid under insur-

ance 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 Ex-Im 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 total allowance for Ex-Im Bank credits is comprised of the allowance for loss on precredit-reform credits and the allowance for subsidy cost for credit-reform credits. For precredit-reform credits, a provision is charged to earnings as losses are estimated to have occurred.

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 for Ex-Im Bank credit-reform credits equates to the amount of subsidy cost associated with the applicable credit. The subsidy cost is defined as the net present value of all the cash flows of the credits to and from the U.S. government. Ex-Im Bank has established cash flow models for expected defaults, fees and

recoveries to estimate the subsidy cost for each approved credit. The models incorporate OMB's loss estimates for international credit programs and Ex-Im Bank's actual recovery experience.

The net subsidy cost of credit-reform loans, guarantees and insurance is re-estimated annually in accordance with OMB guidelines. The re-estimates adjust the allowance for subsidy cost 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

Ex-Im Bank provides guarantees and insurance denominated in certain foreign currencies. The foreign currencies approved for Ex-Im Bank guarantees as of September 30, 2006, are: Australian dollar, Brazilian real, British pound, Canadian dollar, CFA franc, Colombian peso, Egyptian pound, euro, Indian rupee, Japanese yen, Malaysian ringgit, Mexican peso, Moroccan dirham, New Zealand dollar, Pakistani rupee, Philippine peso, Russian ruble, South African rand, Swedish krona, Swiss franc, Taiwanese dollar and Thai baht. At the time of authorization, Ex-Im Bank records the dollar amount equivalent to the foreign-currency obligation approved by the Board of Directors based on the exchange rate at that time. At the end of each fiscal year, Ex-Im 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

The main source of Ex-Im Bank's outstanding debt is borrowings from the U.S. Treasury. Borrowings from the U.S. Treasury are used primarily to finance medium-term and long-term loans. These borrowings carry a fixed rate of interest. They are further discussed in Note 11.

### Payment Certificates

Payment certificates represent Ex-Im Bank's outstanding borrowings related to specific claims for which Ex-Im Bank is paying the guaranteed lender as the guaranteed installments become due. Payment certificates are issued by Ex-Im Bank in exchange for the foreign importer's defaulted note that was guaranteed by Ex-Im Bank, and the 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.

## Claims Payable

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

## Amounts Payable to the U.S. Treasury

Amounts payable to the U.S. Treasury include the results of the subsidy cost re-estimate required under the 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 appropriations no longer available for obligation that will be returned to the U.S. Treasury.

## Fees and Premiums

Ex-Im 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.

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

## Appropriated Capital

Appropriations received by Ex-Im Bank pursuant to the FCRA are recorded as paid-in-capital. Appropriations not required to finance credit activities are returned to the U.S. Treasury when the period of availability ends.

Congress has appropriated certain sums specifically for Ex-Im 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.

## Liquidating Account Distribution of Income

Ex-Im Bank maintains a liquidating account that accumulates the repayment on loans issued prior to the FCRA and any collections on claims. At the end of each fiscal year, Ex-Im Bank transfers the balance in this account to the U.S. Treasury. The amount transferred is detailed on the accompanying Statement of Net Costs.

## 2. Fund Balance with the U.S. Treasury

Fund balances as of fiscal years 2006 and 2005 were as follows:

| (in millions)                                 | FY 2006          | FY 2005          |
|---|------------------|------------------|
| Revolving Funds                               | \$2,382.9        | \$2,937.4        |
| Unexpended Appropriated Funds                 | 824.6            | 981.6            |
| Unallocated Cash                              | 22.7             | 38.2             |
| <b>Total</b>                                  | <b>\$3,230.2</b> | <b>\$3,957.2</b> |
| Status of Fund Balance with the U.S. Treasury |                  |                  |
| Unobligated Balance                           |                  |                  |
| Available                                     | \$2,757.2        | \$3,368.8        |
| Expired                                       | 85.9             | 72.8             |
| Canceled and Unavailable                      | 4.8              | 39.3             |
| Obligated Balance Not Yet                     |                  |                  |
| Disbursed                                     | 359.6            | 438.1            |
| Funds Pending Application                     | 22.7             | 38.2             |
| <b>Total</b>                                  | <b>\$3,230.2</b> | <b>\$3,957.2</b> |

Revolving funds are credit-reform financing accounts and cash balances in the precredit-reform revolving fund. Included in the credit-reform financing accounts are disbursed appropriations, exposure fees collected and interest that have been paid by the U.S. Treasury to Ex-Im Bank on the balances in the account. These funds are available to cover losses in Ex-Im Bank's credit programs. Unexpended appropriated funds are deposited in a noninterest-bearing account at the U.S. Treasury. These funds are available to Ex-Im Bank when the credit activity to which they relate takes place or to finance administrative expenses. Upon 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.

Unobligated available funds represent unexpired appropriations and funds held in credit-reform financing accounts for payment of future guarantee loan defaults. Unobligated expired funds represent appropriations that are no longer available for new obligations.

Unobligated canceled funds represent appropriations that are no longer available and will be returned to the U.S. Treasury in FY 2007.

As of September 30, 2006 and 2005, there were no unreconciled differences between Treasury records and balances reported on Ex-Im Bank's general ledger.

### 3. Cash

As of September 30, 2006 and 2005, there was \$9.4 million and \$.2 million in cash balances, respectively, held outside the U.S. Treasury. The \$9.4 million includes \$8.9 million related to a claim recovery that is being held in an escrow account pending further legal review. An additional \$0.5 million in FY 2006 and the balance of \$0.2 million in FY 2005 represents lockbox receipts for collection of insurance premiums that are transferred to one of Ex-Im Bank's U.S. Treasury accounts upon application to the appropriate credit. The remaining balance of \$0.1 million in FY 2006 represents other miscellaneous cash held pending disbursement.

## 4. Direct Loans and Loan Guarantees, Nonfederal Borrowers

### A. Direct Loan, Loan Guarantee and Export-Credit Insurance Programs

Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services. Ex-Im 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. Ex-Im Bank's direct loans carry the lowest fixed-interest rate permitted for the importing country and term under the Arrangement on Guidelines for Officially Supported Export Credits negotiated among OECD members.

Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. Ex-Im 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. Ex-Im Bank's comprehensive guarantee covers all of the commercial and political risks for 85 percent of the U.S. contract value.

Ex-Im Bank's Export-Credit Insurance Program 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 FCRA significantly affected the manner in which Ex-Im Bank finances its credit activities. 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.

The Office of Management and Budget (OMB) established the Interagency Country Risk Assessment System (ICRAS) to provide a framework for uniformly measuring the costs of the U.S. government's international credit programs across the various agencies that administer them. The ICRAS methodology determines both the risk levels for lending to sovereign governments as well as certain factors to be used in calculating the program budget cost for transactions at the various risk levels.

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 nine nonsovereign risk categories, and ICRAS currently has risk ratings for 184 markets. Each country receives two ratings: a sovereign-risk rating and a private-risk rating.

In order to determine the cost associated with the risk of lending to a category of credits, OMB applies a default estimate to each risk category that reflects the expected losses. Agencies apply these default estimates by comparing the present-value cash flows discounted using a risk-free U.S. Treasury rate against the present value of identical cash flows discounted by a risk-adjusted discount rate built from the risk-free U.S. Treasury rate plus the historical average spread for the

risk category of the transaction under evaluation (the risk premia). The difference between these two present values is the present value of estimated defaults. This present-value default amount is spread over the maturity of the proposed transaction and is discounted using the standardized OMB Credit Subsidy Calculator.

Each precredit-reform credit is assigned one of 11 risk levels. Each risk level is identified with a loss percentage to determine the overall allowance on precredit-reform credits. OMB has provided the loss percentage for each risk level based on a risk-premia model it has developed to calculate subsidy costs. In previous years, this loss percentage has incorporated OMB proxy recovery rates. However, to calculate the allowance for loss more precisely, Ex-Im Bank has incorporated its actual historical recovery experience in the loss percentages.

#### FY 2006 and FY 2005 Activity

Ex-Im Bank received appropriations aggregating \$172.5 million in FY 2006 to support both the Bank's administrative costs and credit-program needs for providing new direct loans, guarantees and insurance. Ex-Im Bank received appropriations aggregating \$131.9 million in FY 2005 to support both the Bank's administrative costs and credit-program needs for providing new direct loans, guarantees and insurance. In addition, \$46.4 million was received in FY 2005 for debt reduction relating to Heavily Indebted Poor Countries (HIPC) and Iraq initiatives. The following table summarizes appropriations received and used during fiscal years 2006 and 2005:

| (in millions)                                    | FY 2006        | FY 2005        |
|--|----------------|----------------|
| <b>RECEIVED AND AVAILABLE</b>                    |                |                |
| For Credit Subsidies                             | \$99.0         | \$105.7        |
| For Credit-related Administrative Costs          | 72.5           | 72.6           |
| For Inspector General and Administrative Costs   | 1.0            | -              |
| <b>Total Received</b>                            | <b>172.5</b>   | <b>178.3</b>   |
| Unobligated Balance Carried Over from Prior Year | 591.7          | 705.4          |
| Rescission of Unobligated Balances               | (62.0)         | -              |
| Cancellations of Prior-Year Obligations          | 20.7           | 68.2           |
| <b>Total Available</b>                           | <b>722.9</b>   | <b>951.9</b>   |
| <b>OBLIGATED</b>                                 |                |                |
| For Credit Subsidies Excluding Tied-Aid          | 190.8          | 287.6          |
| For Credit-related Administrative Costs          | 72.5           | 72.6           |
| <b>Subtotal</b>                                  | <b>263.3</b>   | <b>360.2</b>   |
| For Tied Aid                                     | -              | -              |
| <b>Total Obligated</b>                           | <b>263.3</b>   | <b>360.2</b>   |
| <b>UNOBLIGATED BALANCE</b>                       |                |                |
| Unobligated Balance                              | 459.6          | 591.7          |
| Unobligated Balance Lapsed                       | 88.1           | -              |
| <b>Remaining Balance</b>                         | <b>\$371.5</b> | <b>\$591.7</b> |

Of the remaining balance of \$371.5 million at September 30, 2006, \$1.0 million is available until September 30, 2007, \$43.6 million is available until September 30, 2008, \$99.0 million is available until September 30, 2009, and \$227.9 million is available until expended and may be used for tied aid.

The cost of credit risk (credit subsidies), shown above, is the net present value of expected cash receipts and cash disbursements associated with loans, guarantees and insurance. Cash receipts typically include fees or premiums and loan principal and interest, and cash disbursements typically include claim payments and loan disbursements. When the present value of expected cash receipts exceeds the present value of expected cash disbursements, a "negative" credit subsidy arises. Negative subsidies are remitted to the U.S. Treasury upon disbursement of the underlying credits. Ex-Im Bank transferred \$44.3 million and \$26.0 million of negative subsidies to the U.S. Treasury in FY 2006 and FY 2005, respectively.

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

#### Allowance for Loss

The process by which Ex-Im Bank determines its allowance for loss 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, Ex-Im Bank relies on the risk levels assigned to sovereign countries by ICRAS.

Nonsovereign obligors are divided into four categories for risk assessment purposes: (1) obligors in workout status, (2) obligors rated by third-parties rating agencies, i.e., 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 or guarantor is located. Credit enhancements such as the availability of liens and offshore escrow accounts are taken into account.

For precredit-reform, nonimpaired loans receivable, Ex-Im Bank determines the allowance using the OMB risk premia. The allowance for losses on this exposure is calculated using the credit-loss estimate method. Consistent with industry practice in the private sector, this is an

estimate of the loss expected due to credit risk and does not include noncredit factors that are included in the fair-market value method.

Loss reserves on precredit-reform impaired credits are determined using the fair-value method. Ex-Im Bank generally considers a credit impaired if it meets one or more of the following: (1) delinquent loans and claims with an amount of \$50,000 or more past due at least 90 days, (2) rescheduled loans and rescheduled claims or (3) nondelinquent loans and claims above a certain risk rating.

The allowance for losses on precredit-reform contingent liabilities for medium-term and long-term guarantees is determined using the fair-value method.

