



FY 2017

**Congressional
Budget
Justification**

What is EXIM Bank?



Independent Agency

EXIM Bank is an independent, self-sustaining federal agency that operates at no cost to U.S. taxpayers.

Promoting Job Creation

Over the past seven years, EXIM Bank's authorizations supported more than 1.4 million American jobs, including an estimated 109,000 in FY 2015.

Earning Money for Taxpayers

In FY 2015 EXIM Bank generated a surplus of \$431.6 million for U.S. taxpayers.

Benefiting Small Businesses

Nearly 90 percent of the number of EXIM Bank's authorizations directly benefited small businesses, not including small businesses that benefited indirectly as suppliers to EXIM's larger customers.

BANK OVERVIEW

U.S. JOBS

EXIM Bank's mission is to support American jobs through U.S. exports by providing competitive export financing, as well as ensuring a level playing field for American exporters. In the past seven years (FY 2009 to FY 2015), EXIM Bank has assisted in financing more than \$233.9 billion of U.S. exports and supported more than 1.4 million American jobs. In FY 2017 alone, EXIM Bank is projected to support 152,000 American jobs. Most recently in FY 2015, the Bank supported 109,000 export-related U.S. jobs.¹

The Bank's financing provides significant support for U.S. small businesses. More than 40% (\$6.9 billion) of FY 2015 exports financed by the Bank supported small businesses. Small enterprises create two out of every three new jobs, and more than half of all Americans either work for or own a small business. EXIM Bank supports U.S. small businesses and continues to allocate resources to network with small companies looking to export. Since 2009, the Bank has supported 2,900 new small business exporters.

SELF – SUSTAINING

The FY 2017 Budget Request continues the Bank's self-sustaining status, which was initiated and has remained in effect since FY 2008, consistent with World Trade Organization (WTO) agreements on prohibited export subsidies. Under self-sustaining status, at the beginning of the fiscal year the U.S. Treasury will grant EXIM Bank a warrant in the amount appropriated by Congress to cover its administrative expenses. EXIM Bank charges fees and interest to its customers. The fees and interest EXIM receives covers all of its expenses, including product reserves. Excess fees (i.e. fees above expense) result in negative subsidy.

As EXIM Bank collects fees from borrowers in FY 2017, the Bank will use these offsetting collections to repay the Treasury warrant. Once the warrant is repaid, the Bank will retain up to \$10.0 million as carryover funding. Additional fees in excess of the Bank's costs are forecasted to result in \$439.1 million in negative subsidy receipts which will be transferred to EXIM Bank's negative subsidy receipt account and will be sent to the U.S. Treasury for deficit reduction.

FUNDS SENT TO TREASURY

Since 1992, the Bank has sent to the U.S. Treasury \$6.9 billion more than it received in appropriations for program and administrative costs.² In FY 2017, it is estimated the Bank will send an additional \$439.1 million to the U.S. Treasury.

¹ EXIM Bank's job calculation methodology was validated and confirmed by the Government Accountability Office in FY 2013 (GAO-13-446).

² In FY 2013, the GAO (GAO-13-446) validated and confirmed the Bank's accounting of funds sent to U.S. Treasury.

FY17 BUDGET OVERVIEW

BANK STATUS

On December 4, 2015, President Obama signed into law the Fixing America's Surface Transportation Act (P.L. 114-94). This Act included the Export-Import Bank Reform and Reauthorization Act of 2015, which extended the Bank's operating authority through FY 2019. 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. jobs through exports, EXIM Bank offers four financial products: loan guarantees, working capital guarantees, export-credit insurance, and direct loans. All EXIM Bank obligations carry the full faith and credit of the U.S. government.

REQUEST SUMMARY

The Export-Import Bank of the United States is requesting \$110.0 million for administrative expenses in FY 2017. This fiscal year is the fourth consecutive year in which the Bank is requesting \$0 for the subsidy cost of credit programs. The Bank has been a self-sustaining agency with fees collected exceeding all expenses since FY 2008, allowing the Bank to return funds to the U.S. Treasury to assist with deficit reduction.

The FY 2017 Congressional Budget Justification (CBJ) reflects the Bank's mission of supporting American jobs through U.S. exports. The FY 2017 Budget Request will also provide the Bank with the resources necessary to meet forecasted demand for U.S. exports financing in FY 2017.

Below are key estimates for FY 2017:

- The FY 2017 authorization projection is \$20.4 billion, with an estimated export value of \$27.5 billion
- The FY 2017 Budget Request supports an estimated \$5.1 billion in small business authorizations
- The Bank estimates it will support approximately 152,000 jobs during FY 2017

Over the last seven years, the Bank has assisted in either creating or sustaining more than 1.4 million jobs. While supporting U.S. jobs is the mission of EXIM Bank, the Bank has also sent a net amount of \$6.9 billion to the U.S. Treasury since 1992.

With the FY 2017 Budget Request, the Bank estimates sending \$439.1 million of negative subsidy to the U.S. Treasury. This amount is scored as an offset to the Administration's total Budget Request.

