

AFGHANISTAN ALBANIA ALGERIA ANGOLA ANGUILLA ANTIGUA AND BARBUDA ARGENTINA ARMENIA ARUBA AZERBAIJAN BAHAMAS BAHRAIN BANGLADESH BARBADOS BELIZE BENIN BOLIVIA BOSNIA AND HERZEGOVINA BOTSWANA BRAZIL BULGARIA BURKINA FASO BURUNDI CAMBODIA CAMEROON CAPE VERDE CENTRAL AFRICAN REPUBLIC CHAD CHILE COLOMBIA CONGO DEMOCRATIC REPUBLIC OF CONGO COOK ISLANDS COSTA RICA CROATIA CYPRUS CZECH REPUBLIC DJIBOUTI DOMINICA DOMINICAN REPUBLIC EAST TIMOR ECUADOR EGYPT EL SALVADOR EQUATORIAL GUINEA ERITREA ESTONIA ETHIOPIA FIJI FRENCH GUIANA GABON GAMBIA GEORGIA GHANA GREECE GRENADA GUATEMALA GUINEA GUINEA-BISSAU GUYANA HAITI HONDURAS HUNGARY INDIA INDONESIA IRAQ IRELAND ISRAEL JAMAICA JORDAN KAZAKHSTAN KENYA KIRIBATI KOSOVO KUWAIT KYRGYZSTAN LAOS LATVIA LEBANON LESOTHO LIBERIA LITHUANIA MACEDONIA MADAGASCAR MALAWI MALAYSIA MALI MALTA MARSHALL ISLANDS MAURITANIA MAURITIUS MEXICO FEDERATED STATES OF MICRONESIA MOLDOVA MONGOLIA MONTENEGRO MOROCCO MOZAMBIQUE NAMIBIA NEPAL NETHERLANDS ANTILLES NICARAGUA NIGER NIGERIA NORTHERN IRELAND OMAN PAKISTAN PALAU PANAMA PAPUA NEW GUINEA PARAGUAY PERU PHILIPPINES POLAND PORTUGAL ROMANIA RUSSIA RWANDA SAMOA SÃO TOMÉ AND PRÍNCIPE SENEGAL SERBIA SIERRA LEONE SINGAPORE SLOVAKIA SLOVENIA SOMALIA SOUTH AFRICA SOUTH KOREA SRI LANKA ST. KITTS AND NEVIS ST. LUCIA ST. VINCENT AND THE GRENADINES SURINAME SWAZILAND TAIWAN TAJIKISTAN TANZANIA THAILAND TOGO TONGA TRINIDAD AND TOBAGO TUNISIA TURKEY TURKMENISTAN TURKS AND CAICOS UGANDA UKRAINE URUGUAY UZBEKISTAN VIETNAM WEST BANK AND GAZA YEMEN ZAMBIA ZIMBABWE



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In every region of the world, we see new examples of the catalytic role that investment and economic development plays in improving the quality of life for people, encouraging the growth of democratic institutions and the rule of law, and in fostering political stability.

As the primary U.S. government agency focused on supporting U.S. private sector investment in the developing world, OPIC remains as important as ever. In every region of the world, we see new examples of the catalytic role that investment and economic development plays in improving the quality of life for people, encouraging the growth of democratic institutions and the rule of law, and in fostering political stability. At the same time, helping U.S. businesses, particularly small and medium-sized businesses, to grow by investing overseas, continues to bring benefits here at home.

I am pleased to report that in 2006, OPIC was an even more effective instrument of U.S. foreign policy and enabler of global economic development. By working in closer collaboration with other U.S. government agencies to bring economic development to emerging or underserved markets, OPIC better focused its resources and efforts. By enhancing transparency and fighting corruption, OPIC worked to level the playing field for U.S. businesses as they participate in international commerce. By reaching out in more ways to U.S. small businesses and minority- and women-owned enterprises, OPIC ensured greater access to opportunity for

more. By identifying and supporting projects that extend significant developmental benefits to the widest possible audiences, OPIC fulfilled its mission throughout the world. And by charging market-based fees for its products, OPIC continued to meet these responsibilities as a self-sustaining agency, operating at no net cost to taxpayers and returning money to the U.S. Treasury.

While OPIC's finance and political risk insurance products make us unique among federal agencies, we recognize the importance of collaboration. I used the occasion of my first overseas visit as OPIC president to demonstrate that greater cooperation with other U.S. government agencies can help OPIC to maximize its own impact. Last October, I joined U.S. Secretary of Commerce Carlos Gutierrez on the first U.S. business development mission to Central America since enactment of the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR). Visiting the region three times last year, I announced OPIC support for new Central American private equity investment funds and signed agreements for over \$300 million in finance and insurance for housing, energy, microfinance and small business projects. These investments, like all

OPIC-supported projects, will not result in any U.S. job loss and must adhere to environmental as well as worker and human rights safeguards.

In partnership with the U.S. Department of Commerce, the United States Trade Representative, and the Small Business Administration, OPIC will continue to promote U.S. investment wherever it can support growth and serve as a catalyst for additional investment in new markets. With our colleagues at the Millennium Challenge Corporation, we will work to encourage better governance throughout the developing world and private capital investment.

The importance of good governance cannot be overstated. There is a direct connection between honest government, economic reform, and increased levels of private investment in the public-private infrastructure projects that developing countries need most. Corruption, on the other hand, inhibits sustainable social and economic development, weakens government institutions, and sows public distrust.

The OPIC Anti-Corruption and Transparency Initiative, announced in

September, builds on the agency's efforts over the past five years to combat corruption in host countries, create a level playing field for lawful business activities, and improve information-sharing and transparency of OPIC's own operations. With this initiative, we have taken a significant step to ensure that OPIC-supported projects meet a higher standard.

While working to make OPIC operations more transparent, we are at the same time succeeding in making OPIC services more visible. In 2006, we expanded OPIC's outreach to both the U.S. business community and to governments, organizations, and entrepreneurs in developing nations around the world.

New state-of-the-art videoconferencing capabilities allowed increased OPIC participation in workshops, presentations, and meetings we might not otherwise have been able to attend. Our redesigned web site has made information about OPIC more readily accessible to potential partners anywhere, anytime. And throughout the year, in locations around the globe, OPIC drew thousands of business and government participants to conferences on important development-related issues.



PRESIDENT'S LETTER

These included *Expanding Horizons*, a series of workshops on overseas investment opportunities for minority- and women-owned enterprises. Increasing their participation in global markets remains a primary OPIC objective. To that end, attendees in Atlanta, Chicago, and Los Angeles learned of support available from OPIC and other government agencies, and made important contacts with financial institutions and potential project partners. We are already planning to hold more workshops during 2007.

In May, I was pleased to welcome a capacity crowd of more than 270 from the United States, Europe, and 21 African countries to *Housing Africa*, an international conference organized by OPIC in Cape Town, South Africa. Intended to increase housing-related investment throughout the continent, *Housing Africa* showcased opportunities for American construction companies, banks, investment firms and suppliers to partner with their nascent African counterparts in all segments of the housing industry.

Following the conference, OPIC focused its housing initiative on establishing innovative financing and infrastructure-development models that can be applied essentially anywhere. OPIC-supported projects that will create a reliable land

records system in Kenya or make it possible for low and moderate income home buyers in Honduras to secure fixed rate mortgages are just two of many replicable concepts that can increase homeownership by expanding the foundations on which housing markets are built.

In choosing projects to support, OPIC has a strong preference for those that improve a developing country's infrastructure, both physical and financial, and provide local entrepreneurs access to more affordable credit. Such projects are more likely to stimulate the local economy and efficiently develop the structures for sustained economic growth.

We at OPIC regard economic development not as a sequence of discrete steps that add up to growth, but as a series of building blocks that depend on and strengthen each other. Through their interrelationships, they support the growth of institutions, of investment, of skills, and, ultimately, of markets.

The challenge that OPIC is uniquely equipped to handle is that many host countries need such developmental investment *now*, before they have been able to establish a climate that fosters investor confidence. OPIC investments, guarantees, and insurance accelerate confidence-

building reforms which in turn lead to more private investment.

OPIC was in fact the pioneer in creating the government-backed financial products and services that encourage private investment in countries where perceived risks outweighed potential rewards. We continue to lead and innovate. Our new Rapid Economic Development Initiative, created in conjunction with other U.S. government agencies, is kick-starting developmental investment in Lebanon, Liberia, and other high priority countries where visible economic progress is critical to maintaining political stability.

Each passing year underscores the importance of OPIC to the fulfillment of our nation's commitment to help create economic hope and opportunity around the world. I look forward to working with all of OPIC's stakeholders to make that better world possible.



Robert Mosbacher, Jr.
President and CEO

I am pleased to report that in 2006, OPIC was an even more effective instrument of U.S. foreign policy and enabler of global economic development.

DEVELOPMENT



OPIC was created to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies.

Unlocking growing nations' developmental potential.

OPIC is above all else a development agency. In fact, OPIC was created to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less-developed countries and areas, and countries in transition from nonmarket to market economies, and to complement the development assistance objectives of the United States.

Because of that, OPIC has in mind a very definite idea of development when it selects projects to support. What is essential is that by transferring a technology, process, or management approach from a U.S. sponsor to local entrepreneurs, the project becomes a nucleus for subsequent economic growth and helps to encourage local institutions to grow on their own.

A critical barrier to the emergence of local entrepreneurs is the scarcity of access to domestic capital for small businesses and microfinance institutions. That's why OPIC has supported a program, developed by Citigroup Corporate and Investment Banking and the bank's Microfinance Group, that will provide financing for up to 50 emerging microfinance institutions (MFIs) in more than 30 countries. OPIC's Board of Directors approved a \$70 million loan guaranty which will leverage Citigroup's own financing under a new microfinance local currency lending program designed to fund MFIs in Africa, Asia, Central and Eastern Europe, and Latin America, particularly smaller MFIs that have not traditionally received medium-term bank funding, such as non-profit institutions and cooperatives. By enlarging the number of MFIs that have capital available to them, the program will help to reduce the barriers facing micro-entrepreneurs in emerging markets.



With a mission to encourage investment in the most underserved emerging markets in the developing world, OPIC identifies projects that stimulate local economic growth by supporting the development of a critical, and often missing, aspect of a country's economic infrastructure.

Improved transportation, clean water, affordable housing, expanded energy supply, advanced medical equipment — projects can be in any sector, and of any size, to fit OPIC's concept of development. And the developmental impact of the project continues to be felt in the host country long after the project is initiated.

In 2002, South Africa's ambitious program to construct 90,000 homes for low-income citizens — in effect to transform squatters into legitimate homeowners — had bogged down because of homebuilders' difficulty in obtaining affordable short-term construction financing. The nation's housing minister visited OPIC and asked if there was any way the agency could help. There was. In just 11 months, OPIC and the U.S. nonprofit Open Society Institute arranged a \$15 million loan guaranty which enabled South Africa's Rand Merchant Bank to on-lend funds to private homebuilders through the National Urban Reconstruction and Housing Agency.



With perceived risk removed from the lending process, Rand Merchant Bank, in three years has provided funds for 127 loans worth \$26 million to housing projects in eight of South Africa's nine provinces. Of these projects' 51,000 planned homes, 29,700 have already been built. With the majority of loans going to black-owned construction companies, many of them with little capital or lending experience, the project's catalytic effect on South Africa's nascent black homebuilding industry may prove even more lasting.

While OPIC strives to deliver positive developmental results in all eligible countries, its new multi-agency Rapid

Economic Development Initiative targets investment in nations whose security urgently depends on near-term tangible economic progress.

To aid Lebanon's economic recovery, OPIC and Citigroup Corporate and Investment Bank are already working together to mobilize private capital through Lebanese banks for home reconstruction, mortgage financing, and small and medium-sized enterprises. After years of civil war and corrupt rule, Liberia is in desperate need of infrastructure development at all levels. Senior OPIC teams have visited Liberia to identify and assess the opportunities for short and long-term investment.

