BY THE BOARD OF DIRECTORS
OF
THE U.S. INTERNATIONAL DEVELOPMENT FINANCE CORPORATION

BE IT RESOLVED, that the Board of Directors adopts the "Framework for Assessing Dividends" as the framework to support the Board's deliberations under 22 USC § 9634(f) and Section 4 paragraph d of the Bylaws of the Corporation.

Approved by the Board of Directors
on December 7, 2022

Catherine F. I. Andrade
Corporate Secretary

Framework for Assessing Dividends

Background

Pursuant to Section 1434(f) of the BUILD Act and the DFC's bylaws, the Board is required to annually assess whether to declare a dividend payment to the Treasury if the Corporation's insurance portfolio is more than 100 percent reserved. To support the Board in making this assessment, DFC Management will annually evaluate DFC's insurance reserves and financial results and make a recommendation to the Board regarding a potential dividend following this procedure.

Current Portfolio and Reserves

Insurance reserves are the cumulative results of operations related to DFC's insurance program that are housed in the Corporation's Corporate Capital Account. For purposes of determining the reserve percentage of the Corporation's insurance portfolio, DFC's insurance exposure will include the maximum contingent liability (MCL) of all insurance contracts written under its insurance authorities[1] and may also include, as determined by management, provisions for incremental costs directly attributable to investigating, settling, and/or adjusting claims or protecting DFC's interest in claim related assets.

Dividend Considerations

Generally, the interests of the taxpayer are furthered when DFC maintains reserves sufficient to cover its insurance exposure. As such, a dividend would be considered if corporate reserves are stable (or increasing) and exceed current insurance exposure, or as referenced in the BUILD Act, when "the Corporation's insurance portfolio is more than 100 percent reserved".

A dividend might be appropriate when DFC is profitable, or when on a federal GAAP basis DFC reports a negative net cost (analogous to net income in the commercial sector). On a budgetary basis, DFC might also consider a dividend appropriate when the Corporation is producing negative net outlays or when its cash collections exceed its cash outflows as evidenced in its cash basis operating results.

Congress provides DFC funding through Congressional appropriations and Treasury makes that funding available to DFC via a warrant. Under current law, DFC is required to reduce its annual appropriations warrant by collecting offsetting receipts. These offsetting collections have the effect of reducing the amount of outlays, and they determine the net resources allocated to an agency. Offsetting collections are returned to the U.S. Treasury via a negative warrant. If collections fall short of the appropriations warrant DFC is not required to deplete its reserves to offset the full amount of the appropriations warrant. This is consistent with Management's position that it is in the best interest of the Corporation and the taxpayer that DFC maintain reserves. If collections exceed the appropriation, DFC is allowed to retain those collections to increase reserves. In such cases, a dividend from the excess collections might be considered appropriate depending on the circumstances.

There are other factors that Management takes into consideration in making its recommendation to the Board regarding a dividend:

- Are there legislative proposals (for example, PV Equity) actively being debated or considered by Congress that affect DFC's potential funding or programmatic authorities and would the payment of a dividend limit Congress' flexibilities surrounding those proposals?

[1] Including the MCL of insurance contracts required by OMB to be budgeted under the Federal Credit Reform Act.

- Would the dividend materially reduce offsetting collections to DFC and Function 150 more broadly? Would our partner agencies be materially impacted by the payment of a dividend? How would the dividend affect DFC's offsetting collections for future fiscal years?

- Would payment of a dividend negatively affect DFC's ability to deliver appropriate portfolio / financial performance or positive financial results?

- Are there other considerations the Board or Senior Management would like to consider with regard to a decision concerning the dividend?

These circumstances are outlined in the accompanying decision tree that Management will follow in determining its recommendation to the Board.

If Management determines the payment of a dividend could be appropriate in any given year the amount of such dividend would be capped at the amount of Offsetting Collections that exceeds the total appropriations warrant for the previous fiscal year. In addition, the amount of a dividend should not impede the ability of the Corporate Capital account to keep pace with the projected growth of the portfolio.

<u>Decision Tree Questions</u>

- Do insurance reserves exceed current insurance exposure?
- Did DFC have a negative net cost (i.e., roughly equivalent to net income) on a federal government GAAP basis?
- Did DFC's cash collections exceed its cash outlays (i.e., did DFC produce negative net outlays on a budgetary basis)?
- Did offsetting collections exceed DFC's appropriations warrant? The amount of the warrant is what is provided by Congressional appropriations to operate DFC.
- Would the payment of a dividend negatively affect any of the following?
  - Legislative proposals actively being debated or considered by Congress affecting DFC's potential funding or programmatic authorities;
  - DFC's ability to generate significant collections; or
  - DFC's ability to deliver future appropriate portfolio / financial performance, positive financial results, or planned growth.
- Are there other considerations from the Board or Senior Management?

DIVIDEND DECISION TREE