SCORING

| | FY 2015 Actuals | FY 2016 Estimate | FY 2017 Request |
|-------------------------------|--------------------|---------------------|--------------------|
| Revenue | | | |
| Offsetting Collections | (\$116.3) | (\$116.3) | (\$120.0) |
| Offsetting Receipts | (\$431.6) | (\$479.2) | (\$439.1) |
| Total Revenue | (\$547.9) | (\$595.5) | (\$559.1) |
| Expenses | | | |
| Administrative Expense | \$106.3 | \$106.3 | \$110.0 |
| Subsidy Expenses | -0- | -0- | -0- |
| Carryover³ | \$10.0 | \$10.0 | \$10.0 |
| Negative Subsidy | (\$431.6) | (\$479.2) | (\$439.1) |
| Inspector General | \$5.8 | \$6.0 | \$5.7 |
| Net Appropriation | (\$425.8) | (473.2) | (\$433.4) |

EXIM Bank requests \$110.0 million in FY 2017 for administrative expenses. At this request level, the Bank estimates that in FY 2017 it will collect \$559.1 million in fees in excess of expected losses. During the previous seven fiscal years (FY 2009 – FY 2015), the Bank sent \$3.1 billion in negative subsidy to the U.S. Treasury. In FY 2017, the Bank would remain a self-sustaining agency while sending an estimated \$439.1 million to the Treasury.

Below is a summary of the Bank’s financial activities in FY 2015, as well as the projections for FY 2016 and FY 2017.

WORKING WITH THE PRIVATE SECTOR

America’s private sector capital markets are among the highest-functioning, most efficient in the world. However, commercial banks do not always have the capacity or willingness to equip American businesses that want to sell their goods and services overseas. Even in strong economic periods, small businesses generally have difficulty securing working capital loans or insurance packages to support exports.

EXIM Bank’s role in the market is to assist in filling any market gaps. The Bank does not compete with the private sector—in fact, approximately 98 percent of the Bank’s transactions include a partnering private financial entity. Instead, the Bank provides a vital backstop to ensure that the American export economy remains vibrant in a world of fluctuating markets. The Bank’s financial activity is demand driven, and adjusts to current market conditions. When market liquidity was weak during the 2008 financial crisis, the Bank served as a lender of last resort to assist financial markets.



³ Carryover is designed as a capital reserve in case of a disruption in offsetting collections due to external factors, resulting in disbursement delays.

FORECASTING

FORECASTING

EXIM Bank's FY 2017 Budget Request reflects a careful analysis of the potential demand for the Bank's direct loan, guarantee, and insurance authority, as well as the administrative resources necessary to carry out its mission. The Economist Intelligence Unit (EIU) estimates exports for goods to increase by 10.9 percent from FY 2014 to FY 2017. However, recent export activity has decreased due to the strengthening of the U.S. dollar, and weaker international economic growth. In line with the projection from the EIU and, combined with recent export activity, EXIM Bank forecasts authorizations to be \$20.4 billion by FY 2017, with exposure slightly increasing from FY 2015 to \$103.8 billion.

AUTHORIZATIONS

EXIM Bank is forecasting authorizations to reach \$20.4 billion in FY 2017. The increase over the FY 2016 forecast is due primarily to the lapse in the Bank's authorization from July 1 to December 4, 2015. Moreover, due to the recent lapse in authorization, the Bank has a pending pipeline of more than \$10 billion. Below are authorization projection details by each underwriting division.

| Authorization Forecasts (\$ Millions) | | | |
|---------------------------------------|----|---------|-----------|
| Division | | FY 2016 | FY 2017 |
| Transportation | \$ | 3,500 | \$ 5,500 |
| Structured Finance | \$ | 5,720 | \$ 7,630 |
| Trade Finance | \$ | 650 | \$ 1,100 |
| Working Capital | \$ | 1,470 | \$ 1,620 |
| Multi-Buyer | \$ | 3,500 | \$ 4,225 |
| Single Buyer | \$ | 300 | \$ 350 |
| Total | \$ | 15,140 | \$ 20,425 |

EXIM Bank derives its authorization forecasts from a pipeline of transactions that are expected to occur during that fiscal year along with business unit level forecasts conducted by each division. Furthermore, the Bank has created quantitative regression models to forecast expected authorizations as another check to validate the pipeline methodology. Forecasts are updated on an ad hoc basis based upon new transactions entering the pipeline. The Bank is also in frequent contact with its customer base regarding its long-term transaction portfolio (Transportation and Structured Finance). The Bank is able to view its authorization pipeline years in advance, in order to better estimate its future potential authorizations.

PRODUCT OVERVIEW

EXIM Bank offers four financial products: loan guarantees, working capital guarantees, export credit insurance, and direct loans. All EXIM Bank products carry the full faith and credit of the U.S. government.

| | |
|-----------------|-----------------|
| Direct Loans | Loan Guarantees |
| Working Capital | Insurance |

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 comprehensive guarantee covers commercial and political risks for up to 85 percent of the U.S. contract value.