OPIC Investment Funds generate developmental benefits.

Since making its first investment in 1987, OPIC has supported professionally managed private equity funds as a way to leverage private investment in specific regions, nations, or sectors. An independent review by Cambridge Associates in 2006 confirmed the contribution of OPIC investment funds to the agency's developmental mission. Fund investments strengthen host countries' physical and financial infrastructure, improve regulatory environments, generate local employment and training, and furnish essential goods and services. Encouraged by their success, managers of the earliest OPIC funds have generated an ongoing multiplier effect by establishing new non-OPIC funds to attract investment from other sources.

OUTREACH



Increasing access to opportunity through outreach to OPIC's many different audiences.

Reaching out to more businesses, partners and countries.

OPIC's success in increasing U.S. private investment in the developing world depends on potential U.S. project sponsors and partners both here and abroad becoming more aware of OPIC's financial products and services. That is why increasing access to opportunity through outreach to OPIC's many different audiences — especially underserved women- and minority-owned enterprises — remains an ongoing effort and full-time endeavor for OPIC staff.

In 2006, OPIC raised its outreach efforts to a new level. Hundreds of business and government participants attended OPIC-sponsored international conferences and U.S. workshops. OPIC representatives participated in over 120 conferences throughout the United States and more than 30 countries and hosted over 20 trade delegations visiting the U.S. OPIC staff members met one-on-one with entrepreneurs throughout the U.S. and used the agency's new videoconferencing system to participate in meetings they could not attend. Online visitors found the upgraded OPIC web site easier to navigate, with information easier to find. And two new organizations joined the thriving OPIC Partners Program, through which private and public groups nationwide help make small businesses aware of OPIC services and support.



In one of the agency's most important new outreach initiatives, OPIC's *Expanding Horizons* workshop series helped hundreds of U.S. minority and women business owners learn how OPIC can help them apply their competitive advantages in emerging markets. Wide-ranging one-day programs in Atlanta, Chicago, and Los Angeles increased participants' understanding of overseas investment opportunities and challenges, financial issues such as political risk insurance and access to capital, and of OPIC and other federal assistance available to minority- and women-owned businesses. Part of OPIC's commitment to public service, *Expanding Horizons* was held in cooperation with the U.S. Department of Commerce's Minority Business Development Agency and the National Women's Business Council.

Among the outreach programs described to workshop attendees was OPIC's new Enterprise Development Network, a strategic alliance among financial institutions, brokers, and law firms, which could ultimately administer \$100 million in OPIC financing to creditworthy U.S. small businesses for projects in emerging markets.

OPIC's *Housing Africa* conference in Cape Town, South Africa, focused attention on the need for housing investment in Sub-Saharan Africa. More than



270 participants heard from experts on current housing initiatives, construction, land development, legal issues, infrastructure, mortgage financing, capital markets, and private equity investment. Or, in the words of Hackman Owusu-Agyemang, Housing Minister of the Republic of Ghana: "You have given us A to Z of houses. Everything that has got to do with housing and the opportunities that are out there for all of us. I would like you to take the thanks of all of us to your government and the people of the United States for sharing our aspirations for development of this continent."

OPIC outreach within the federal government in 2006 included a new Strategic Alliance Memorandum between OPIC and the U.S. Small Business Administration expanding the agencies' collaboration to support U.S. small business investment overseas.

OPIC signed new investment incentive agreements with the governments of El Salvador, Honduras, Nicaragua, and the Democratic Republic of the Congo, officially making OPIC support available for projects in those countries. Agreements with the Central American nations will enlist their trade-related agencies in OPIC's outreach to U.S. businesses, expanding the network of professionals working to build awareness of OPIC services.

Because someone is always working somewhere, OPIC upgraded its web site in 2006 to make it easier for entrepreneurs and potential project sponsors to find information and even begin the project application process at any time of day. Project profiles, conference and workshop schedules, links to investment resources, the new *Anti-Corruption Handbook*, and guidance on preparing loan applications can all be found at www.opic.gov.

Right-sized partners for emerging markets.

Employing more than 23 million workers and generating over \$3 trillion in sales, minority- and women-owned U.S. businesses enjoy genuine competitive advantages for investing in emerging markets. They offer the flexibility, decision-making speed, and comfort and experience with diversity that their overseas counterparts are looking for in strategic partners. But lack of knowledge about assistance programs, scarcity of private capital, and concern over political risks have prevented them from realizing their full potential in developing countries. OPIC's *Expanding Horizons* workshops armed hundreds of entrepreneurs with information and resources to prosper in new markets overseas.

ANTI-CORRUPTION/TRANSPARENCY



Fighting corruption and ensuring transparency are deeply tied to OPIC's developmental mission.

Ensuring a level playing field for lawful business activities.

Fighting corruption and ensuring transparency are deeply tied to OPIC's developmental mission.

Research proves that foreign investment is lower in countries perceived to be corrupt, while countries that improve governance and reduce corruption reap a "development dividend."

For OPIC, this means its developmental mission — and the U.S. foreign economic policy objectives the agency is directed to support — can only be achieved when the benefits of OPIC-supported projects are openly channeled to promote host countries' economic growth and not corruptly diverted to anyone's personal enrichment.

Announced in September 2006, and complementing President Bush's National Strategy Against High Level Corruption, OPIC's new Anti-Corruption and Transparency Initiative is designed to support a level playing field for lawful business activities, promote evolving best practices and corporate social responsibility, and improve the transparency of OPIC operations — all while preserving the confidential business information and commercial efficiency of project sponsors.



Chief among the reforms of the Anti-Corruption and Transparency Initiative is OPIC's endorsement of the Extractive Industries Transparency Initiative (EITI). EITI supports improved governance in resource-rich developing countries — and counters bribery, extortion, and coercion — through the full publication and verification of company payments and government revenues from oil, gas, mining, and chemical ventures. Its goal is to ensure that project benefits flow to host countries and their populations. Participation in EITI can reduce project risks, improve the likelihood of project success, and reduce costs. OPIC encourages sponsors to agree to EITI guidelines on projects receiving OPIC support.

OPIC has historically worked to ensure that OPIC-supported projects are in full compliance with the Foreign Corrupt Practices Act (FCPA) and other anti-corruption laws. As another element of the new initiative, OPIC has published an Anti-Corruption Handbook describing in reader-friendly language the FCPA and how it applies to OPIC-supported projects and sponsors. For example, the handbook clearly notifies sponsors of their obligation to certify their compliance with anti-corruption laws at various stages of the OPIC-supported project application, review, and approval process.

As a practical tool, the handbook provides project sponsors with easy-to-



follow guidance on developing an effective compliance program and a comprehensive approach to fighting corruption. Sponsors are cautioned that OPIC treats seriously and investigates every allegation of fraud or corruption against OPIC-supported projects. The handbook can be downloaded from the OPIC web site at www.opic.gov.

OPIC has also established an anti-corruption hotline, at 202-312-2153, which anyone can call to report potential irregularities in OPIC-sponsored projects. Project participants may also use the hotline to contact the Chief Compliance Officer for answers to their compliance questions.

Among the improvements for increased transparency of OPIC operations, the initiative provides new steps to identify and make public potentially adverse project consequences earlier in the review process. From now on, OPIC will require enhanced consultation with locally-affected communities on what the agency calls Category A projects — those with

the potential for significant environmental impact.

The agency has redesigned its web site to increase and better organize the information available to the public. This includes greater numbers of non-business confidential summaries of OPIC-sponsored projects and non-business confidential versions of certain environmental documents on Category A projects.

As the culmination of years of consultation with stakeholders in Congress and the nongovernmental community, the Anti-Corruption and Transparency Initiative represents a significant step to ensure that OPIC-supported projects meet a higher standard. Speaking at OPIC's public announcement, Julian Braithwaite, the British Embassy's Counsellor for Global Issues, said the OPIC initiative "serves as a model for government agencies and other institutions which appreciate the correlation between lawful business practices and sustainable development."

Welcomed and applauded support for the rule of law.

Transparency International-USA (TI-USA), part of the global civil society organization leading the worldwide fight against corruption, welcomed OPIC's Anti-Corruption and Transparency Initiative as an important element of the Administration's anticorruption agenda. "OPIC's initiative recognizes the critical role of the private sector in reducing corruption and its provisions promise to enhance standards of international business conduct," said TI-USA Chairman Alan Larson. "By taking these steps, OPIC will send a clear signal that bribery will not be tolerated in its projects."

PARTNERSHIP



OPIC continues to pursue its developmental mission in partnership with both the public and the private sectors.

Collaborating to expand economic development in Central America.

Multiple organizations with common goals can accomplish more working together than can any one entity working alone. That is why OPIC continues to pursue its developmental mission in partnership with both the public and the private sectors.

Focusing on Central America in 2006, OPIC strengthened and forged new partnerships with the U.S. Department of Commerce, U.S. Trade Representative, Millennium Challenge Corporation, Central American governments and private lending institutions to help bring economic growth, increase living standards, and reduce poverty throughout the region.

The framework for this effort was the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR), which removes trade barriers between the U.S. and Costa Rica, Honduras, Nicaragua, Guatemala, El Salvador, and the Dominican Republic. This initiative will support jobs and growth in Central America while providing U.S. exporters access to the tenth-largest market in the world. OPIC is working to ensure that increased private sector investment plays an important role in this new regional relationship.



In the highest-level expression of OPIC's partnership approach to Central America, OPIC's new President and CEO Robert Mosbacher, Jr., visited the region three times. The first of these international trade missions, to promote developmental efforts in Guatemala, Honduras, and El Salvador, came within weeks of his assuming office in October 2005.

Memorandums of understanding signed with national trade promotion agencies in El Salvador and Honduras on a May 2006 visit — and with Nicaragua earlier in the year — will facilitate OPIC support for U.S. investment. These agencies have already developed sizable portfolios of potential projects ready for presentation to potential U.S. investors. Training by OPIC staff will equip their personnel to inform far greater numbers of U.S. small businesses about OPIC services than OPIC could reach alone. OPIC intends to increase this force multiplier effect by concluding similar agreements throughout the region.

Private equity funds provide another mechanism for leveraging OPIC support into higher volumes of investment. Early in 2006, for example, OPIC issued a call for proposals to manage one or more new private equity investment funds designed specifically to stimulate economic growth in Central America. In April, OPIC's board of directors



approved \$45 million in financing for the \$90 million Darby ProBanco Fund II, which will support investments in companies in Central America, Mexico and Colombia.

With \$250 million in OPIC guaranties for a new global lending facility, Wachovia Corporation will expand its lending in emerging markets, with a focus on Latin America and CAFTA-DR countries. Wachovia will make loans to partner banks, so they can lend to small and medium-sized businesses, homeowners, and consumers. This is the third such global framework agreement that OPIC has completed with Wachovia. A \$350 million OPIC guaranty issued to National City Bank will support increased lending for housing construction, providing much-needed credit to a sector vital to the region's economic growth.

OPIC is also working throughout the region to increase access to capital at all levels. Working with the U.S.-based pioneering microlender ACCION International, OPIC is helping to finance an emergency liquidity facility that will help microfinance lenders in Latin America and the Caribbean. A \$4 million loan to Microfinance International (MFIC), a U.S. company that provides remittance and financial services in the U.S. in collaboration with microfinance institutions, will be used to assist microfinance institutions in several countries in the region, including El Salvador, Nicaragua and Honduras.

Beyond its collaboration with other agencies, nations, and institutions, OPIC will be increasing its support in the form of direct loans, guaranties, and political risk insurance for U.S. and Central American businesses involved in projects throughout the region.

A model of financially-sound development.