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

#### Subsidy Cost Re-estimate

Because financial and economic factors affecting the repayment prospects change over time, the net estimated subsidy cost of the outstanding balance of loans, guarantees and insurance financed by the subsidies is re-estimated annually in accordance with OMB guidelines. This re-estimate indicates the appropriate level necessary in the financing accounts. In the event that the fees, interest, and appropriations in the financing accounts exceed the re-estimate level, the difference will not be needed to cover commitments and will be returned to the U.S. Treasury. These amounts are included in the Amounts Payable to the U.S. Treasury on the Balance Sheet. In the event that the fees, interest and appropriations in the financing accounts are less than the re-estimate level, the FCRA provides that the difference will be transferred to Ex-Im Bank from a general appropriation account authorized for this purpose.

As of September 30, 2006, and September 30, 2005, a re-estimate of the subsidy costs of the outstanding balances of fiscal year 1992 through 2005 commitments indicated that of the fees, interest and appropriations in the financing accounts, the net amounts of \$1,402.0 million and \$1,768.9 million, respectively, were no longer needed to cover commitments and were due to the U.S. Treasury. These amounts are included in the Amounts Payable to the U.S. Treasury on the Balance Sheet.

## Direct Loans

Ex-Im Bank's loans receivable, as shown on the Balance Sheet, are net of an allowance for loan losses.

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. Capitalized interest included in gross loans receivable is reserved at 100 percent. At September 30, 2006 and 2005, capitalized interest was \$413.7 million and \$1,105.0 million, respectively. The total allowance for direct loans obligated prior to FY 1992, including capitalized interest, equaled 79.2 percent and 74.8 percent, respectively, of gross loans and interest receivable. Excluding capitalized interest from the precredit-reform receivable balance and from the loss reserve yields an allowance of 59.1 percent and 35.2 percent, respectively, of loans and interest receivable.

The allowance for loss calculated for direct loans obligated since the commencement of FY 1992 equals the amount of subsidy cost incurred to support the loan obligation. The subsidy cost is the amount of loss estimated to be incurred on the transaction, as previously described. At September 30, 2006, and September 30, 2005, the allowance for loan losses on credit-reform credits equaled

16.4 percent and 22.3 percent, respectively, of the outstanding loans and interest receivable balance.

At September 30, 2006, and September 30, 2005, the allowance for both precredit-reform and credit-reform loans equaled 25.2 percent and 33.5 percent, respectively, of the total loans and interest receivable. Excluding capitalized interest from the total receivable balance and from the total loss reserve yields an allowance of 19.7 percent and 23.6 percent, respectively, of loans and interest receivable.

The outstanding balances related to rescheduled installments included in loans receivable at September 30, 2006, and September 30, 2005, were \$1,293.7 million and \$2,726.8 million, respectively. Loan principal installments of \$23.1 million were rescheduled during fiscal years 2006 and 2005. Loan installments of interest rescheduled during fiscal years 2006 and 2005 were \$28.5 million and \$31.8 million, respectively. The interest rate on rescheduled loans is generally a floating rate of interest, which is 37.5 to 62.5 basis points over Ex-Im Bank's cost of borrowing.

The net balance of loans receivable at September 30, 2006, and September 30, 2005, consists of the following:

| FY 2006 (in millions)            | Loans<br>Receivable<br>Gross | Interest<br>Receivable | Allowance<br>for Loan<br>Losses | Value of Assets<br>Related to<br>Direct Loans, Net |
|----------------------------------|------------------------------|------------------------|---------------------------------|--|
| Loans Obligated Prior to FY 1992 | \$828.3                      | \$14.6                 | \$(667.3)                       | \$175.6  |
| Loans Obligated After FY 1991    | 5,126.6                      | 79.5                   | (855.6)                         | 4,350.5  |
| <b>Total</b>                     | <b>\$5,954.9</b>             | <b>\$94.1</b>          | <b>\$(1,522.9)</b>              | <b>\$4,526.1</b>                                   |

| FY 2005 (in millions)            | Loans<br>Receivable<br>Gross | Interest<br>Receivable | Allowance<br>for Loan<br>Losses | Value of Assets<br>Related to<br>Direct Loans, Net |
|----------------------------------|------------------------------|------------------------|---------------------------------|--|
| Loans Obligated Prior to FY 1992 | \$1,798.4                    | \$10.4                 | \$(1,353.0)                     | \$455.8  |
| Loans Obligated After FY 1991    | 6,555.8                      | 89.9                   | (1,484.1)                       | 5,161.6  |
| <b>Total</b>                     | <b>\$8,354.2</b>             | <b>\$100.3</b>         | <b>\$(2,837.1)</b>              | <b>\$5,617.4</b>                                   |

| (in millions)                                  | FY 2006 | FY 2005 |
|--|---------|---------|
| Direct Loans Disbursed During Year (Post-1991) | \$44.5  | \$202.5 |

## B. Subsidy Expense for Direct Loans by Component

| (in millions)                            | FY 2006          | FY 2005          |
|--|------------------|------------------|
| Interest                                 | \$(0.3)          | \$5.7            |
| Defaults                                 | 4.9              | 40.7             |
| Fees and Other Collections               | (2.2)            | (7.3)            |
| <b>Total</b>                             | <b>\$2.4</b>     | <b>\$39.1</b>    |
| Subsidy Expense Related to HIPC          |                  |                  |
| Debt Forgiveness                         | -                | 29.6             |
| Net Re-estimate – Principal              | (255.0)          | (256.5)          |
| Net Re-estimate – Interest               | (130.1)          | (111.4)          |
| <b>Total Net Re-estimate</b>             | <b>(385.1)</b>   | <b>(367.9)</b>   |
| <b>Total Direct Loan Subsidy Expense</b> | <b>\$(382.7)</b> | <b>\$(299.2)</b> |

## C. Subsidy Rates for Direct Loans by Program and Component

The subsidy rates disclosed below pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year's cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates. Ex-Im Bank did not authorize any direct loans in FY 2005; therefore, there are no subsidy rates for FY 2005.

|                            | FY 2006      | FY 2005  |
|----------------------------|--------------|----------|
| Interest                   | (3.71)%      | -        |
| Defaults                   | 13.05        | -        |
| Fees and Other Collections | (8.10)       | -        |
| <b>Total</b>               | <b>1.24%</b> | <b>-</b> |