EXIM Bank’s direct lending program offers fixed interest-rate loans directly to foreign buyers of U.S. goods and services. Loans to an exporter’s customer can cover up to 85 percent of the U.S. contract value. EXIM Bank's direct loans typically carry the most competitive fixed interest rate and term permitted for the importing country under the "Arrangement on Guidelines for Officially Supported Export Credits," negotiated among members of the Organization for Economic Cooperation and Development (the “OECD”).

EXIM Bank lending covers a range of terms, extending up to 18 years. Medium-term products typically have repayment terms of one to seven years, while the long-term products usually have repayment terms in excess of seven years.

EXPOSURE

EXIM Bank’s exposure is derived from two primary sources: new authorizations and repayments of approved authorizations. The Bank develops exposure forecasts by estimating the approval of new authorizations combined with the reduction of exposure due to the expected repayments of transactions. The difference between the authorizations and repayments give the change in exposure during the fiscal year.

Consistent with GAO recommendations (GAO-13-620), the Bank recently improved the calculation of expected repayments and authorizations by incorporating actual EXIM Bank data. For repayments, the Bank takes current transactions and uses their actual repayment terms. By summing up individual transactions repayments by year, the Bank creates a total expected repayment amount for any given fiscal year. For future transactions, the Bank takes typical repayment terms and applies them to forecasted amounts.

EXIM Bank developed three different models to supplement the pipeline methodology. These models use the Bank’s historical experience as well as other data sources to forecast future authorization levels. For new authorizations, the model in large part uses EXIM Bank’s historical proportion of total U.S. exports. The Bank uses the Economist Intelligence Unit’s (EIU) forecast of future U.S. exports to derive a future expected authorization level in addition to looking at the historical growth of EXIM authorizations. Below is a summary of actual and forecasted future Bank exposure through FY 2017.

EXIM Bank Exposure Cap Analysis (\$billions)

| | | FY 11 | FY 12 | FY 13 | FY 14 | FY 15 | fcrst FY 16 | fcrst FY 17 |
|--------------------------------------|----|--------|-----------|-----------|-----------|-----------|-------------|-------------|
| Exposure (BOY) | \$ | 75.2 | \$ 89.2 | \$ 106.6 | \$ 113.8 | \$ 112.0 | \$ 102.2 | \$ 100.7 |
| Repayments/Prepayments/Cancellations | \$ | (18.8) | \$ (18.3) | \$ (20.2) | \$ (22.3) | \$ (22.2) | \$ (16.7) | \$ (17.4) |
| New Authorizations | \$ | 32.7 | \$ 35.8 | \$ 27.3 | \$ 20.5 | \$ 12.4 | \$ 15.1 | \$ 20.4 |
| Exposure EOY | \$ | 89.2 | \$ 106.6 | \$ 113.8 | \$ 112.0 | \$ 102.2 | \$ 100.7 | \$ 103.8 |

FY 2017 ADMIN BUDGET

FY 2017 ADMINISTRATIVE EXPENSES

The FY 2017 Budget Request includes \$110.0 million in administrative expenses. The Bank forecasts supporting \$20.4 billion in authorizations, and 152,000 U.S. jobs while earning \$439.1 million in offsetting collections. This Budget Request will allow the bank to further its mission of supporting U.S. jobs through export sales, and continue to manage the Bank's portfolio. Moreover, this level of administrative funds will allow the Bank to meet its mandate as well as further engage with the small business community. Below are the individual line items that comprise the FY 2017 Budget Request. Consistent with prior year appropriations, the Bank also requests \$10 million in carryover expenses.

| | FY 2016 Enacted (\$Ms) | FY 2017 Request (\$Ms) |
|--------------------------------------|---------------------------|---------------------------|
| Personnel Compensation | 50.0 | 51.6 |
| Personnel Benefits | 21.4 | 22.5 |
| Travel and Transportation of Persons | 1.6 | 1.6 |
| Transportation of Things | 0.1 | 0.1 |
| Rental Payments for Space | 8.4 | 8.4 |
| Communication & Utilities | 5.4 | 5.4 |
| Printing and Reproduction | 0.4 | 0.4 |
| Other Services | 7.4 | 8.4 |
| Supplies and Materials | 1.4 | 1.4 |
| Representation Fund | 0.1 | 0.1 |
| Software and Equipment | 10.1 | 10.1 |
| Grand Total Expenses | 106.3 | 110.0 |
| Renovation Expenses | -0- | -0- |
| Office of Inspector General | 6.0 | 5.7 |

FY 2017 INVESTMENTS

The FY 2017 Budget Request includes new investments in small business outreach and development to meet increased targets set forth in the Export-Import Bank Reform and Reauthorization Act of 2015. Moreover, these investments will provide the Bank with the resources necessary to meet forecasted demand. Below is the allocation of the additional \$3.7 million.

| Strategic Priority | Investment (\$Ms) | FTE |
|-----------------------------------|-------------------|---------------|
| Small Business Development | \$2.7 | 9 FTEs |
| Business Development Specialists | \$1.3 | 7 FTE |
| Admin Support | \$0.2 | 2 FTE |
| Outreach & Awareness | \$1.2 | |
| Mandates | \$1.0 | 0 FTE |
| Total | \$3.7 | 9 FTEs |

The investment in small business will allow the Bank to meet its updated mandate of increasing the percent of authorizations from 20% to 25%. The Bank will need to engage the small business community regarding the Bank’s products, and the opportunity to export to new markets.