Microfinance institutions (MFIs) have in the past three decades emerged as an important engine of local economic growth — showing repayment rates better than formal financial sectors in most developing countries — and nowhere is that more true than in Central and Latin America, where the industry is growing 7-10 percent annually. Microfinance International (MFIC), a U.S. financial services company, is using a \$4 million OPIC loan to connect MFIs to another lucrative market — the processing of remittances from the U.S. to families back in the region — as well as to expand MFI portfolios for housing and small business loans. MFIC will use proceeds of the OPIC loan to on-lend to qualified MFIs in Latin America, many of which are ideally positioned to accommodate remittance recipients, due to their location and customer focus. The OPIC loan is expected to generate hundreds of loans by regional MFIs during the next two years.

SMALL BUSINESS

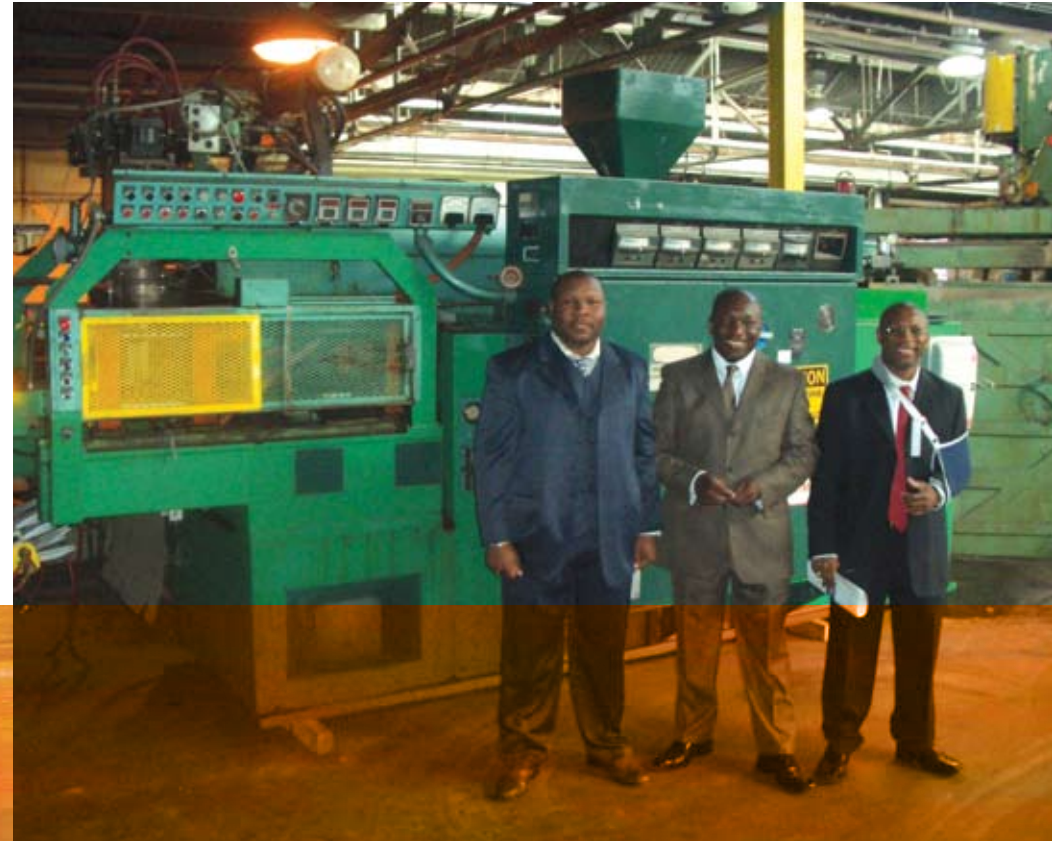


Increasing small business participation in global markets is an ongoing goal at OPIC.

Creating more opportunities for U.S. small business.

Helping small businesses to invest overseas is an important way to distribute the benefits of international commerce more broadly throughout the American economy. Small business is a part of nearly every U.S. community: the SBA reports that small businesses employ about 50 percent of all private sector workers and create 75 percent of the net new jobs in the American economy.

As a vital source of innovation and economic growth, U.S. small businesses are increasingly looking for opportunities in the global marketplace. But for a U.S. small business looking to engage globally, the obstacles can be formidable: limited access to capital, perceived investment risk, and lack of knowledge about opportunities in international markets. Reducing those obstacles for small and medium-sized enterprises (SMEs) is a top priority at OPIC.



Increasing small business participation in global markets is an ongoing goal at OPIC.

In truth, the ideal OPIC-supported small business project is not any different than the largest projects the agency supports. It addresses an important developmental need in the host community, transfers technology and skills from a successful American company to a nascent industry in an emerging market, and supports the same industry here in the United States. It resembles an aid project, but delivers more lasting economic effect because it is funded not by grant but by investment with the expectation of return.

For example, LaGray Chemical Company of Chicago is using a \$4.9 million OPIC loan to build the first fully-integrated pharmaceutical manufacturing plant in West Africa. Located in Ghana, the project will put the region on the path to pharmaceutical self-sufficiency by producing active pharmaceutical ingredients and converting them to finished dosage forms such as capsules and medicated creams. This makes the company self-sufficient and capable of manufacturing medications to treat endemic diseases such as malaria, HIV/AIDS, and tuberculosis at affordable prices. Reducing the region's dependence on foreign sources for such a basic need will also speed local response to health crises.



Designed and built to U.S. Food and Drug Administration and World Health Organization standards, the project will introduce advanced manufacturing technology and create as many as 146 permanent local jobs, 98 of them professional.

And that is just one example out of many. With OPIC support, U.S. small businesses are engaged in developmental projects that will:

- perform more effective oil and gas well cementing in Indonesia, to increase infrastructure efficiency and prevent loss of valuable petroleum resources.
- reopen a Russian meat processing plant that in the 1990s had been recognized internationally as a model for its industry.
- increase Peruvian citizens' participation in their nation's economy

by expanding the availability of consumer credit.

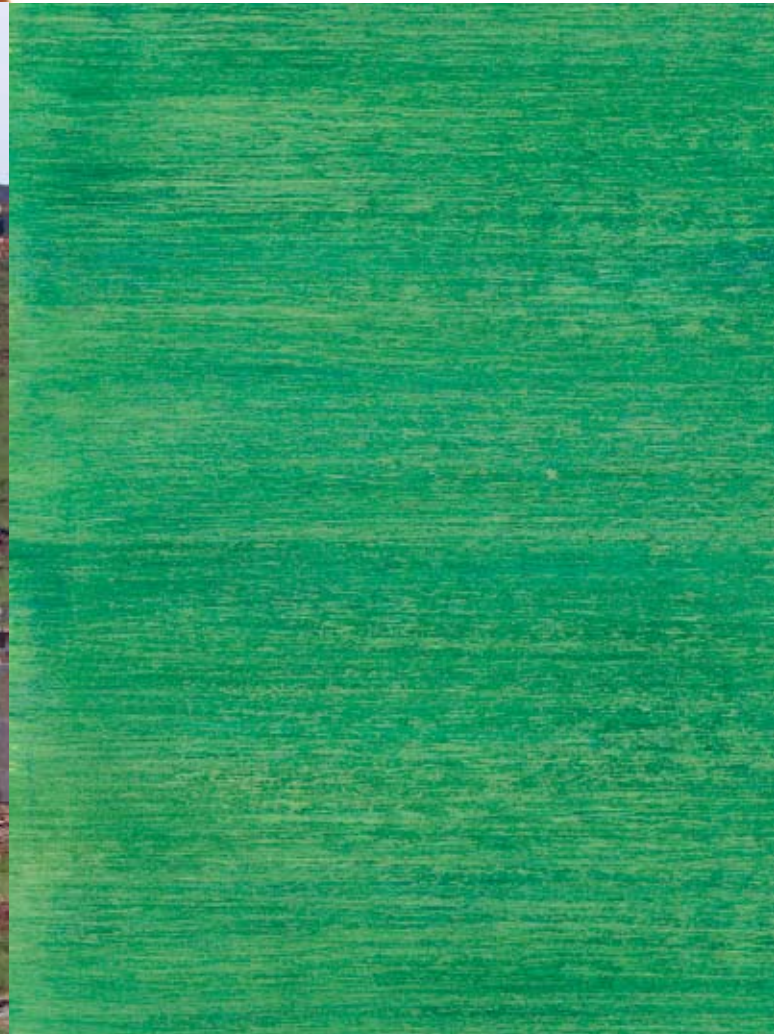
- provide debt for a microfinance institution in Kyrgyzstan.

Because commercial banks in developing countries typically neglect small businesses, better access to financing is one of the most important benefits that OPIC can deliver. OPIC and Citigroup Corporate and Investment Bank are working together to help small businesses obtain the capital they need by providing \$30 million in term financing to ProCredit Holding AG to expand microfinance lending in 19 countries in Africa, Latin America, and eastern Europe. Sponsored by Washington, D.C.-based Frontier Finance International, the project should result in thousands of small business loans and significant secondary economic growth in the host countries.

A small business program designed for results.

The significant growth in OPIC support for small business through the first half of this decade is the direct result of proactive steps by the agency. Foremost among these was the creation of the OPIC Small and Medium Enterprise Finance Department, described in 2006 by James Morrison, president of the Small Business Exporters Association, as “one of the most remarkable success stories in the history of federal government support for SMEs in international trade.” Streamlined, flexible, innovative, and responsive, this OPIC department is perfectly matched to the entrepreneurs it was designed to support.

HOUSING



In funding, guaranteeing, or insuring housing-related projects, OPIC enables host countries to meet a pressing social need and helps to unleash the power of housing and mortgage markets to build domestic wealth and increase local savings.

Strengthening the frameworks for new housing around the world.

Throughout the world, housing is the primary unit of economic development. In fact, nowhere in the world does wide-scale development take place without strong private housing and mortgage markets.

In funding, guaranteeing, or insuring housing-related projects, OPIC enables host countries to meet a pressing social need and helps to unleash the power of housing and mortgage markets to build domestic wealth and increase local savings.

Housing finance encourages growth of the financial services sector. Where mortgages are available, they improve the quality of housing, infrastructure, and urbanization, in turn raising living standards. Home ownership is the single greatest store of wealth for individuals, and — through mortgage lending — an important source of capital for grassroots entrepreneurship.

But these benefits are not as widely enjoyed in less-developed countries, where formal housing finance is rarely available. So another of OPIC's continuing priorities is to help developing countries generate the growth that

results from increased home ownership. While OPIC will continue to finance home building projects to satisfy local needs, the agency's increasing focus is to create stable, private, mortgage markets and the institutions and services they depend on by identifying and supporting models that can be repeated anywhere in the world.



In Africa, where many prospective homeowners lack access to the long-term financing that supports well-paced housing construction, it can take years to build a home. So more important than the 5,000 homes being constructed in the new Lilayi Estates community near Lusaka, Zambia, is that an OPIC loan to HFA Zambia, a Houses for Africa company, is helping to create one of the few markets for long-term fixed-rate mortgages in all of Africa.

Another model aspect of this project is modernization of Zambia's titling and deeds registry system, which will ensure timely mortgage recording and delivery of mortgage certificates. The U.S. Agency for International Development is providing technical assistance for this important component of housing infrastructure.

Improved land records are also the focus of an OPIC-supported project in Malindi, Kenya. As in many Kenyan municipalities, out-of-date, incomplete, or non-existent records keep Malindi from collecting a substantial proportion of its property-related taxes. An \$840,000 loan to Geosurvey International LLC of Horse Creek, Wyoming, will establish a modern database-driven Land Information System with the potential to increase municipal tax collection by three to five times.

OPIC also provided political risk insurance for a U.S. construction materi-



als factory and construction services company in Angola. The project facilities include a concrete batching plant, an area for molding concrete blocks, several stockpiles for storing aggregate, employee housing, and a woodworking shop for door manufacturing. This project will provide an important source of construction materials for low-cost housing and commercial buildings in Angola.