## D. Schedule for Reconciling Subsidy Cost Allowance Balances

| (in millions)   | FY 2006        | FY 2005          |
|---|----------------|------------------|
| <b>POST-1991 DIRECT LOANS</b>   |                |                  |
| Beginning Balance of the Allowance Account                            | \$1,484.1      | \$1,690.9        |
| Current-Year Subsidy Expense<br>(See Note 4B for Component Breakdown) | 2.4            | 68.7             |
| Fees Received   | 6.9            | 21.1             |
| Loans Written Off   | (370.2)        | (6.4)            |
| Subsidy Allowance Amortization  | 63.2           | 58.5             |
| Miscellaneous Recoveries and Costs                                    | 54.3           | 19.2             |
| Ending Balance Before Re-estimate                                     | \$1,240.7      | \$1,852.0        |
| Re-estimate   | (385.1)        | (367.9)          |
| <b>Ending Balance of the Allowance Account</b>                        | <b>\$855.6</b> | <b>\$1,484.1</b> |

### E. Defaulted Guaranteed Loans

The allowance for defaulted guaranteed loans is calculated using the fair-value method as described above. Capitalized interest included in gross defaulted guaranteed loans receivable is reserved at 100 percent. At September 30, 2006 and 2005, capitalized interest was \$161.9 million and \$342.5 million, respectively. The total

allowance equaled 58.1 percent and 49.1 percent, respectively, of gross defaulted guaranteed loans and interest receivable. Excluding capitalized interest from the receivable balance and from the loss reserve yields an allowance of 55.0 percent and 43.8 percent, respectively, of defaulted loans and interest receivable.

| <b>FY 2006 (in millions)</b>                          | <b>Defaulted<br/>Guaranteed<br/>Loans<br/>Receivable,<br/>Gross</b> | <b>Interest<br/>Receivable</b> | <b>Allowance<br/>for Loan<br/>Losses</b> | <b>Value of Assets<br/>Related to<br/>Defaulted<br/>Guarantees, Net</b> |
|---|---|--------------------------------|--|---|
| Defaulted Guaranteed Loans Obligated Prior to FY 1992 | \$350.4   | \$0.2                          | \$(256.1)                                | \$94.5  |
| Defaulted Guaranteed Loans Obligated After FY 1991    | 2,013.3   | 0.9                            | (1,117.5)                                | 896.7   |
| <b>Total</b>  | <b>\$2,363.7</b>  | <b>\$1.1</b>                   | <b>\$(1,373.6)</b>                       | <b>\$991.2</b>  |

| <b>FY 2005 (in millions)</b>                          | <b>Defaulted<br/>Guaranteed<br/>Loans<br/>Receivable,<br/>Gross</b> | <b>Interest<br/>Receivable</b> | <b>Allowance<br/>for Loan<br/>Losses</b> | <b>Value of Assets<br/>Related to<br/>Defaulted<br/>Guarantees, Net</b> |
|---|---|--------------------------------|--|---|
| Defaulted Guaranteed Loans Obligated Prior to FY 1992 | \$694.3   | \$0.3                          | \$(341.3)                                | \$353.3   |
| Defaulted Guaranteed Loans Obligated After FY 1991    | 2,930.9   | 6.1                            | (1,440.8)                                | 1,496.2   |
| <b>Total</b>  | <b>\$3,625.2</b>  | <b>\$6.4</b>                   | <b>\$(1,782.1)</b>                       | <b>\$1,849.5</b>  |

## F. Guaranteed Loans and Insurance Outstanding

Ex-Im 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 2006    | FY 2005    |
|---|------------|------------|
| Outstanding Principal of Guaranteed Loans and Insurance, Face Value     | \$49,430.2 | \$50,870.8 |
| Amount of Outstanding Principal Guaranteed and Insurance                | 49,430.2   | 50,870.8   |
| Guaranteed Loans and Insurance Disbursed During Year, Face Value        | 10,871.5   | 10,926.1   |
| Guaranteed Loans and Insurance Disbursed During Year, Amount Guaranteed | 10,871.5   | 10,926.1   |

## G. Liability for Loan Guarantees and Insurance

| (in millions)  | FY 2006          | FY 2005          |
|--|------------------|------------------|
| Liability for Losses on Pre-1992 Guarantees and Insurance  | \$46.3           | \$130.8          |
| Liability for Losses on Post-1992 Guarantees and Insurance | 1,226.1          | 2,154.0          |
| <b>Total Liabilities for Loan Guarantees and Insurance</b> | <b>\$1,272.4</b> | <b>\$2,284.8</b> |

Ex-Im Bank has authorized guarantee transactions denominated in a foreign currency during FY 2006 totaling \$1,753.4 million and authorized \$2,054.2 million during FY 2005, as calculated at the exchange rate at the time of authorization. Ex-Im 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.

## H. Subsidy Expense for Loan Guarantees and Insurance by Component

| (in millions)   | FY 2006          | FY 2005            |
|---|------------------|--------------------|
| Defaults  | \$ 245.5         | \$627.8            |
| Fees and Other Collections                                | (91.0)           | (396.1)            |
| <b>Total</b>  | <b>154.5</b>     | <b>231.7</b>       |
| Net Re-estimate – Principal                               | (578.6)          | (1,164.0)          |
| Net Re-estimate – Interest                                | (438.3)          | (237.0)            |
| <b>Total Net Re-estimate</b>                              | <b>(1,016.9)</b> | <b>(1,401.0)</b>   |
| <b>Total Loan Guarantee and Insurance Subsidy Expense</b> | <b>\$(862.4)</b> | <b>\$(1,169.3)</b> |

## I. Subsidy Rates for Loan Guarantees and Insurance by Component

The subsidy rates disclosed below pertain only to the current year's cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year's cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

|                            | FY 2006      | FY 2005      |
|----------------------------|--------------|--------------|
| Defaults                   | 3.28%        | 3.30%        |
| Fees and Other Collections | (2.18)       | (2.18)       |
| <b>Total</b>               | <b>1.10%</b> | <b>1.12%</b> |