OTHER MANDATES

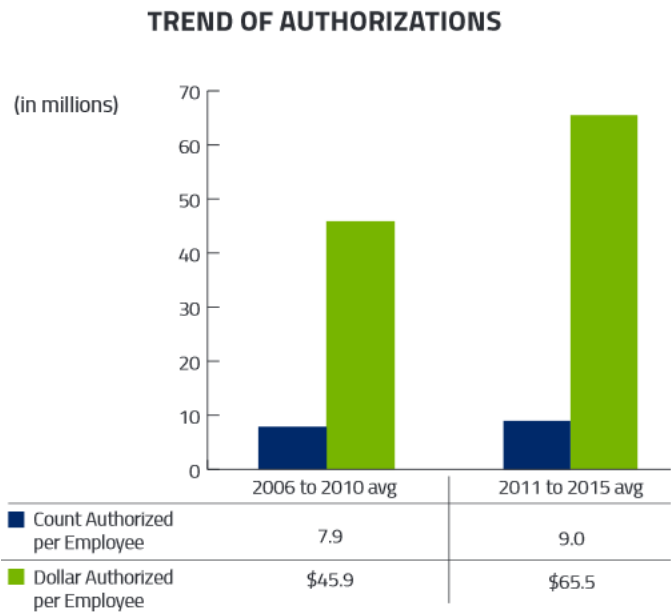
The Bank requests an investment of \$1.0 million to support the other mandates as required under the Bank’s 2015 reauthorization. Specifically, the Bank will utilize the resources to costs associated with funding a Chief Ethics Officer, a Chief Risk Officer, and launch a pilot reinsurance program to further enhance the Bank’s risk management framework.

The Bank is looking to begin a pilot reinsurance program, as well as update its ability to receive more forms of electronic payment. Such investments would require updates to systems, contractors, and extensive due diligence to be compliant with the updated mandates.

AWARD WINNING STAFF

In FY 2015, EXIM was awarded Best Global ECA from Trade Finance Magazine. In May 2015, EXIM Bank’s deals were recognized as Deal of the Year for Europe, Latin America, and Asia at the AirFinance Journal Deals of the Year Awards Dinner.

The success of EXIM Bank can be largely attributed to the Bank’s employees. Although a small agency of fewer than 450 FTEs, EXIM Bank’s employees are highly efficient in responding to market needs and current demand for EXIM support. The 2011 through 2015 five-year average dollar amount of authorizations per employee was \$65.5 million with an average count of 9.0 transactions per employee. This compares to a 2006 through 2010 five-year average of \$45.9 million and a count of 7.9 transactions per employee. EXIM Bank credits these increases to its continued focus on streamlining its bank-wide operations as well as the commitment and dedication of its staff. The Bank’s personnel have been recognized for such performance over the past decade through the receipt of over 50 awards granted by various finance journals. The excellence of EXIM Bank’s staff is further exemplified by the Bank’s low default rate. In the latest report to Congress EXIM Bank’s default rate was 0.248% as of December 31st 2015. The Bank looks to continue its success in FY 2017.



SUPPORTING SMALL BUSINESS



Small business transactions continued to represent nearly 90 percent of all EXIM Bank transactions.

The Bank requests an investment of \$2.7 million to support U.S. small businesses. This request is essential in order to meet the revised Small Business mandate of 25% of the dollar value of financing.

EXIM Bank has a wide focus on small business support with overall responsibility for expanding and overseeing small

business outreach. EXIM Bank's programs play an important role in providing export-finance support to small businesses that have the ability to expand and create American jobs.

The Bank estimates that to meet its 25% small business mandate in FY 2017 it will need to authorize approximately \$5.1 billion in small business transactions.

The Bank will accomplish this primarily through the Trade Credit Insurance products and the Working Capital product, with guarantees and loans filling out the rest.

The FY 2016/17 Government Performance and Review Act (GPRA) is based on the Bank's Strategic Plan. The Strategic Plan is applicable for the years 2013 – 2017 and is published on EXIM's website. The Strategic Plan identifies 4 specific goals that serve as the basis for the GPRA targets. Two of the four goals focus on small business development. Specifically, the Bank will:

- Raise awareness about EXIM Bank small business products; and
- Increase and enhance the Bank's customer service.

Significant investments and resources are used to develop the number and amount of small business exporters. There are approximately 27 million businesses in the United States. Of these, approximately 280,000 export, but approximately 60 percent of these firms export to only one country, either Canada or Mexico. As globalization increases, EXIM Bank financing can help these American companies reach new markets. Unfortunately, a significant number of small businesses, and the institutions that serve them, have limited awareness of the trade finance tools available to them.

EXIM Bank has a particular role to play in solving this knowledge gap, and is continuously looking for ways to enhance and expand its outreach to small businesses. The Bank believes there is an opportunity to solve this problem through developing a digital outreach capability within EXIM Bank. This includes creating digital outreach campaigns, as well as the use of a customer relationship management (CRM) tool.