OPIC is providing Russian lenders access to U.S. capital markets by supporting one of the first public securitizations of mortgage certificates in that country. Connecticut-based Greenwich Financial Services LLC used a \$6 million OPIC loan to purchase the mezzanine piece of a securitization, which facilitated the completion of a \$72.6 million mortgage-backed securitization of residential mortgages originated primarily in Moscow and St. Petersburg by a private Russian Bank, CityMortgage Bank. The project will open a new avenue of fund-

ing for Russian mortgage lenders and the prospect of more affordable terms for Russian homeowners.

Another promising housing project involves the provision of OPIC political risk insurance to Enterprise Homes, LLC for the construction of residential housing developments near major cities in Tanzania, amounting to about 5,000 homes over a period of five to seven years. Each residential neighborhood will consist of a cluster of single-family homes located on a land plot situated within 20 miles of the central business district.

Franchising is the very definition of a model, and the basis of another OPIC housing-related project in Russia. Olard Trading Limited, a U.S.-owned small business, will use its OPIC loan to franchise the Century 21 real estate brand in Russia, helping to introduce standardized practices to the country's largely unregulated real estate market.

Helping nations on the road to recovery.

Over the years, OPIC's housing initiative has placed particular emphasis on rebuilding nations devastated by natural disaster, civil unrest, or war. The year 2006 was no exception, as OPIC announced a loan and small business political risk insurance "wrap" to Maskan Ltd., the subsidiary of a Maryland-based company, for the construction of three residential buildings in Kabul, along with related water, sewage, and backup electrical systems. This is the first phase in a development that will ultimately comprise 17 much-needed residential and mixed-used buildings in a city where Soviet occupation and Taliban rule left 80 percent of residential and commercial structures damaged or destroyed.

2006 INVESTMENT ACTIVITIES

US SPONSOR/INSURED INVESTOR	PROJECT NAME	PROJECT DESCRIPTION		
AFRICA AND THE MIDDLE EAST				
BURUNDI				
International Rescue Committee	International Rescue Committee, Inc	Humanitarian services	\$1,534,584	Insurance
CAMEROON				
Hubert Kepsou	Natura Beverage, LLC	Water bottling facility	\$591,340	Finance
Natura Beverage, LLC	Natura Beverage SARL	Water bottling facility	\$177,390	Insurance
CONGO, DEMOCRATIC REPUBLIC OF				
Number One Contracting Corp	Bureau of Infrastructure Contracts Coordination	Water supply	\$214,893	Insurance
Number One Contracting Corp	Projects Coordination Division, Ministry of Finance	Road rehabilitation	\$2,687,479	Insurance
Number One Contracting Corp	The Ministry of Urbanism	Housing construction	\$1,468,660	Insurance
Number One Contracting Corp	The Ministry of Urbanism	Housing construction	\$619,386	Insurance
Number One Contracting Corp	The Ministry of Urbanism	Roads	\$553,441	Insurance
GABON				
Alain ba Oumar	Internet Gabon, SA	Internet business expansion	\$3,000,000	Finance
GHANA				
GHL-USA Investment Partners, LLC	Ghana Home Loans (Fund 1) Limited	Residential mortgage loans funding	\$30,000,000	Finance
Three E Kumasi Investment Co, LLC	International Community School Limited	School campus expansion in Kumasi, Ghana	\$1,750,000	Finance
Warren Development Corp	Warren Development Company, Ltd	Telecommunication and internet access center	\$1,350,000	Insurance
IRAQ				
Baltimore Dredges, LLC	Ministry of Water Resources	Bid bond/River dredges supply	\$153,000	Insurance
Aziz Khudairi	Khudairi Trading Company Ltd	Construction equipment, generators, transformer substations	\$6,003,000	Insurance
United Marine Int'l, LLC	Ministry of Water Resources	Performance bond/Weed harvester	\$107,544	Insurance
KENYA				
Living Water International	Living Water International	Potable-water wells drilling	\$500,000	Finance
NAMIBIA				
Lazare Kaplan International Inc	LKI, International	Diamond cutting and polishing operations	\$25,200,000	Finance
TANZANIA				
Enterprise Homes, LLC	Enterprise Homes Tanzania Limited, Care of Ishengoma, Masha	Housing development	\$12,420,000	Insurance

ZAMBIA

American Embassy School of Lusaka Foundation, Inc	American Embassy School of Lusaka	Expansion	\$4,200,000	Finance
American Embassy School of Lusaka Foundation, Inc	American Embassy School of Lusaka	Expansion	\$24,200,000	Insurance

AFRICA AND THE MIDDLE EAST REGIONAL

Emerging Capital Partners, LLC	ECP MENA Growth Investments, LLC	Private equity investment fund	\$75,000,000	Investment Funds
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ASIA AND THE PACIFIC

AFGHANISTAN

Mohammad E. Aslamy and Ahmad Z. Aslamy	Bagram Fruit Packing Company	Grape juice production, bottling	\$270,000	Insurance
Mohammad E. Aslamy and Ahmad Z. Aslamy	Bagram Fruit Packing Company	Grape juice production, bottling	\$700,000	Finance
Safi Apparel Corporation	Safi Apparel Corporation	Manufacture of men's khaki pants	\$45,000	Insurance

BANGLADESH

Citigroup Corporate and Investment Bank	Pacific Bangladesh Telecom Limited*	Cellular telephone network expansion	\$15,000,000	Finance
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INDIA

Ashok Vasudevan, Meera Vasudevan and Hans Taparia	Preferred Brands International, LLC (WBC)	Purchase equipment; implement marketing/distribution	\$2,827,500	Finance
Financial Intermediary	Sanghvi Movers	Hydraulic and crawler cranes for hire	—	Investment Funds

INDONESIA

Tucan Petroleum Indonesia, LLC	PT Tucan Pumpco Services Indonesia	Oil and gas support services	\$1,906,501	Insurance
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NEPAL

International Rescue Committee	International Rescue Committee, Inc	Humanitarian services	\$26,069	Insurance
Loudoun Reinsurance Company	Bhote Koshi Private Company Pvt Ltd	Power station	\$18,562,500	Insurance

PHILIPPINES

GE Energy Rentals, Inc	Fabmik Construction and Equipment Co, Inc	Mobile power generators leasing	\$2,524,500	Insurance
Frederick E. LaCroix	The Powersource Group LLC	Rural electrification	\$2,500,000	Finance
US Water, LLC	Rio Verde Water Consortium, Inc	Water supply system	\$2,025,092	Insurance

SOUTH KOREA

Financial Intermediary	Insun ENT Co., Ltd (thru Olympus Green Holdings)	Environmental services	—	Investment Funds
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SRI LANKA

Citigroup Corporate and Investment Bank	Lanka Orix Leasing Company LTD*	Industrial equipment and vehicles leasing	\$8,169,117	Finance
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VIETNAM

BMCC Inc	VietnamNet Media Joint Stock Company	Communication services	\$2,500,000	Insurance
Kimberly-Clark Corporation	Kimberly-Clark Vietnam Co., Ltd	Feminine care manufacturing facility	\$16,459,200	Insurance

ASIA AND THE PACIFIC REGIONAL

Financial Intermediary	Asia Development Finance, LTD	Financial Services	—	Investment Funds
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EUROPE AND EURASIA**AZERBAIJAN**

ShoreBank International Ltd	Kredit Non-Banking Credit Organizati LLC	SME and mortgage loan portfolio expansion	\$7,500,000	Finance
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BULGARIA

Wachovia Bank National Assoc. Financial Intermediary	First Investment Bank Bulgaria* New Europe Directories Bulgaria EOOD (thru New Europe Directories, Sarl)	Retail loan portfolio expansion National classified telephone directories producer	\$10,000,000 —	Finance Investment Funds
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GEORGIA

Firebird Management Dr. Ward Flad	Bank of Georgia (WBC) GAMA LTD	Residential mortgage portfolio expansion Pharmaceutical manufacturing operation expansion	\$9,750,000 \$740,200	Finance Finance
James Gilson Zavod Za Izobrazevanje Southeastern Export Corporation	QSI International School of Tbilisi Union "QSI International School of Tbilisi" American Monolith LTD	International K-12 school International K-12 school Cold storage warehouse	\$1,000,000 \$908,000 \$3,900,000	Finance Insurance Finance

KAZAKHSTAN

Citigroup Corporate and Investment Bank Mercy Corps	JSC Halyk Bank* Asian Credit Fund Credit Coop LLC Senior and Subordinated Debt	SME loan portfolio expansion Microfinance/SME lending portfolio expansion	\$22,500,000 \$1,500,000	Finance Finance
Wachovia Bank National Assoc. Wachovia Bank National Assoc.	Alliance Bank* Bank Centercredit*	SME retail loan portfolio expansion Retail loan portfolio expansion	\$16,000,000 \$9,000,000	Finance Finance

KOSOVO

Service Group International LLC	International Village Pristina	Constuction and sale/lease of 110 detached and apartment units	\$4,000,000	Finance
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KYRGYZSTAN

Microvest I, LP	Kompanion Financial Group	Microfinance on-lending	\$700,000	Insurance
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MOLDOVA

Vaja Jhashi	Kelly Grains Corporation SRL (WBC)	Grain loading terminal and oilseed crushing facility	\$9,750,000	Finance
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ROMANIA

Sanjay Bhasin The Cooperative Housing Foundation	Netmaster Communications SRL The Cooperative Housing Foundation	Telecommunications Loans to micro-lenders for SMEs	\$2,880,000 \$2,500,000	Insurance Finance
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RUSSIA

Capital International Private Equity Fund IV	ZAO Europlan	Portfolio expansion of leased equipment and vehicles to SMEs	\$100,000,000	Finance
Dialog International, Inc	ZAO Aires (WBC)	Family entertainment center business expansion	\$7,507,500	Finance
Firebird Management LLC	SDM BANK (WBC)	Bank's SME loan portfolio expansion	\$7,312,500	Finance
Greenwich Financial Securities, LLC	Greenwich Financial Services, LLC	Residential mortgage-backed securities securitization	\$5,974,180	Finance
National City Bank GFA 1	NBD Bank, Joint-Stock Company*	SME loan portfolio expansion	\$3,000,000	Finance
National City Bank GFA 2	Absolut Bank*	Consumer finance portfolio expansion	\$20,000,000	Finance
National City Bank GFA 2	JSC Promsvyazbank*	Consumer and retail loan portfolios expansion	\$25,000,000	Finance
James M. Quinn and Robert W. Courtney	Century 21 Russia	Establish Century 21 real estate franchise	\$3,600,000	Finance
Wachovia Bank National Assoc.	Sibacadembank*	SME retail loan portfolio expansion	\$20,000,000	Finance
Melvin Andrew Welch	ZAO Aston	Residential, office and retail complex	\$6,500,000	Finance
Financial Intermediary	Stack Group	Data warehousing facilities	—	Investment Funds
Financial Intermediary	ZAO AIST	Regional telecommunications provider	—	Investment Funds
Financial Intermediary	PSL Leasing	Financial leasing services	—	Investment Funds

TURKEY

Wachovia Bank National Assoc.	Anadolubank*	Retail loan portfolio expansion	\$5,000,000	Finance
Wachovia Bank National Assoc.	Tekstil Bankasi, AS*	Retail loan portfolio expansion	\$10,000,000	Finance
Wachovia Bank National Assoc.	Denizbank, Istanbul*	Retail loan portfolio expansion	\$25,000,000	Finance
Wachovia Bank National Assoc.	Tekfenbank*	SME loan and/or mortgage portfolio expansion	\$5,000,000	Finance
Wachovia Bank National Assoc.	Asya Katalim*	Retail loan portfolio expansion	\$5,000,000	Finance
Wachovia Bank National Assoc.	Turk Ekonomi Bank*	Retail loan portfolio expansion	\$20,000,000	Finance

UKRAINE

Andrew Bain	Atlantic Group Limited (WBC)	Magazine publishing and billboard advertising expansion	\$8,385,000	Finance
Financial Intermediary	Business Activities Center, LLC	Warehousing	—	Investment Funds