## J. Schedule for Reconciling Subsidy Cost Allowance Balances

| (in millions)   | FY 2006          | FY 2005          |
|---|------------------|------------------|
| <b>POST-1991 LOAN GUARANTEES</b>                                      |                  |                  |
| Beginning Balance of the Allowance Account                            | \$2,154.0        | \$2,922.6        |
| Current-Year Subsidy Expense<br>(See Note 4H for Component Breakdown) | 148.8            | 226.3            |
| Modifications   | 5.7              | 5.4              |
| Fees Received   | 405.0            | 359.5            |
| Claim Payments to Lenders   | (323.3)          | (26.5)           |
| Interest Accumulation   | 84.7             | 99.7             |
| Adjustments for Purchased Guaranteed Loans                            | (181.0)          | (1.7)            |
| Other   | (50.9)           | (30.3)           |
| Ending Balance Before Re-estimate                                     | 2,243.0          | 3,555.0          |
| Total Re-estimate   | (1,016.9)        | (1,401.0)        |
| <b>Ending Balance of the Allowance Account</b>                        | <b>\$1,226.1</b> | <b>\$2,154.0</b> |

## K. Administrative Expense

| (in millions)                | FY 2006 | FY 2005 |
|------------------------------|---------|---------|
| Total Administrative Expense | \$72.6  | \$68.4  |

## L. Allowance and Exposure Summary

| (in millions)  | FY 2006          | FY 2005          |
|--|------------------|------------------|
| <b>PRECREDIT-REFORM ALLOWANCE</b>                                |                  |                  |
| Allowance for Loan Losses  | \$667.3          | \$1,353.0        |
| Allowance for Defaulted Guarantees                               | 256.1            | 341.3            |
| Liability for Outstanding Loan Guarantees                        | 46.3             | 130.8            |
| <b>Total Precredit-Reform Allowance</b>                          | <b>969.7</b>     | <b>1,825.1</b>   |
| <b>CREDIT-REFORM ALLOWANCE</b>                                   |                  |                  |
| Allowance for Loan Losses  | 855.6            | 1,484.1          |
| Allowance for Defaulted Guarantees and Insurance                 | 1,117.5          | 1,440.8          |
| Liability for Outstanding Guarantees and Insurance               | 1,226.1          | 2,154.0          |
| Liability Related to Undisbursed Loans, Guarantees and Insurance | 279.1            | 286.4            |
| <b>Total Credit-Reform Allowance</b>                             | <b>3,478.3</b>   | <b>5,365.3</b>   |
| Total Loan Loss Allowance  | 1,522.9          | 2,837.1          |
| Total Allowance for Guarantees, Insurance and Undisbursed Loans  | 2,925.1          | 4,353.3          |
| <b>Total Allowance</b>   | <b>\$4,448.0</b> | <b>\$7,190.4</b> |
| Total Exposure   | \$57,837.8       | \$62,952.5       |
| Percent Allowance to Exposure                                    | 7.7%             | 11.4%            |

## 5. Receivable from the Program Account

The Receivable from the Program Account of \$520.4 million in fiscal year 2006 and \$375.6 million in fiscal year 2005 represents subsidy related to the undisbursed principal balance of loans, guarantees and insurance and the amount of the upward subsidy re-estimate. The receivable is fully offset by the Liability Related to Undisbursed Loans and Guarantees and the Subsidy Payable to the Financing Account. These amounts are payable to and receivable from different Ex-Im Bank accounts at the U.S. Treasury and net to zero.

## 6. Nonaccrual of Interest

The weighted-average interest rate on Ex-Im Bank's loan and rescheduled claim portfolio at September 30, 2006, equaled 4.23 percent (6.50 percent on performing loans and rescheduled claims). The weighted-average interest rate on Ex-Im Bank's loan and rescheduled claim portfolio at September 30, 2005, equaled 3.44 percent (6.02 percent on performing loans and rescheduled claims). Interest income is recognized when collected on nonrescheduled claims.

Generally, the accrual of interest on loans and rescheduled claims is discontinued when the credit is delinquent for 90 days. Ex-Im Bank had a total of \$1,555.0 million and \$847.2 million of loans and rescheduled claims, respectively, in nonaccrual status at September 30, 2006, and \$2,958.5 million and \$1,594.8 million, respectively, at September 30, 2005. Had these credits been in accrual status, interest income would have been \$15.1 million higher during FY 2006 (amount is net of interest received of \$110.5 million) and \$130.6 million higher in FY 2005 (amount is net of interest received of \$66.1 million).

## 7. Statutory Limitations on Lending Authority

Under provisions of the Export-Import Bank Act, as amended in FY 2002, Ex-Im Bank's statutory authority currently is limited to \$100.0 billion of loans, guarantees and insurance outstanding at any one time. At September 30, 2006, and September 30, 2005, Ex-Im Bank's statutory authority used was as follows:

| (in millions)             | FY 2006           | FY 2005           |
|---------------------------|-------------------|-------------------|
| Outstanding Loans         | \$5,954.9         | \$8,354.2         |
| Undisbursed Loans         | 89.0              | 102.3             |
| Outstanding Claims        | 2,363.7           | 3,625.2           |
| Guarantees                | 42,460.0          | 43,554.6          |
| Insurance                 | 6,970.2           | 7,316.2           |
| <b>Total Other Assets</b> | <b>\$57,837.8</b> | <b>\$62,952.5</b> |

Congress provides an appropriation to cover the subsidy cost, if any, of the transactions committed. Transactions can be committed only to the extent that appropriated funds are available to cover such costs. For fiscal years 2006 and 2005, 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 Export-Import Bank Act was not exceeded.

During fiscal year 2006, Ex-Im Bank committed \$56.5 million for loans and \$12,094.0 million for guarantees and insurance, for a total of \$12,150.5 million, using \$190.8 million of the appropriation. During fiscal year 2005, Ex-Im Bank did not enter into commitments for loans but did commit \$13,936.2 million for guarantees and insurance using \$241.2 million of the appropriation.

## 8. Concentration of Risk

Ex-Im Bank support is available to U.S. businesses exporting to countries around the world. However, the Bank's portfolio is concentrated in some regions or industries more than others. The following table summarizes Ex-Im Bank's total exposure by geographic region and industry as of September 30, 2006.