In FY 2015 the Bank initiated a number of new digital outreach efforts. This program ran for five months starting in February and ending on June 30, 2015 when the Bank's authorization lapsed. During this short time, the effort generated more than 4,500 qualified contacts and nearly 300 previously unknown qualified leads. Additionally, at the time the program was prematurely suspended, the Bank experienced between 80%-150% month-over-month

growth for each of these metrics. The Bank will continue its outreach efforts in FY 2017 to assist small businesses looking to export their goods and services.

Additionally, to capitalize on the increased interest in EXIM's small business services, the Bank will hire an additional nine new business development specialists to assist in meeting the increased small business mandate. It is estimated that each new business development specialist will facilitate an estimated \$21.0 million in new small business authorizations.

Small businesses are the engine of the American economy, responsible for creating two out of every three new jobs. More than half of all Americans either work for or own a small business. EXIM Bank is committed to supporting job growth by equipping small businesses with the financing they need to reach new customers and win sales overseas. In FY 2015 nearly 90 percent of the total number of EXIM Bank authorizations directly benefited small businesses - this figure does not even include small businesses benefiting indirectly as suppliers to EXIM Bank's larger customers.

The limited role private banks play in small business financing is due to high costs and low return on investment. These low profit margins generally makes small business lending difficult and unattractive for the private sector, especially during an economic downturn as small businesses are the most vulnerable to macroeconomic shifts.

In FY 2015, EXIM Bank had a number of accomplishments for small businesses:

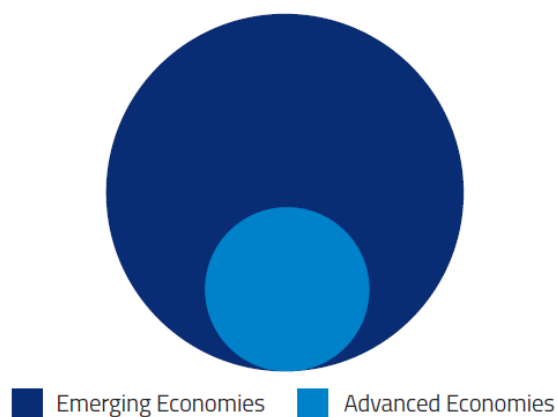
- By dollar volume, direct small business support accounted for 24.5 percent of EXIM's authorizations;
- Nearly 90 percent of the number of EXIM Bank's authorizations support small businesses; and
- 400 U.S. small businesses were first-time users of EXIM Bank products.

EXIM Bank continues to allocate resources to network with small businesses looking to begin exporting, or looking to export into new markets. EXIM Bank has added over 2,500 new small business customers since 2009. Engaging with small businesses through outreach and investing more in business development specialists, are key strategies for FY 2017.

SUPPORTING EXPORTS TO EMERGING MARKETS

Worldwide demand is increasing in emerging markets for all kinds of infrastructure development, including civil aviation, roads and bridges, power plants, telecommunications, and other vital capital goods and services. EXIM Bank empowers American firms to seize these tremendous opportunities, meeting global demand, and adding quality jobs in the United States. Working on behalf of U.S. exporters, EXIM Bank has financed more global infrastructure projects in the past four years than in the previous 17 years combined, helping to keep the United States competitive against foreign rivals in some of the world's fastest-growing markets. In FY 2015, \$8.8 billion (more than 71 percent) of EXIM Bank's authorizations supported U.S. exports to emerging markets. Below is a chart highlighting the Bank's role in supporting emerging markets. In FY 2017, the Bank expects to continue to support emerging markets.

**FY 2015 AUTHORIZATIONS IN EMERGING
VERSUS ADVANCED ECONOMIES**



STAYING COMPETITIVE WITH OTHER ECAs

For more than 80 years, EXIM Bank has leveled the playing field for U.S. exporters competing against foreign firms where there is financing offered by foreign governments. EXIM Bank supports both American exporters and jobs, but it does so in a global context. As other major export credit agencies (ECAs) have moved to aggressively increase export credit for their respective nations' businesses, U.S. exporters are facing a global environment marked by unprecedented levels of foreign ECA financing. The United States competes against 85 other ECAs for export sales. As other countries continue to increase ECA financing, and in particular where countries operate outside of established international financing rules, the need for EXIM Bank is greater than ever.

Globally, there are approximately

85 ECAs

working to support their exporters in the competition for international sales. EXIM Bank is vital to keep U.S. firms competitive.

If purely free market elements such as quality and price were the only factors for international buyers deciding how to source their products, American exporters would thrive. However, too often government-backed financing can become an overriding factor that tilts the playing field in favor of foreign companies backed by their respective ECAs. EXIM Bank provides American firms the opportunity to compete fairly against foreign companies. Efforts to foster a level playing field – and to encourage global competition based on quality and price of goods and services rather than on an international financing arms race – have been spurred on by the Organization for Economic Cooperation and Development (OECD), of which the United States is a founding member. Originated in 1948, the OECD provides a framework within which ECAs agree to abide by certain uniform standards in an effort to promote fair practices. For example, the OECD sets limits on loan terms and interest rates, establishes minimum market-based fees, and puts into place transparency requirements.