LATIN AMERICA AND THE CARIBBEAN

ARGENTINA

Arnaldo Rodriguez	De Sarrillos de Los Suenos, SA	Development and operation of tourist lodge in Bariloche	\$1,100,000	Finance
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BELIZE

Vistas Construction of Illinois, Inc	Vistas Belize Ltd	Construction of residential compound for US embassy	\$13,570,000	Finance
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BOLIVIA

Delphos International Ltd	AXS Bolivia SA	Telecommunications	\$1,035,000	Insurance
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BRAZIL

National City Bank GFA 2	Banco Mercantil do Brasil SA*	Automobile financing portfolio expansion	\$20,000,000	Finance
Samba Inc	Acai do Amapa Agroindustrial Ltda	Construction of fruit processing plant	\$3,712,000	Finance
Samba Inc	Acai do Amapa Agroindustrial Ltda	Construction of fruit processing plant	\$1,799,238	Insurance
Financial Intermediary	ALESAT Combustiveis SA	Gasoline, diesel and alcohol distributor	—	Investment Funds

COSTA RICA

Colite Outdoor, LLC	Colite Costa Rica, SA	Outdoor advertising/billboard leasing	\$279,537	Insurance
Roberto Zamora Llanes	Banco Lafise, SA	Fixed-rate residential mortgage loan program expansion	\$20,000,000	Finance

DOMINICA

Dominica Private Power Limited	Dominica Electricity Services Ltd ("DOMLEC")	Electric services	\$3,033,000	Insurance
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ECUADOR

American Home Assurance Co	Corporacion Quiport SA	Airport	\$15,877,917	Insurance
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GUATEMALA

Administradora de Inversiones Peggy, SA	Administradora de Inversiones Peggy, SA	Residential building	\$617,022	Insurance
Colite Outdoor, LLC	Colite Guatemala, SA	Outdoor advertising/billboard leasing	\$279,291	Insurance
David N. Warren, Jean B. Warren, Michael B. Warren and Central American Produce, Inc	La Futura, SA	Melon farming and packing facility	\$4,000,000	Finance

HAITI

Citigroup Corporate and Investment Bank	Unigestion Holding SA (Digicel Haiti)*	Construct/operate greenfield telecommunications operation	\$1,200,000	Finance
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HONDURAS

Citigroup Corporate and Investment Bank	Banco Mercantil, SA*	SME and mortgage portfolios expansion	\$15,000,000	Finance
M Homes, LLC	Honduras Homes, SA	Worker housing	\$1,125,000	Insurance
Wachovia Bank National Assoc.	Banco Atlantida*	SME loan portfolio expansion	\$25,000,000	Finance
Wachovia Bank National Assoc.	Banco Financiera Comercial Hondurena*	Residential mortgage lending portfolio expansion	\$10,000,000	Finance
Roberto J. Zamora	Banco Lafise Honduras, SA	Long-term, fixed-rate USD residential mortgage portfolio funding	\$10,000,000	Finance

MEXICO

Azmex Land, LLC	Salvatierra Desarrollos Urbanos, SA de CV	Land urbanization for resale to affordable housing builders	\$3,009,300	Finance
Bravo Energy Latin America LLC	Bravo Energy Mexico SRL de CV	Used lubricating oil refining facility	\$6,990,000	Finance
Citigroup Corporate and Investment Bank	Credito Inmobiliario SA de SV*	Construction of low-income housing	\$20,769,802	Finance
Inter. Entertainment Holding Corp	Xtreme Cinemas, S de RL/Xtreme del Poniente	Cinema theatre complexes expansion	\$5,000,000	Finance
MoladiAmericas, Inc	Monolithic Housing SA (WBC)	Construction of 800 affordable residential housing units	\$7,653,750	Finance

Ocean Farmers, LLC	Maricultura del Norte, S de RL de CV (WBC)	Fresh and frozen yellowfish tuna processing expansion	\$9,652,500	Finance
Arnold Rojas Rivas and Frank Rojas Rivas	Corporativo Papelero Y de Suministros BA (WBC)	Production and distribution of paper products expansion	\$9,750,000	Finance
Wade Rain Inc	Wade Rain de Mexico, S de RL de CV	Agricultural equipment distribution business	\$2,000,000	Insurance

NICARAGUA

Riverside Coffee, LLC	Rio Verde, SA	Leatherleaf ferns	\$1,467,000	Insurance
Carlos Rondon, Melva Rondon, Spencer Manners and Melvin Winger	Rio Verde, SA	Leatherleaf ferns	\$6,040,000	Finance
Carlos Rondon J. and Melva Rondon	Rio Verde, SA	Leatherleaf ferns	\$733,500	Insurance
Seminole Tribe of Florida	Seminole, SA	Hotel	\$2,200,000	Insurance
Southern Coastal Properties, LLC	Southern Coastal Properties Nicaragua, SA	Resort development	\$4,500,000	Insurance
Roberto Zamora	Banco de Credito Centroamericano, SA	Fixed-rate, USD long-term residential mortgages expansion	\$20,000,000	Finance

PANAMA

Colite Outdoor, LLC	Colite Panama, SA	Outdoor advertising/billboard leasing	\$147,038	Insurance
Wachovia Bank NA	Banco Uno SA*	Modernize technology and expand credit card portfolio	\$5,000,000	Finance

PERU

Citigroup Corporate and Investment Bank	Corporacion Jose R. Lindley, SA-2*	Coca-Cola distribution plant and facilities expansion	\$7,352,940	Finance
Phelps Dodge Corporation	Sociedad Minera Cerro Verde, SAA	Copper ore mining	\$142,000,000	Insurance

LATIN AMERICA AND THE CARIBBEAN REGIONAL

14 US Citizens	Microfinance International Corporation	On-lending to microfinance institutions in Latin America	\$4,000,000	Finance
Conduit Capital Partners, LLC	Latin Power Trust III, LP	Private equity investment fund focused on power sector	\$60,000,000	Investment Funds
Darby Overseas Investments, Ltd	Darby ProBanco Fund II	Private equity investment fund	\$45,000,000	Investment Funds

ALL OPIC COUNTRIES

Citibank Corporate and Investment Bank	Global Framework Facility II	Framework Agreement	\$150,000,000	Finance
Developing World Markets Microfinance, LLC	Microfinance Securities XXEB SA Senior, Mezzanine and Junior Notes	Microfinance project	\$18,600,000	Finance
National City Bank	Global Framework Facility III	Framework Agreement	\$350,000,000	Finance
Wachovia Bank NA	Global Framework Facility III	Framework Agreement	\$250,000,000	Finance

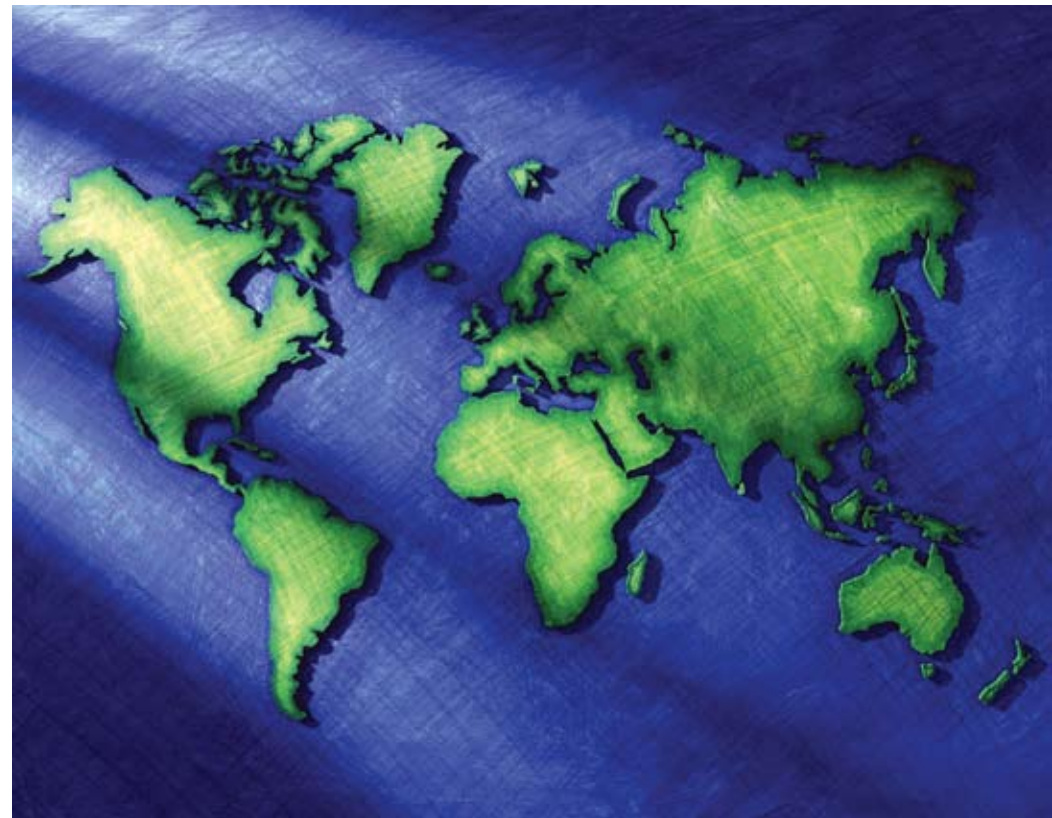
*Downstream transactions committed under framework agreements entered into during prior fiscal years.

OPIC COUNTRIES AND AREAS

OPIC services encourage U.S. private investment in some 150 countries and areas around the world, contributing to economic growth at home and abroad.

OPIC services are generally available in the countries and areas listed. From time to time, statutory and policy constraints may limit the availability of OPIC services in certain countries, or countries where services were previously unavailable may become eligible. Investors are urged to contact OPIC directly or check the web site www.opic.gov/doingbusiness/ourwork/index.asp for up-to-date information regarding the availability of OPIC services in specific countries, as well as information on the availability of OPIC services in countries not listed.

(As of September 30, 2006)



AFRICA AND THE MIDDLE EAST

Algeria
Angola
Bahrain
Benin
Botswana
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Congo
Congo, Democratic Republic of
Djibouti
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Iraq
Israel
Jordan
Kenya
Kuwait
Lebanon
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Namibia

Niger
Nigeria
Oman
Rwanda
São Tomé and Príncipe
Senegal
Sierra Leone
Somalia
South Africa
Swaziland
Tanzania
Togo
Tunisia
Uganda
West Bank and Gaza
Yemen
Zambia
Zimbabwe

ASIA AND THE PACIFIC

Afghanistan
Bangladesh
Cambodia
Cook Islands
East Timor
Fiji
India
Indonesia
Kiribati
Laos
Malaysia
Marshall Islands
Micronesia, Federated States of
Mongolia
Nepal
Pakistan
Palau
Papua New Guinea
Philippines
Samoa
Singapore

South Korea
Sri Lanka
Taiwan
Thailand
Tonga
Vietnam

EUROPE AND EURASIA

Albania
Armenia
Azerbaijan
Bosnia and Herzegovina
Bulgaria
Croatia
Cyprus
Czech Republic
Estonia
Georgia
Greece
Hungary
Ireland
Kazakhstan
Kosovo
Kyrgyzstan
Latvia
Lithuania
Macedonia
Malta
Moldova
Montenegro
Northern Ireland
Poland
Portugal
Romania
Russia
Serbia
Slovakia
Slovenia
Tajikistan
Turkey
Turkmenistan

Ukraine
Uzbekistan

LATIN AMERICA AND THE CARIBBEAN

Anguilla
Antigua and Barbuda
Argentina
Aruba
Bahamas
Barbados
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominica
Dominican Republic
Ecuador
El Salvador
French Guiana
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Netherlands Antilles
Nicaragua
Panama
Paraguay
Peru
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Suriname
Trinidad and Tobago
Turks and Caicos
Uruguay

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS



KPMG LLP
2001 M Street, NW
Washington, DC 20036

To the Board of Directors
Overseas Private Investment Corporation:

We have audited the accompanying balance sheets of the Overseas Private Investment Corporation (OPIC) as of September 30, 2006 and 2005, and the related statements of income, capital and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of OPIC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPIC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Overseas Private Investment Corporation as of September 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 14, 2006, on our consideration of OPIC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 14, 2006

KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

BALANCE SHEETS

Overseas Private Investment Corporation — September 30, 2006 and 2005

(\$ in thousands)

Assets	2006	2005
Fund Balance with U.S. Treasury (notes 2 and 4)	\$ 874,609	\$ 892,823
U.S. Treasury securities, at amortized cost plus related receivables (notes 2 and 7)	4,337,225	4,119,837
Direct loans outstanding, net (notes 2 and 10)	595,500	491,570
Accounts receivable resulting from investment guaranties, net (notes 2 and 11)	123,512	65,354
Assets acquired in insurance claims settlements, net (notes 2 and 11)	121,550	170,584
Guaranty Receivable (notes 2 and 18)	167,334	152,741
Accrued interest and fees and other	29,023	30,130
Furniture, equipment and leasehold improvements at cost less accumulated depreciation and amortization of \$13,363 in FY2006 and \$12,810 in FY2005 (note 2)	6,939	5,513
TOTAL ASSETS	\$ 6,255,692	\$ 5,928,552
Liabilities, Capital, and Retained Earnings		
Liabilities:		
Reserve for political risk insurance (notes 2 and 9)	\$ 315,000	\$ 315,000
Reserve for investment guaranties (notes 2 and 10)	620,000	625,000
Accounts payable and accrued expenses	5,365	3,836
Guaranty liability (notes 2 and 18)	167,334	152,741
Customer deposits and deferred income	48,806	52,527
Borrowings from U.S. Treasury, and related interest (note 6)	788,255	673,398
Unearned premiums	11,966	12,971
Deferred rent & rent incentives from lessor of \$4,014 and \$4,108 net of accumulated amortization of \$655 and \$340 in FY2006 and FY2005 (note 14)	3,359	3,768
	<u>1,960,085</u>	<u>1,839,241</u>
Contingent liabilities (notes 2 and 17)		
Capital and retained earnings:		
Contributed capital	50,000	50,000
Credit funding (note 5)	123,257	171,432
Interagency transfers (Note 2)	5,810	5,811
Retained earnings and reserves:		
Insurance (notes 9 and 12)	1,337,167	1,347,890
Guaranty (notes 10 and 12)	2,779,373	2,514,178
	<u>\$ 4,295,607</u>	<u>4,089,311</u>
TOTAL LIABILITIES, CAPITAL, AND RETAINED EARNINGS	\$ 6,255,692	\$ 5,928,552

See accompanying notes to financial statements.

STATEMENTS OF INCOME

Overseas Private Investment Corporation — Years ended September 30, 2006 and 2005

(\$ in thousands)

Revenues	2006	2005
Political risk insurance premiums and fees (note 9)	\$ 24,671	\$ 30,782
Investment financing interest and fees	140,212	135,632
Interest on finance program deposits	42,584	49,265
Other operating income	2	2
Interest on U.S. Treasury securities	195,971	188,130
	<u>403,440</u>	<u>403,811</u>
Expenses		
Provisions for reserves:		
Political risk insurance (notes 2 and 9)	(23,709)	11,367
Investment financing (notes 2, 10 and 11)	7,023	70,051
Salaries and benefits (note 15)	26,552	25,598
Rent, communications and utilities (note 14)	6,811	6,934
Contractual services	10,246	26,678
Travel	2,672	2,813
Interest on borrowings from U.S. Treasury (note 6)	41,274	37,156
Depreciation and amortization (note 2)	553	452
Other general and administrative expenses	1,549	1,573
	<u>72,971</u>	<u>182,622</u>
NET INCOME	<u>\$ 330,469</u>	<u>\$ 221,189</u>

See accompanying notes to financial statements.

STATEMENTS OF CAPITAL AND RETAINED EARNINGS

Overseas Private Investment Corporation — Years ended September 30, 2006 and 2005

(\$ in thousands)

	Contributed capital	Credit funding	Interagency transfers	EQUITY RESERVES			Total
				Insurance (notes 9 and 12)	Guaranty (notes 10 and 12)	Retained earnings	
Balance, September 30, 2004	\$ 50,000	\$ 173,238	\$ 18,631	\$ 1,767,145	\$ 2,179,408	\$ —	\$ 4,188,422
Net income	—	—	—	(414,467)	635,656	—	221,189
Return credit funding to U.S. Treasury	—	—	—	—	(446,916)	—	(446,916)
Credit funding received from:							
Accumulated earnings	—	49,333	—	(23,808)	—	(25,525)	—
Credit appropriations	—	120,416	—	—	—	—	120,416
Credit funding used	—	(171,555)	—	—	146,030	25,525	—
Interagency transfers	—	—	(12,820)	19,020	—	—	6,200
Balance, September 30, 2005	\$ 50,000	\$ 171,432	\$ 5,811	\$ 1,347,890	\$ 2,514,178	\$ —	\$ 4,089,311
Net income	—	—	—	13,350	317,119	—	330,469
Return credit funding to U.S. Treasury	—	(45,605)	—	—	(213,171)	—	(258,776)
Credit funding received from:							
Accumulated earnings	—	45,438	—	(20,074)	—	(25,364)	—
Credit appropriations	—	134,603	—	—	—	—	134,603
Credit funding used	—	(181,611)	—	—	156,247	25,364	—
Interagency transfers	—	(1,000)	(1)	(3,999)	5,000	—	—
Balance, September 30, 2006	\$ 50,000	\$ 123,257	\$ 5,810	\$ 1,337,167	\$ 2,779,373	\$ —	\$ 4,295,607

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Overseas Private Investment Corporation — Years ended September 30, 2006 and 2005

(\$ in thousands)

Cash flows from operating activities:			2006	2005	Increase (decrease) in liabilities:		
Net income	\$	330,469	\$	221,189	Accounts payable and accrued expenses	1,529	(2,127)
Adjustments to reconcile net income to net cash provided by operating activities:					Customer deposits and deferred income	(3,721)	15,154
Provisions for:					Guaranty liability	14,593	20,634
Political risk insurance	(23,709)	11,367			Unearned premiums	(1,005)	(2,528)
Investment financing	7,023	70,051			Capitalized interest	—	385
Amortization of premiums on U.S. securities	11,710	17,657			Insurance claim payments	(167)	—
Accretion of discounts on U.S. securities	(9,949)	(5,931)			CASH PROVIDED BY OPERATING ACTIVITIES	\$ 334,641	\$ 399,088
Amortization of deferred rent and rental incentives	(864)	(561)					
Increase in rent incentives	455	1,647			Cash flows from investing activities	2006	2005
Depreciation and amortization	553	452			Sale and maturity of U.S. Treasury securities	661,450	1,321,186
(Increase) decrease in assets:					Purchase of U.S. Treasury securities	(879,000)	(1,546,631)
Accrued interest and fees	(493)	(707)			Repayment of direct loans	35,570	19,802
Accounts receivable	1	10			Disbursement of direct loans	(159,580)	(139,455)
Guaranty receivable	(14,593)	(20,634)			Acquisition of furniture and equipment	(1,979)	(4,612)
Assets acquired in insurance claims settlements	(2,650)	(50,000)			CASH USED IN INVESTING ACTIVITIES	\$ (343,539)	\$ (349,710)
Recoveries on assets acquired in insurance claims settlements	75,559	124,149					
Assets acquired in finance claims settlements	(118,196)	(37,636)			Cash flows from financing activities	2006	2005
Recoveries on assets acquired in finance claims settlements	68,096	36,517			Return credit funding to U.S. Treasury	(258,776)	(446,915)
					Interagency transfers	—	6,200
					Credit appropriations	134,603	120,416
					Credit reform borrowings from U.S. Treasury	114,857	79,637
					CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(9,316)	(240,662)
					Net decrease in cash	(18,214)	(191,284)
					Fund balance with U.S. Treasury at beginning of year	892,823	1,084,107
					FUND BALANCE WITH U.S. TREASURY AT END OF YEAR	\$ 874,609	\$ 892,823

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Overseas Private Investment Corporation — September 30, 2006 and 2005

(1) Statement of Corporate Purpose

The Overseas Private Investment Corporation (OPIC) is a self-sustaining U.S. Government corporation created under the Foreign Assistance Act of 1961 (FAA), as amended. OPIC facilitates U.S. private investment in developing countries and emerging market economies, primarily by offering political risk insurance, investment guaranties, and direct loans. As a government corporation, OPIC is not subject to income tax.

(2) Summary of Significant Accounting Policies

Basis of Presentation: These financial statements have been prepared to report the financial position, results of operations, and cash flows of OPIC. OPIC's accounting policies conform to accounting principles generally accepted in the United States of America. OPIC's financial statements are presented on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Fund Balance with U.S. Treasury: Substantially all of OPIC's receipts and disbursements are processed by the U.S. Treasury which, in effect, maintains OPIC's bank accounts. For purposes of the Statement of Cash Flows, fund balance with U.S. Treasury is considered cash.

Investment in U.S. Treasury Securities: By statute, OPIC is authorized to invest funds derived from fees and other revenues related to its insurance and preinvestment programs in U.S. Treasury securities. Investments are carried at face value, net of unamortized discount or premium, and are held to maturity. OPIC has the ability and intent to hold its investments until maturity or until the carrying cost can be otherwise recovered.

Assets Acquired in Investment Guaranty and Insurance Claims Settlements: Assets acquired in claims settlements are valued at the lower of management's estimate of the net realizable value of recovery or the cost of acquisition.

OPIC acquires foreign currency in settlement of inconvertibility claims when an insured foreign enterprise is unable to convert foreign currency into U.S. dollars, as well as in some direct loan and investment guaranty collection efforts. The initial U.S. dollar equivalent is recorded and revalued annually until the foreign currency is utilized by OPIC or other agencies of the United States Government, or until it is exchanged for U.S. dollars by the foreign government.

Allowances: The allowances are based on management's periodic evaluations of the underlying assets. In its evaluation, management considers numerous factors, including, but not limited to, general economic conditions, asset composition, prior loss experience, the estimated fair value of any collateral, and the present value of expected future cash flows.

Depreciation and Amortization: OPIC capitalizes property and equipment at historical cost for acquisitions exceeding \$5,000. Depreciation and amortization of fixed assets, leasehold improvements, and lease incentives are computed using the straight-line method over the estimated useful life of the asset or lease term, whichever is shorter, with periods ranging from 5 to 15 years.

Reserves for Political Risk Insurance and Investment Guaranties: The reserves for political risk insurance and investment guaranties provide for losses inherent in those operations. These reserves are general reserves, available to absorb losses related to the total insurance and guaranties outstanding, which are off-balance-sheet commitments. The reserves are increased by provisions charged to expense and decreased for claims settlements. The provisions for political risk insurance and investment guaranties are based on management's evaluation of the adequacy of the related reserves. This evaluation encompasses consideration of past loss experience, changes in the composition and volume of the insurance and guaranties outstanding, worldwide economic and political conditions, and project-specific risk factors. Also, in the political risk insurance reserve evaluation, OPIC takes into consideration losses incurred but not yet reported.

FASB Interpretation No. 45: In November 2002 the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, *Guarantor's Accounting and Disclosure*

Requirements for Guaranties, Including Indirect Guaranties of Indebtedness of Others (FIN 45). FIN 45 requires that upon issuance of a guaranty, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under that guaranty. The initial recognition and measurement requirement of FIN 45 applies only to guaranties issued or modified after December 31, 2002. OPIC's initial guarantee obligation reported represents the fair value of the investment guaranties. This obligation is reduced over the term of the investment guarantee agreements, as OPIC is released from its obligation.