### Total Exposure:

| (in millions)      |                   |               |
|--------------------|-------------------|---------------|
| Region             | Amount            | Percent       |
| Asia               | \$17,271.7        | 29.9%         |
| Latin America      | 14,423.4          | 24.9%         |
| Europe/Canada      | 10,410.2          | 18.0%         |
| Africa/Middle East | 7,696.6           | 13.3%         |
| All Other          | 8,035.9           | 13.9%         |
| <b>Total</b>       | <b>\$57,837.8</b> | <b>100.0%</b> |

| (in millions)      |                   |               |
|--------------------|-------------------|---------------|
| Industry           | Amount            | Percent       |
| Air Transportation | \$24,443.0        | 42.3%         |
| Oil and Gas        | 7,361.6           | 12.7%         |
| Power Projects     | 4,876.3           | 8.4%          |
| Manufacturing      | 4,418.0           | 7.7%          |
| All Other          | 16,738.9          | 28.9%         |
| <b>Total</b>       | <b>\$57,837.8</b> | <b>100.0%</b> |

At September 30, 2006, Ex-Im Bank's five largest (public and private) obligors made up 19.2 percent of the credit portfolio.

| (in millions)               |                   |               |
|-----------------------------|-------------------|---------------|
| Obligor                     | Amount            | Percent       |
| Pemex                       | \$5,056.0         | 8.7%          |
| Ryanair                     | 1,738.0           | 3.0%          |
| Korean Air Lines            | 1,723.2           | 3.0%          |
| WestJet Airlines            | 1,303.3           | 2.3%          |
| Ministry of Finance (India) | 1,267.7           | 2.2%          |
| All Other                   | 46,749.6          | 80.8%         |
| <b>Total</b>                | <b>\$57,837.8</b> | <b>100.0%</b> |

The largest exposures by program by country are as follows as of September 30, 2006:

#### Loans Outstanding:

| (in millions) |                  |               |
|---------------|------------------|---------------|
| Country       | Amount           | Percent       |
| Brazil        | \$1,508.1        | 25.3%         |
| Indonesia     | 1,430.3          | 24.0%         |
| China         | 895.2            | 15.0%         |
| Argentina     | 302.3            | 5.1%          |
| All Other     | 1,819.0          | 30.6%         |
| <b>Total</b>  | <b>\$5,954.9</b> | <b>100.0%</b> |

#### Subrogated Claims:

| (in millions) |                  |               |
|---------------|------------------|---------------|
| Country       | Amount           | Percent       |
| Indonesia     | \$524.1          | 22.2%         |
| Mexico        | 366.8            | 15.5%         |
| Ukraine       | 142.6            | 6.0%          |
| Argentina     | 134.4            | 5.7%          |
| All Other     | 1,195.8          | 50.6%         |
| <b>Total</b>  | <b>\$2,363.7</b> | <b>100.0%</b> |

#### Guarantees, Insurance and Undisbursed Loans:

| (in millions)     |                   |               |
|-------------------|-------------------|---------------|
| Country           | Amount            | Percent       |
| Mexico            | \$7,586.6         | 15.3%         |
| China             | 3,136.1           | 6.3%          |
| Republic of Korea | 2,798.3           | 5.7%          |
| India             | 2,425.6           | 4.9%          |
| All Other         | 33,572.6          | 67.8%         |
| <b>Total</b>      | <b>\$49,519.2</b> | <b>100.0%</b> |

## 9. Other Assets

| (in millions)                          | FY 2006       | FY 2005       |
|--|---------------|---------------|
| Assets Acquired Through Claim Recovery | \$23.7        | \$20.4        |
| Commitment Fee Receivables             | 4.4           | 4.3           |
| Other                                  | 1.9           | 1.7           |
| <b>Total Other Assets</b>              | <b>\$30.0</b> | <b>\$26.4</b> |

Other assets are primarily equity securities that the Bank acquired through recovery actions on defaulted claims. The balance above reflects the market value of the securities. Commitment fees are charged on the undisbursed, unexpired balance of loans and certain guarantees. The Other category includes miscellaneous accounts receivable.

## 10. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are included in other liabilities on the Balance Sheet as follows:

| (in millions)                 | FY 2006 | FY 2005 |
|-------------------------------|---------|---------|
| Accrued Unfunded Annual Leave | \$2.9   | \$2.7   |

Ex-Im Bank's liability to employees for accrued annual leave, included in other liabilities, was \$2.9 million as of September 30, 2006, and \$2.7 million as of September 30, 2005. The liability will be paid from future administrative expense appropriations.

## 11. Debt

Ex-Im 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 Ex-Im Bank's guarantee program via payment certificates.

Ex-Im Bank's total debt at September 30, 2006 and 2005, is as follows:

| (in millions)                  | FY 2006          | FY 2005          |
|--------------------------------|------------------|------------------|
| <b>U.S. TREASURY DEBT</b>      |                  |                  |
| Beginning Balance              | \$5,848.3        | \$7,237.2        |
| New Borrowings                 | -                | 160.0            |
| Repayments                     | (937.6)          | (1,548.9)        |
| Ending Balance                 | \$4,910.7        | \$5,848.3        |
| <b>DEBT HELD BY THE PUBLIC</b> |                  |                  |
| Beginning Balance              | \$297.2          | \$448.4          |
| New Borrowings                 | 8.2              | 6.1              |
| Repayments                     | (110.1)          | (157.3)          |
| Ending Balance                 | \$195.3          | \$297.2          |
| <b>Total Debt</b>              | <b>\$5,106.0</b> | <b>\$6,145.5</b> |

Ex-Im Bank had \$4,910.7 million of borrowings outstanding with the U.S. Treasury at September 30, 2006, and \$5,848.3 million of borrowings at September 30, 2005, with a weighted-average interest rate of 5.89 percent at September 30, 2006, and 5.80 percent at September 30, 2005.

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 Ex-Im Bank through the re-estimation process for this purpose. Accordingly, U.S. Treasury borrowings do not have a set repayment schedule; however, the full amount of the borrowings is expected to be repaid by FY 2033.