For decades, global export competition was governed by responsible international rules (the OECD Arrangement) put in place to ensure a level playing field where companies could compete on free market elements such as price and quality rather than on aggressive, market distorting government financing. However, the world has changed. Nearly 100 percent of official trade support operated under OECD rules fifteen years ago, today only one-third does. Thus, two-thirds of official export-credit support provided in 2013 went unregulated by any international standards. Unregulated OECD financing has increased by over 869 percent since 2006, a phenomenon that poses a serious threat to U.S. export competitiveness. Non-OECD financing has also increased by over 316 percent during the same time span. Of the 195 sovereign states (according to the United Nations) only 34 are members of the OECD.⁴

The GAO found EXIM Bank's recent growth is associated with "reduced private-sector financing following the financial crisis" and EXIM Bank's ability "to fill the gap in private-sector lending." The Bank's support for U.S. export-backed jobs takes place against the backdrop of a rapidly shifting global competitive landscape. A consequence of the 2007–2008 global financial crisis has been many countries' reliance on exports as a wellspring of jobs and economic growth; as the world's ECAs have accordingly seen their capacities strengthened by their respective governments, competition has ramped up markedly for U.S. exporters. Thus, the Bank is needed to keep U.S. exporters competitive in the global economy.

The FY 2017 Budget provides U.S. exporters the financing necessary to compete with trade related financing provided by foreign ECAs.

⁴ EXIM Bank 2014 Competitiveness Report

RISK MANAGEMENT

EXIM Bank continues its prudent oversight and due diligence standards to protect U.S. taxpayers through its comprehensive risk management framework. This framework starts with effective underwriting to ensure a reasonable assurance of repayments. More than 80 percent of the Bank's portfolio is backed by some form of collateral or a sovereign guarantee. The comprehensive risk management program includes detailed documentation to ensure the Bank's rights are protected legally and that the transaction is not in violation of U.S. government policy. Risk management continues after a transaction is approved with pro-active monitoring efforts to minimize defaults, and aggressively seek recoveries when appropriate. The Bank believes that a comprehensive risk management framework with strong emphasis on continuous improvement minimizes claims and defaults. EXIM Bank also engages in proper oversight and governance of the Bank's portfolio.

In FY 2014, to further strengthen the Bank's risk management program, the Bank established the Enterprise Risk Committee (ERC) comprised of Senior Vice Presidents of the Bank, and chaired by the Bank's Chief Risk Officer. The mandate of the ERC is to maintain oversight of the comprehensive and systematic risk management regime within the Bank. The regime extends beyond repayment risk in the portfolio to include operational risk – such as systems and staffing risk – as well as the full range of legal, market, and strategic risks faced by the Bank. The ERC fosters the development of enterprise risk awareness, promotes open discussion regarding risk, integrates risk managing into the Bank's goals, and creates a culture such that Bank employees at all levels both manage and understand risks. The ERC meets at least once per month, and incorporates oversight of several subordinate committees focused on specific areas of risk.



UNDERWRITING

The Bank's charter requires "reasonable assurance of repayment" for the transactions it authorizes. Underpinning the underwriting of individual transactions is the credit grading system in which loan classifications reflect the risk of default and credit losses. EXIM Bank determines its credit ratings beginning with an assessment of country risks which is done through the inter-agency process known as the Inter-agency Country Risk Assessment System ("ICRAS"). This rating system is used for all U.S. government agencies and programs providing cross-border loans, guarantees, or insurance. The ICRAS process establishes two risk ratings for each country: a sovereign rating and a non-sovereign rating. These ratings, ranging from 1 to 11, with 11 being the riskiest, are used in determining estimated costs for each transaction and for determining EXIM Bank's cover policy.

EXIM Bank's ability to consider supporting a transaction strictly from a credit perspective is initially determined by the country rating. Given the Bank's reasonable assurance of repayment mandate, EXIM Bank is open under all of its normal programs for markets rated up to 7, and for short-and medium-term transactions only for markets rated up to 8. The Bank is not open in markets rated 9 -11 unless the risks can be externalized to the Bank's satisfaction. The Bank's credit assessment process varies primarily based on the term and amount of exposure.

Credits over \$10.0 million in value are approved by the Bank’s Board of Directors. Credits of \$30.0 million or more are reviewed through the National Advisory Committee process where the other agencies (OMB, Commerce, Treasury, State, and USTR) are given the opportunity to provide comments to the Bank’s Board of Directors. Credits of \$100.0 million in value or more are referred to Congress for a 35-day comment period and, must also be notified through the Federal Register for a 25-day comment period.