Revenue Recognition: Facility fees are received in advance and recognized as deferred income, then amortized over the applicable loan period using the straight line method. Interest on loans and guaranty fees on investment guaranties are accrued based on the principal amount outstanding. Revenue from both loan interest payments and guaranty fees that is more than 90 days past due is recognized only when cash is received. Revenue from political risk insurance premiums is recognized over the contract coverage period. Accretion of premium and discount on investment securities is amortized into income under a method approximating the effective yield method.

Interagency transfers: OPIC periodically receives funding from other U.S. Government agencies to be used to support various programs and initiatives.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Commitments and Contingencies: Liabilities from the loss contingencies, other than those related to political risk insurance and investment guaranties, arising from the claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Loss contingencies that do not meet these criteria, but are reasonably possible and estimable are not accrued, but are disclosed in Note 17.

(3) Intragovernmental Financial Activities

OPIC, as a U.S. Government corporation, is subject to financial decisions and management controls of the Office of Management and Budget. As a result of this relationship, OPIC's operations may not be conducted, nor its financial position reported, as they would be if OPIC were not a government corporation. Furthermore, in accordance with international agreements relating to its programs, as well as internal U.S. Government operating procedures, foreign currency acquired by OPIC can be used for U.S. Government expenses. This facility constitutes an additional means, which would otherwise be unavailable, by which OPIC can recover U.S. dollars with respect to its insurance and investment financing programs.

(4) Fund Balance with U.S. Treasury

OPIC is restricted in its uses of certain cash balances, as described below. The fund balance with U.S. Treasury as of September 30, 2006 and 2005 consists of the following (dollars in thousands):

	2006	2005
Restricted:		
Pre-Credit reform	\$ 311	\$ 241
Credit reform	852,408	877,825
Interagency fund transfers	1	1
Unrestricted	21,889	14,756
TOTAL	\$ 874,609	\$ 892,823

The Federal Credit Reform Act of 1990 established separate accounts for cash flows associated with investment financing activity approved prior to implementation of the Act and investment financing activity subject to the Act. With the advent of Credit Reform, OPIC is not permitted to invest its pre-Credit Reform cash balances. These balances grow over time, and when they are determined to be no longer needed for the liquidation of the remaining pre-Credit Reform direct loans and investment

guaranties, they are transferred to OPIC's unrestricted noncredit insurance account. In 2006 and 2005, OPIC transferred \$1.2 million and \$4 million, respectively, to the noncredit insurance account. Credit Reform balances are also maintained in the form of uninvested funds. The U.S. Treasury pays OPIC interest on those cash balances except for undisbursed credit funding.

(5) Credit Funding

OPIC's finance activities are subject to the Federal Credit Reform Act of 1990, which was implemented as of October 1, 1991. Credit Reform requires agencies to estimate the long-term cost to the government of each fiscal year's new credit transactions and to obtain funding through the appropriations process equal to the net present value of such costs at the beginning of the year. OPIC's credit funding is available for two years. In addition, the Act requires the administrative costs related to its credit program to be displayed.

In fiscal year 2006, OPIC's appropriations legislation authorized the corporation to use \$20.1 million of its accumulated earnings to cover the future costs of credit transactions committed in fiscal years 2006 and 2007. In fiscal year 2005, OPIC was authorized to use \$23.8 million to cover commitments in fiscal years 2005 and 2006. In addition to the credit funding allocated directly to OPIC through the appropriations process, OPIC has received a total of \$67 million in net transfers from other agencies to be used exclusively to finance projects in the New Independent States (NIS).

The following table shows the status of funding for credit activities (dollars in thousands):

	2006	2005
Balance carried forward	\$ 171,432	\$ 173,238
Upward reestimates	134,603	120,416
Transferred from earnings	45,438	49,333
Expired credit funding	(45,605)	—
Interagency transfers (net)	(1,000)	—
Credit funding used	(181,611)	(171,555)
CREDIT FUNDING REMAINING	\$ 123,257	\$ 171,432

Changes in financial and economic factors over time can affect the subsidy estimates made at the time of loan and guaranty commitments. Therefore, in accordance with OMB guidelines, OPIC reestimates subsidy costs for each group of loans and guaranties obligated in a given fiscal year to account for those changing factors. Reestimates that result in increases to subsidy costs are funded with additional appropriated funds that are made automatically available, while decreases to subsidy costs result in excess funds that are transferred to the U.S. Treasury. OPIC incurred increased subsidy costs of \$134.6 million and \$120.4 million and decreases in subsidy costs of \$258.8 million and \$446.9 million in fiscal years 2006 and 2005, respectively.

The way in which OPIC calculates the subsidy cost of its loans and guaranties for Credit Reform purposes differs from the way it calculates its loss reserves and net finance income in accordance with GAAP for financial statement purposes.

(6) Borrowings From the U.S. Treasury

In accordance with the Federal Credit Reform Act of 1990, the portion of investment financing activities not funded through the appropriations process must be funded by borrowings from the U.S. Treasury. Borrowings for Credit Reform financings totaled \$210.1 million in 2006 and \$152.4 million in 2005, all of which have been disbursed. OPIC paid a total of \$41.3 million and \$37.2 million in interest to the U.S. Treasury during fiscal years 2006 and 2005, respectively. Repayments of borrowings from the U.S. Treasury totaled \$93.4 million in 2006 and \$74.8 million in 2005. Future payments for borrowings outstanding at September 30, 2006 are as follows (dollars in thousands):

Payment due in:	
Fiscal year 2007	\$ 31,667
Fiscal year 2008	21,676
Fiscal year 2009	28,965
Fiscal year 2010	57,123
Fiscal year 2011	64,809
Thereafter	584,015
TOTAL	\$ 788,255

(7) Investment in U.S. Treasury Securities

The composition of investments and related receivables at September 30, 2006 and 2005 is as follows (dollars in thousands):

	2006	2005
Investments, amortized cost	\$ 4,290,192	\$ 4,074,403
Interest receivable	47,033	45,434
TOTAL	\$ 4,337,225	\$ 4,119,837

The amortized cost and estimated fair value of investments in U.S. Treasury securities are as follows (dollars in thousands):

	Gross amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At September 30, 2006	\$ 4,290,192	161,207	(34,041)	4,417,358
At September 30, 2005	\$ 4,074,403	209,010	(30,872)	4,252,541

At September 30, 2006, the securities held had an interest range of 2.5% to 14% and a maturity period from one month to almost 22 years.

OPIIC holds its securities to maturity. The amortized cost and estimated fair value of U.S. Treasury securities at September 30, 2006, by contractual maturity, are shown below (dollars in thousands):

	Amortized cost	Estimated fair value
Due in one year or less	\$ 690,258	\$ 685,219
Due after one year through five years	2,229,070	2,223,242
Due after five years through 10 years	849,002	875,421
Due after 10 years	521,862	633,476
TOTAL	\$ 4,290,192	\$ 4,417,358

8) Statutory Limitations on the Issuance of Insurance and Finance

OPIIC issues insurance and financing under a single limit for both programs, currently \$29 billion, fixed by statute in the FAA. At September 30, 2006, OPIIC's insurance and finance programs have collectively utilized \$11.3 billion.

(9) Political Risk Insurance

Insurance revenues include the following components for the years ended September 30 (dollars in thousands):

	2006	2005
Political risk insurance premiums	\$ 22,341	\$ 30,711
Miscellaneous insurance income	2,330	71
TOTAL INSURANCE REVENUE	\$ 24,671	\$ 30,782

OPIIC's capital, allowance, retained earnings, and reserves available for insurance at both September 30, 2006 and 2005 totaled \$1.7 billion. Charges against retained earnings could arise from (A) outstanding political risk insurance contracts, (B) pending claims under insurance contracts, and (C) guaranties issued in settlement of claims arising under insurance contracts.

(a) Political Risk Insurance

OPIIC insures investments for up to 20 years against three different risks: inconvertibility of currency, expropriation, and political violence. Insurance coverage against inconvertibility protects the investor from increased restrictions on the investor's ability to convert local currency into U.S. dollars. Inconvertibility insurance does not protect against devaluation of a country's currency.

Expropriation coverage provides compensation for losses due to confiscation, nationalization, or other governmental actions that deprive investors of their fundamental rights in the investment.

Insurance against political violence insures investors against losses caused by politically motivated acts of violence (war, revolution, insurrection, or civil strife, including terrorism and sabotage).

Under most OPIC insurance contracts, investors may obtain all three coverages, but claim payments may not exceed the single highest coverage amount. Claim payments are limited by the value of the investment and the amount of current coverage in force at the time of the loss and may be reduced by the insured's recoveries from other sources. In addition, in certain contracts, OPIC's requirement to pay up to the single highest coverage amount is further reduced by stop-loss and risk-sharing agreements. Finally, losses on insurance claims may be reduced by recoveries by OPIC as subrogee of the insured's claim against the host government. Payments made under insurance contracts that result in recoverable assets are reported as assets acquired in insurance settlements.

OPIC's Maximum Contingent Liability at September 30, 2006 and 2005 was \$3.7 billion and \$4.5 billion, respectively. This amount is OPIC's estimate of maximum exposure to insurance claims, which includes standby coverage for which OPIC is committed but not currently at risk. A more realistic measure of OPIC's actual exposure to insurance claims is the sum of each single highest "current" coverage for all contracts in force, or Current Exposure to Claims (CEC). OPIC's CEC at September 30, 2006 and 2005 was \$2.5 billion and \$3.1 billion, respectively.

(b) Pending Claims

At September 30, 2006 and 2005, the total amount of compensation formally requested in insurance claims for which no determination of specific liability had yet been made was approximately \$3 million and \$2.9 million, respectively. In addition to requiring formal applications for claimed compensation, OPIC's contracts generally require investors to notify OPIC promptly of host government action that the investor has reason to believe is or may become a claim. Compliance with this notice provision sometimes results in the filing of notices of events that do not mature into claims.

OPIC does not record a specific liability related to such notices in its financial statements, due to the highly speculative nature of such notices, both as to the likelihood that the events referred to will ripen into any claims, and the amounts of compensation, if any, that may become due. Any claims that might arise from these situations are factored into the reserves for political risk insurance.

(c) Claims Settlement Guaranties and Indemnities

OPIC also has off-balance-sheet risk in connection with one claim settlement. OPIC settled a claim in 1991 through a guaranty of \$30 million of host government obligations. Payments by the host government have reduced OPIC's exposure to \$1.4 million and \$3.6 million at September 30, 2006 and 2005, respectively. Any claims that might arise from this settlement are factored into the nonspecific reserve for political risk insurance.

Changes in the reserve for political risk insurance during fiscal years 2006 and 2005 were as follows (dollars in thousands):

	2006	2005
Beginning balance	\$ 315,000	\$ 270,000
Amounts charged off	(166)	0
Increase (decrease) in provisions	(23,709)	11,367
Transfers from other reserves	23,875	33,633
ENDING BALANCE	\$ 315,000	\$ 315,000

(10) Investment Financing

OPIC is authorized to provide investment financing to projects through direct loans and investment guaranties. Project financing provides medium- to long-term funding through direct loans and investment guaranties to ventures involving significant equity and/or management participation by U.S. businesses. Project financing looks

for repayment from the cash flows generated by projects, and as such, sponsors need not pledge their own general credit beyond the required project completion period.

Investment funds use direct loans and investment guaranties to support the creation and capitalization of investment funds that make direct equity and equity-related investments in new, expanding, or privatizing companies in emerging market economies. The fund managers, selected by OPIC, are experienced, private investment professionals. OPIC's participation in a fund takes the form of long-term, secured loans and loan guaranties that supplement the fund's privately raised equity. OPIC's guaranty may be applied only to the debt portion of the fund's capital and, for certain funds, to accrued interest on that debt. OPIC does not guaranty any of the fund's equity, and all equity investments in OPIC-backed funds are fully at risk.