Payment certificates are issued by Ex-Im Bank in exchange for the foreign importer's original note that was guaranteed by Ex-Im Bank on which Ex-Im Bank has paid a claim and carries the same repayment term and interest rate as the foreign importer'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, 2006, and September 30, 2005, were \$195.3 million and \$297.2 million, respectively. Maturities of payment certificates at September 30, 2006, follow:

| <b>(in millions)</b> |                |
|----------------------|----------------|
| <b>Fiscal Year</b>   | <b>Amount</b>  |
| 2007                 | \$65.7         |
| 2008                 | 36.7           |
| 2009                 | 22.1           |
| 2010                 | 10.8           |
| 2011                 | 9.8            |
| Thereafter           | 50.2           |
| <b>Total</b>         | <b>\$195.3</b> |

The weighted-average interest rate on Ex-Im Bank's outstanding payment certificates at September 30, 2006, was 5.23 percent and at September 30, 2005, was 5.67 percent.

## 12. Other Liabilities

| <b>(in millions)</b>                     | <b>2006</b>   | <b>2005</b>   |
|--|---------------|---------------|
| Funds Held Pending Application           | \$26.1        | \$33.3        |
| Administrative Expenses Payable          | 7.8           | 6.6           |
| Accrued Interest on Payment Certificates | 3.1           | 9.4           |
| <b>Total Other Liabilities</b>           | <b>\$37.0</b> | <b>\$49.3</b> |

## 13. Leases

Ex-Im Bank's headquarters office space is leased from the General Services Administration (GSA) through the Public Buildings Fund. Lease expenses, included in administrative expenses, were \$4.9 million and \$4.7 million for fiscal years 2006 and 2005, respectively. The lease expires on December 31, 2009, at which time it will be renegotiated. Future lease payments through the expiry of the lease are expected to remain unchanged except for increases in operating costs, which are estimated to be \$25,000 per year.

## 14. Commitments and Contingencies

### Pending Litigation

As of the end of September 30, 2006, Ex-Im Bank was named in several legal actions, virtually all of which involved claims under the guarantee and insurance programs. It is not possible to predict the eventual outcome of the various actions; however, it is management's opinion that these claims will not result in liabilities to such an extent they would materially affect the financial position or results of operations of Ex-Im Bank.

### Project Finance

In project finance cases, Ex-Im Bank's assistance during the construction period is generally in the form of a direct credit or comprehensive guarantee to the private lender. At the end of the construction period, the borrower in some cases has the opportunity to convert the private guaranteed financing to an Ex-Im Bank direct loan. As of September 30, 2006, Ex-Im Bank had \$984.5 million of such contingent loan commitments outstanding.

## 15. Disclosures Related to the Statement of Net Cost

Ex-Im Bank's Statement of Net Cost lists 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. Ex-Im Bank does not allocate administrative expenses by program.

| (in millions)                                   | For the Year Ended<br>September 30, 2006 | For the Year Ended<br>September 30, 2005 |
|---|--|--|
| <b>LOANS</b>                                    |  |  |
| Intragovernmental Costs                         | \$316.9                                  | \$380.4                                  |
| Public Costs                                    | (91.5)                                   | (306.2)                                  |
| Total Costs                                     | 225.4                                    | 74.2                                     |
| Intragovernmental Revenue                       | (64.3)                                   | (80.9)                                   |
| Public Revenue                                  | (827.2)                                  | (751.4)                                  |
| Total Revenue                                   | (891.5)                                  | (832.3)                                  |
| <b>Net Excess of Program Revenue Over Costs</b> | <b>(666.1)</b>                           | <b>(758.1)</b>                           |
| <b>GUARANTEES</b>                               |  |  |
| Public Costs                                    | (763.0)                                  | (726.2)                                  |
| Intragovernmental Revenue                       | (84.7)                                   | (100.5)                                  |
| Public Revenue                                  | (390.9)                                  | (379.4)                                  |
| Total Revenue                                   | (475.6)                                  | (479.9)                                  |
| <b>Net Excess of Program Revenue Over Costs</b> | <b>(1,238.6)</b>                         | <b>(1,206.1)</b>                         |
| <b>INSURANCE</b>                                |  |  |
| Public Costs                                    | 143.8                                    | 49.0                                     |
| Public Revenue                                  | (36.9)                                   | (29.3)                                   |
| <b>Net Excess of Program Costs Over Revenue</b> | <b>106.9</b>                             | <b>19.7</b>                              |
| <b>ADMINISTRATIVE EXPENSES</b>                  |  |  |
| Public Costs                                    | 61.1                                     | 56.5                                     |
| Intragovernmental Costs                         | 11.5                                     | 11.9                                     |
| <b>Total Administrative Expenses</b>            | <b>72.6</b>                              | <b>68.4</b>                              |
| <b>Distribution of Income</b>                   | <b>627.5</b>                             | <b>501.0</b>                             |
| <b>Net Excess of Program Revenue Over Costs</b> | <b>(\$1,097.7)</b>                       | <b>(\$1,375.1)</b>                       |

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 costs were \$328.4 million in FY 2006 and \$392.3 million in FY 2005. Intragovernmental revenues represent interest from the U.S. Treasury on cash balances in the credit-reform financing accounts. Intragovernmental revenue was \$149.0 million in FY 2006 and \$181.4 million in FY 2005.

Ex-Im Bank public costs represent costs that the Bank incurs to support the business programs. These costs are comprised primarily of the subsidy cost and provision for loss on the loan and guarantee portfolio, and administrative expenses paid to the public. Ex-Im Bank public revenue represents income items that are generated as a result of operating the loan, guarantee insurance programs. This revenue primarily relates to the fee and interest income on the outstanding credits. Ex-Im Bank net public costs totaled negative \$649.6 million in FY 2006 and negative \$926.9 million in FY 2005. Public revenue totaled \$1,255.0 million in FY 2006 and \$1,160.1 million in FY 2005. For both FY 2006 and 2005, the net costs were negative due to the downward re-estimate of program subsidy costs.