MONITORING

Following the underwriting phase of a transaction, EXIM Bank continuously monitors the portfolio of credits after they have been approved, documented, and disbursed. The monitoring groups function independently of the credit underwriting divisions. The Bank ensures that loans are monitored by individuals who are not part of, nor influenced by, anyone associated with the underwriting process. The Bank’s monitoring procedures include writing annual or semi-annual credit-rating reviews of obligors’ debt service repayment capacity, taking into account all factors that directly impact ability and willingness to pay. These ongoing reviews strengthen staff’s familiarity and working relationships with obligors and allow the Bank to identify vulnerabilities in the credits. Consequently, the ability to develop and implement remediation action is strengthened, which ultimately has a positive impact on the quality of the portfolio. The monitoring groups continually identify a list of “Impaired Credits” and a “Watch List” to develop high-risk monitoring plans and draw attention to borrowers that warrant the special attention of the Bank’s senior management. Additionally, and most importantly, the information gained from portfolio monitoring serves as critical feedback, which staff provides to the underwriting areas within the Bank, to be applied in the policy, analysis, and ultimate documentary structure of new financing requests.

As noted above, EXIM Bank’s risk management framework is built on a foundation of effective underwriting in order to satisfy the Bank’s Congressional mandate that every authorization comes with “a reasonable assurance of repayment.” Once a new credit is authorized, the Bank focuses on proactive monitoring of the credit, through both thorough due diligence and documentation. This proactive management framework reduces the risk of potential defaults and allows the Bank to recover on actual defaults. The Bank has a comprehensive risk-management framework, which was noted in a recent Government Accountability Office (GAO) audit (GAO-13-446).

CONTINUOUS IMPROVEMENT

EXIM Bank has implemented numerous risk management improvements recently, improvements that protect U.S. taxpayers. Equally important is the bank’s commitment to continuous improvements of how the Bank measures, controls, and mitigates risks. The Bank has made numerous improvements during the previous few years including:

- Hiring a Chief Risk Officer
- Creating the Enterprise Risk Committee (ERC)
- Establishing a Risk Management Committee
- Expanding pro-active monitoring efforts
- Increasing collaboration between the Bank’s divisions
- GAO & IG Audit Compliance

The Bank continues to implement advice and suggestions from previous findings from the Bank’s internal analysis, outside expert advice, and audit recommendations (GAO and IG). To assess the extent to which EXIM Bank has a

comprehensive risk-management framework, various external parties review EXIM Bank’s practices for managing risks at the transaction and portfolio levels. Since May 2012, EXIM Bank has been audited by GAO and the IG 32 times. Also, EXIM Bank undergoes internal audits, as well as an annual, external financial audit from Deloitte. In FY 2015 the Bank spent \$1.4 million (excluding the Office of the Inspector General) on external audit and compliance contracts to promote efficiency and effectiveness in the administration and management of the Bank’s programs.

EXIM Bank has made it a priority to minimize operational risks, and continues to allocate sufficient resources to add both additional staff and improve IT infrastructure to meet industry standards. Currently, the Bank is in the process of finalizing hiring additional staff to comply with industry best practices regarding workload management for both monitoring and underwriting.

Since early 2012, the Office of Inspector General (OIG) has issued 32 reports containing a total of 175 recommendations. Of those 175 recommendations, the Bank has concurred with 174 and has implemented or submitted documentation to the OIG for review and closure for 125 (121 and 4 respectively) recommendations to date, while working to implement the remaining 49. In addition, the GAO has issued six reports containing a total of 16 recommendations. Of those 16 recommendations, the Bank has implemented 14 to date and continues to work to implement the remainder.

RESERVES

Consistent with the Federal Credit Reform Act of 1990 (FCRA), EXIM Bank has taken steps to ensure that it is properly budgeting for expected losses. EXIM Bank determines its expected losses each fiscal year by assessing the repayment risk of the credit, which includes both commercial and political risk factors, then calculating the estimated cost based on the percentage of loss associated with the risk level assigned to the credit. 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 determinant of the risk rating is the sovereign-risk rating of the country where the obligor is located. Credit enhancements such as the availability of liens and offshore escrow accounts are taken into consideration. The expected losses on this exposure is calculated using both EXIM Bank’s own historical default and recovery rates in its cash flow models to calculate the amount that must be reserved for each transaction. In the event that losses exceed initial estimates, the Bank would be able to borrow additional funds from the U.S. Treasury to satisfy those claims.

| Exposure and Allowance for Loss (\$millions) | FY 2013 | FY 2014 | FY 2015 |
|---|----------------|----------------|----------------|
| Total Loan-Loss Allowance | 1,927 | 2,410 | 1,530 |
| Total Allowance for Guarantees and Insurance | 2,704 | 2,635 | 2,488 |
| <i>Total Allowance</i> | 4,631 | 5,045 | 4,018 |
| Outstanding Exposure (including Claims) | 81,640 | 85,940 | 85,481 |
| Undisbursed Exposure | 32,185 | 26,068 | 16,730 |
| <i>Total Exposure (EoY)</i> | 113,825 | 112,008 | 102,211 |
| Allowance of Loss as Percentage of Outstanding Balance | 5.7% | 5.9% | 4.7% |
| Allowance of Loss as Percentage of Total Exposure | 4.1% | 4.5% | 3.9% |

The Bank is also committed to improving its financial model capabilities. The Credit Loss Factors determine the reserve levels for all Bank authorizations. These factors are also used to estimate offsetting collections as part of annual budget formulation efforts. Consistent with FCRA, the Bank's Credit Loss Factors are based on historical performance of loans, guarantees, and insurance programs. The Credit Loss Factors are reviewed on an annual basis by the OIG and the Bank's external auditors. In FY 2015, the Bank's Audit Committee of the Board of Directors hired an external auditor to conduct an Independent Verification and Validation (IV&V) of the model used to generate the Credit Loss Factors. This IV&V found the model to be reasonable.