## 16. Disclosures Related to the Combined Statement of Budgetary Resources

Ex-Im Bank's Statement of Budgetary Resources discloses total budgetary resources available to the Bank and the status of such resources at September 30, 2006, and September 30, 2005. Activity impacting budget totals of the overall U.S. government budget is recorded in Ex-Im Bank's Statement of Budgetary Resource's budgetary accounts. Activity that does not impact budget totals is recorded in Ex-Im Bank's Statement of Budgetary Resource's nonbudgetary accounts. The Bank's resources in budgetary accounts totaled \$922.5 million for FY 2006 and \$1,350.4 million for FY 2005. The Bank's resources in nonbudgetary accounts totaled \$4,868.6 million for FY 2006 and \$4,735.3 million for FY 2005.

### Adjustments to Beginning Balance of Budgetary Resources

Ex-Im Bank made no adjustments to the beginning budgetary resources during the years ended September 30, 2006, and September 30, 2005.

### Apportionment Categories of Obligations Incurred

Ex-Im 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 2006 and FY 2005 totaled \$2,948.0 million and \$2,644.1 million, respectively.

### Permanent Indefinite Appropriations

The FCRA requires an annual re-estimate of the subsidy cost allowance. In the event that there is an increase in subsidy required to cover defaults, there is permanent and indefinite authority available for this purpose. In FY 2006, the Bank received \$89.2 million of permanent indefinite appropriations as a result of the FY 2005 re-estimate. In FY 2005, the Bank received \$288.8 million of permanent indefinite appropriations as a result of the FY 2004 re-estimate.

### Available Borrowing Authority and Terms of Borrowing

Ex-Im 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 Ex-Im Bank through the re-estimation process for this purpose. Accordingly, U.S. Treasury borrowings do not have a set repayment schedule; however, the full amount of the borrowings is expected to be repaid by FY 2033.

For FY 2006, Ex-Im Bank did not have any new borrowings with the U.S. Treasury, while for FY 2005, Ex-Im Bank had new borrowings of \$160.0 million.

## Unobligated Balances

Ex-Im Bank receives annual appropriations that are intended to support the Bank's loan, guarantee and insurance programs, as well as the Bank's administrative operations. The program appropriations received in any given year are available to be obligated for four years before they expire. Administrative appropriations are available for one fiscal year before they expire.

Unobligated balances at the end of FY 2006 and FY 2005 totaled \$2,843.1 million and \$3,441.6 million, respectively. Of the \$2,843.1 million, \$1.0 is available until September 30, 2007, \$43.6 million is available until September 30, 2008, \$99.0 million is available until September 30, 2009, and \$227.9 million is available until expended and may be used for tied aid. Of the remaining balance of \$2,471.6 million, \$2,293.9 million represents the amount in the financing account that is available to cover future defaults and \$177.7 million is unavailable for new obligations.

## Differences between Statement of Budgetary Resources and Budget of U.S. Government

There are no differences between the budgetary resources listed on Ex-Im Bank's statement and the budgetary resources found in the budget of the U.S. government.

## 17. Disclosures Related to the Statement of Financing

The Statement of Financing reconciles the Bank's budgetary and financial accounting. The Statement of Financing illustrates the relationship between net obligations derived from Ex-Im Bank's budgetary accounts and the net cost of operations derived from Ex-Im Bank's proprietary accounts by identifying and explaining key differences between the two numbers.

Liabilities Not Covered by Budgetary Resources (Note 10) differs from Components Requiring or Generating Resources in Future Periods on the Statement of Financing primarily by the amount of annual leave recorded at year-end. The \$2.9 million, which represents a liability at year-end, will require resources in future periods.

## 18. Other Accompanying Information

### Related-Party Transactions

The financial statements reflect the results of contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies and financial services institutions, makes medium-term and long-term fixed-rate and variable-rate loans to foreign borrowers to purchase U.S.-made equipment when such loans are not available from traditional private-sector lenders on competitive terms. Ex-Im Bank's credit and guarantee agreement with PEFCO extends through December 31, 2020. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO's major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues, and is entitled to representation at all meetings of PEFCO's board of directors, advisory board and exporters' council.

PEFCO has agreements with Ex-Im Bank which provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal and interest on export loans made by PEFCO and (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured-debt obligations when requested by PEFCO. Such guarantees, aggregating \$4,797.0 million at September 30, 2006 (\$4,135.9 million related to export loans and \$661.1 million related to secured-debt obligations) and \$4,936.1 million at September 30, 2005 (\$4,225.4 million related to export loans and \$710.7 million related to secured-debt obligations), are included by Ex-Im Bank in the total for guarantee, insurance and undisbursed loans, and the allowance related to these transactions is included in the Guarantee Loan Liability on the Balance Sheet. Ex-Im Bank received fees totaling \$32.1 million in FY 2006 (\$31.9 million related to export loans and \$0.2 million related to secured-debt obligations) and \$26.6 million in FY 2005 (\$26.4 million related to export loans and \$0.2 million related to secured-debt obligations) for the agreements, which are included in fee revenue included on the Statement of Net Costs.

Ex-Im Bank has significant transactions with the U.S. Treasury. The U.S. Treasury, although not exercising control over Ex-Im Bank, holds the capital stock of Ex-Im Bank, creating a related-party relationship between Ex-Im Bank and the U.S. Treasury.

### Contributions to Employee Retirement Systems

Virtually all of Ex-Im Bank's employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

In FY 2006, Ex-Im Bank withheld 7.0 percent of CSRS employees' gross earnings. Ex-Im 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, Ex-Im Bank withheld 0.8 percent of employees' gross earnings. Ex-Im Bank's contribution was 8.9 percent of employees' gross earnings. 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 is withheld; that plus matching contributions by Ex-Im Bank are sent to the Social Security System 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 \$15,000 of gross earnings. In addition, FERS employees receive an automatic 1 percent contribution from Ex-Im Bank. Amounts withheld for FERS employees are matched by Ex-Im Bank, up to 4 percent, for a maximum Ex-Im Bank contribution to the TSP of 5 percent.

Total Ex-Im Bank (employer) matching contributions to the Thrift Savings Plan, CSRS and FERS for all employees, included in administrative expenses, were approximately \$4.8 million and \$4.7 million for FY 2006 and FY 2005, respectively.

Although Ex-Im 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 Office of Personnel Management (OPM) for the Retirement Systems and are not allocated to the individual employers. OPM also accounts for the health-insurance 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-insurance and life-insurance programs is maintained by OPM and is not available on an individual-employer basis.