On December 4, 2015, President Obama signed into law the Fixing America's Surface Transportation Act (P.L. 114-94). This Act included the Export-Import Bank Reform and Reauthorization Act of 2015, which extended the Bank's authority through FY 2019. Below is the relevant language regarding the new reserve requirements from the reauthorization bill:

Sec. 6(b) Reserve Requirement. - 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.

The Bank will utilize the financing accounts to build to and hold in reserve an amount not less than 5 percent, to protect against future losses, consistent with the reauthorization act language to reduce risk to the taxpayers.

The Bank is actively working on meeting the updated reserve mandate. The President's FY 2017 Budget Appendix presentation for the Bank's financing accounts shows sufficient balances in the accounts to meet the five percent target based upon the expected authorizations and exposure in the President's Budget.

DEFAULT RATE

0.248%

Default Rate

As mandated, EXIM Bank has reported on its default rate, as defined in the section above, on a quarterly basis corresponding to the quarters of the fiscal year. Since this mandate was enacted, each quarter EXIM Bank's default rate has been well below 2.0 percent – the benchmark set by Congress. The default rate of the EXIM Bank through December 31, 2015 is 0.248 percent.

This rate reflects a "total amount of required payments that are overdue" (claims paid on guarantees and insurance transactions plus loans past due) equal to \$340.8 million divided by a "total amount of financing involved" (disbursements) equal to \$137.7 billion. This financing amount is different from EXIM Bank's current exposure because it includes repayments and excludes authorized amounts that have yet to disburse.

RISK EXPOSURE

EXIM Bank's current portfolio, from a risk rating perspective, is less risky compared to the portfolio ratings in FY 2008. The portfolio has decreased from a weighted risk level of 4.25 in FY 2008 to 3.82 as of FY 2015. The Bank is dedicated to improving its comprehensive risk management framework, and protecting U.S. taxpayers.

APPROPRIATION LANGUAGE

PROGRAM ACCOUNT

The Export-Import Bank (the Bank) of the United States is authorized to make such expenditures within the limits of funds and borrowing authority available to such corporation, and in accordance with law, and to make such contracts and commitments without regard to fiscal year limitations, as provided by section 104 of the Government Corporation Control Act, as may be necessary in carrying out the program for the current fiscal year for such corporation: Provided, That none of the funds available during the current fiscal year may be used to make expenditures, contracts, or commitments for the export of nuclear equipment, fuel, or technology to any country, other than a nuclear-weapon state as defined in Article IX of the Treaty on the Non-Proliferation of Nuclear Weapons eligible to receive economic or military assistance under this Act, that has detonated a nuclear explosive after the date of the enactment of this Act.

ADMINISTRATIVE EXPENSES

For administrative expenses to carry out the direct and guaranteed loan and insurance programs, including hire of passenger motor vehicles and services as authorized by section 3109 of title 5, United States Code, and not to exceed \$30,000 for official reception and representation expenses for members of the Board of Directors, not to exceed \$110,000,000, of which up to \$16,500,000 shall remain available until September 30, 2018: Provided, That the Export-Import Bank (the Bank) may accept, and use, payment or services provided by transaction participants for legal, financial, or technical services in connection with any transaction for which an application for a loan, guarantee or insurance commitment has been made: Provided further, That notwithstanding subsection (b) of section 117 of the Export Enhancement Act of 1992, subsection (a) thereof shall remain in effect until September 30, 2017: Provided further, That the Bank shall charge fees for necessary expenses (including special services performed on a contract or fee basis, but not including other personal services) in connection with the collection of moneys owed the Bank, repossession or sale of pledged collateral or other assets acquired by the Bank in satisfaction of moneys owed the Bank, or the investigation or appraisal of any property, or the evaluation of the legal, financial, or technical aspects of any transaction for which an application for a loan, guarantee or insurance commitment has been made, or systems infrastructure directly supporting transactions: Provided further, That in addition to other funds appropriated for administrative expenses, such fees shall be credited to this account for such purposes, to remain available until expended.

RECEIPTS COLLECTED

Receipts collected pursuant to the Export-Import Bank Act of 1945, as amended, and the Federal Credit Reform Act of 1990, as amended, in an amount not to exceed the amount appropriated herein, shall be credited as offsetting collections to this account: Provided, That the sums herein appropriated from the General Fund shall be reduced on a dollar-for-dollar basis by such offsetting collections so as to result in a final fiscal year appropriation from the General Fund estimated at \$0: Provided further, That amounts collected in fiscal year 2017 in excess of obligations, up to \$10,000,000 shall become available on September 1, 2017, and shall remain available until September 30, 2020. (Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016.)