OPIC's authorization to make direct loans and investment guaranties can be found in sections 234(c) and 234 (b) of the FAA, respectively. Direct loans and investment guaranties are committed in accordance with the Federal Credit Reform Act of 1990, pursuant to which loan disbursements and any claim payments for these commitments have been funded through appropriations actions, borrowings from the U.S. Treasury, and the accumulation of earnings or collection of fees. In fiscal years 2006 and 2005, \$20.1 million and \$23.8 million, respectively, was made available for credit funding costs. OPIC is in compliance with all relevant limitations and credit funding appropriations guidance. OPIC's capital, allowances, retained earnings, and reserves available for claims on its investment financing at September 30, 2006 and 2005 totaled \$3.6 billion and \$3.3 billion, respectively.

Direct Loans: Direct loans are made for projects in developing and other eligible countries involving U.S. small business or cooperatives, on terms and conditions established by OPIC. Direct loan exposure at September 30, 2006 totaled \$1.2 billion, of which \$729 million was outstanding. Direct loan exposure at September 30, 2005 totaled \$1.2 billion, of which \$619 million was outstanding. Interest income is not accrued on direct loans that have payments that are more than 90 days past due. Loans with payments more than 90 days past due totaled \$138.5 million at September 30, 2006 and \$51.2 million at September 30, 2005. If interest income had been accrued on those loans, it would have approximated \$3.6 million during fiscal year

2006 and \$2.1 million during fiscal year 2005. Interest collected on delinquent loans and recorded as income when received amounted to \$3.5 million and \$1.1 million for fiscal years 2006 and 2005, respectively.

Direct loans outstanding were as follows (dollars in thousands):

	2006	2005
Direct loans outstanding	\$ 728,827	\$ 619,225
Allowance for uncollectible loans	(133,327)	(127,655)
DIRECT LOANS OUTSTANDING, NET	\$ 595,500	\$ 491,570

Changes in the allowance for uncollectible loans during fiscal years 2006 and 2005 were as follows (dollars in thousands):

	2006	2005
Beginning balance	\$ 127,655	\$ 52,462
Amounts charged off	(14,416)	(324)
Recoveries	8	38
Increase in provisions	20,080	75,094
Provision for capitalized interest	—	385
ENDING BALANCE	\$ 133,327	\$ 127,655

Investment Guaranties: OPIC's investment guaranty covers the risk of default for any reason. In the event of a claim on OPIC's guaranty, OPIC makes payments of principal and interest to the lender. These payments are recorded as accounts receivable resulting from investment guaranties. The loans that are guaranteed can bear either fixed or floating rates of interest and are payable in U.S. dollars. OPIC's losses on payment of a guaranty are reduced by the amount of any recovery from the borrower, the host government, or through disposition of assets acquired upon payment of a claim. Guaranties extend from 5 to 17 years for project finance and from 10 to 12 years for investment funds.

Credit risk represents the maximum potential loss due to possible nonperformance by borrowers under terms of the contracts. OPIC's exposure to credit risk under investment guaranties, including claim-related assets, was \$5.5 billion at September 30, 2006, of which \$3.4 billion was outstanding. Of the \$5.5 billion of exposure, \$3.5 billion was related to project finance and \$2 billion was related to investment fund guaranties. Of the \$3.4 billion outstanding, \$2.8 billion related to project finance and \$686 million related to investment fund guaranties. Included in the \$2 billion of investment fund exposure is \$353 million of estimated interest that could accrue to the guaranty lender. This interest generally accrues over a 10-year period, payable upon maturity. Upon complete nonperformance by the borrower, OPIC would be liable for principal outstanding and interest accrued on disbursed investment funds. At September 30, 2006, \$186 million of the \$353 million had actually accrued to the guaranteed lender on disbursed investment funds; the remainder represents an estimate of interest that could accrue to the guaranteed lender over the remaining investment fund term.

At September 30, 2005, OPIC's exposure to credit risk under investment guaranties, including claim-related assets, was \$7.2 billion, of which \$3.7 billion was outstanding. Of the \$7.2 billion of exposure, \$5 billion was related to project finance and \$2.2 billion was related to investment fund guaranties. Of the \$3.7 billion outstanding, \$2.9 billion related to project finance and \$782 million related to investment fund guaranties. Included in the \$2.2 billion of investment fund exposure is \$488 million of estimated interest that could accrue to the guaranty lender. This interest generally accrues over a 10-year period, payable upon maturity. Upon complete nonperformance by the borrower, OPIC would be liable for principal outstanding and interest accrued on disbursed investment funds. At September 30, 2005, \$274.5 million of the \$488 million had actually accrued to the guaranteed lender on disbursed investment funds; the remainder represents an estimate of interest that could accrue to the guaranteed lender over the remaining investment fund term.

Changes in the reserve for investment guaranties during fiscal years 2006 and 2005 were as follows (dollars in thousands):

	2006	2005
Beginning balance	\$ 625,000	\$ 667,000
Amounts charged off	—	(87,455)
Recoveries	9	3,180
(Decrease) increase in provisions	(5,009)	42,275
ENDING BALANCE	\$ 620,000	\$ 625,000

(11) Accounts Receivable from Investment Guaranties and Assets Acquired in Insurance Claims Settlements (Claim-Related Assets)

Claim-related assets may result from payments on claims under either the investment financing program or the insurance program. Under the investment financing program, when OPIC pays a guaranteed party, a receivable is created. Under the insurance program, similar receivables reflect the value of assets, generally shares of stock, local currency, or host country notes, that may be acquired as a result of a claim settlement. These receivables are generally collected over a period of 5 to 15 years.

Accounts receivable resulting from investment guaranties were as follows (dollars in thousands):

	2006	2005
Accounts receivable resulting from investment guaranties	\$ 148,725	\$ 101,834
Allowance for doubtful recoveries	(25,213)	(36,480)
ACCOUNTS RECEIVABLE, NET	\$ 123,512	\$ 65,354

Changes in the allowance for doubtful recoveries for assets resulting from investment guaranties during fiscal years 2006 and 2005 were as follows (dollars in thousands):

	2006	2005
Beginning balance	\$ 36,480	\$ 83,142
Amounts charged off	(3,950)	—
Decrease in provisions	(8,049)	(47,318)
Recoveries	732	656
ENDING BALANCE	\$ 25,213	\$ 36,480

Assets acquired in insurance claims settlements were as follows (dollars in thousands):

	2006	2005
Assets acquired in insurance claims settlements	\$142,685	\$221,482
Allowance for doubtful recoveries	(21,135)	(50,898)
ACCOUNTS RECEIVABLE, NET	\$121,550	\$170,584

Changes in the allowance for doubtful recoveries for assets acquired in insurance claims settlements during fiscal years 2006 and 2005 were as follows (dollars in thousands):

	2006	2005
Beginning balance	\$ 50,898	\$ 98,609
Amounts charged off	(5,888)	(14,078)
Transfers to other reserves	(23,875)	(33,633)
ENDING BALANCE	\$ 21,135	\$ 50,898

(12) Reserves and Full Faith and Credit

Section 235(c) of the FAA established a fund which shall be available for discharge of liabilities under insurance or reinsurance or under similar predecessor guaranty authority. This fund consists of the Insurance Reserve and the Guaranty Reserve for the respective discharge of potential future liabilities arising from insurance or from guaranties issued under Section 234(b) of the FAA. These amounts may be increased by transfers from retained earnings or by appropriations. In FY2006 and FY2005, OPIC's retained earnings were allocated to these reserves on the basis of maximum exposure outstanding for insurance and guaranties respectively, thereby reflecting OPIC's increased ability to absorb potential losses without having to seek appropriated funds.

All valid claims arising from insurance and guaranties issued by OPIC constitute obligations on which the full faith and credit of the United States of America is pledged for full payment. At both September 30, 2006 and 2005, the Insurance Reserve totaled \$1.3 billion, and the Guaranty Reserve totaled \$2.8 billion at September 2006 and \$2.5 billion at September 30, 2005. Should funds in OPIC's reserves not be sufficient to discharge obligations arising under insurance, and if OPIC exceeds its \$100 million borrowing authority authorized by statute for its insurance program, funds would have to be appropriated to fulfill the pledge of full faith and credit to which such obligations are entitled. Standing authority for such appropriations is contained in Section 235(f) of the FAA. The Federal Credit Reform Act of 1990 authorizes permanent, indefinite appropriations and borrowings from the U.S. Treasury, as appropriate, to carry out all obligations resulting from the investment financing program.

(13) Disclosures About Fair Value of Financial Instruments

The estimated values of each class of financial instrument for which it is practicable to estimate a fair value at September 30, 2006 are as follows (dollars in thousands):

	Carrying amount	Fair value
Financial assets:		
Cash	\$ 874,609	\$ 874,609
U.S. Treasury securities	4,290,192	4,417,358
Interest receivable on securities	47,033	47,033
Direct loans	595,500	595,500
Accounts receivable from investment guaranties	123,512	123,512
Assets acquired in insurance claims settlements	121,550	121,550
Financial liabilities:		
Borrowings from the U.S. Treasury	\$ 788,225	\$ 811,144

The methods and assumptions used to estimate the fair value of each class of financial instrument are described below:

Cash: The carrying amount approximates fair value because of the liquid nature of the cash, including restricted cash.

U.S. Treasury Securities: The fair values of the U.S. Treasury securities are estimated based on quoted prices for Treasury securities of the same maturity available to the public. (OPIC is not authorized, however, to sell its securities to the public, but is instead restricted to direct transactions with the U.S. Treasury.) Interest receivable on the securities is due within 6 months and is considered to be stated at its fair value.

Direct Loans, Accounts Receivable Resulting from Investment Guaranties, and Assets Acquired in Insurance Claims Settlements: These assets are stated on the balance sheet at the present value of the amount expected to be realized. This value is based

on management's quarterly review of the portfolio and considers specific factors related to each individual receivable and its collateral. The stated value on the balance sheet is also management's best estimate of fair value for these instruments.

Borrowings from the U.S. Treasury: The fair value of borrowings from the U.S. Treasury is estimated based on the face value of borrowings discounted over their term at year-end rates. These borrowings were required by the Federal Credit Reform Act, and repayment terms are fixed by the U.S. Treasury in accordance with that Act.

Investment Guaranties Committed and Outstanding: OPIC's investment guaranties are intended to provide a means of mobilizing private capital in markets where private lenders would be unwilling to lend without the full faith and credit of the U.S. Government. Given the absence of a market for comparable instruments, OPIC determined that the fair value is the present value of future fees expected to be collected.

(14) Operating Lease

OPIC negotiated a new building lease during fiscal year 2004. Under the lease terms, OPIC received interest-bearing tenant improvement allowances for space refurbishment. Total incentives offered by the lessor to cover these costs were \$3.4 million. The value of these incentives is deferred in the balance sheet and is amortized to reduce rent expense on a straight-line basis over the 15-year life of the lease.

Rental expense for 2006 and 2005 was approximately \$5.1 million and \$4.9 million, respectively. Minimum future rental payments under the 15-year lease at 1100 New York Avenue, N.W. are approximately \$4.1 million annually, with additional adjustments tied to the consumer price index.

(15) Pensions

OPIC's permanent employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). For CSRS, OPIC withheld 7% of employees' gross 2006 earnings and contributed 7% of employees' 2006 gross earnings. The sums were transferred to the Civil Service Retirement Fund from which this employee group will receive retirement benefits.

For FERS, OPIC withheld 0.80% of employees' gross earnings. OPIC transferred this sum to the FERS fund from which the employee group will receive retirement benefits. An additional 6.2% of the FERS employees' gross earnings is withheld, and that, plus matching contributions by OPIC, are sent to the Social Security System from which the FERS employee group will receive social security benefits. OPIC occasionally hires employees on temporary appointments, and those employees are covered by the social security system under which 6.2% of earnings is withheld and matched by OPIC.

FERS and CSRS employees may elect to participate in the Thrift Savings Plan (TSP). Based on employee elections, 0% to 10% of gross CSRS earnings is withheld and \$0 to \$15,000 of gross FERS earnings is withheld subject to the IRS elective deferral limit for the tax year. FERS employees receive an automatic 1% contribution from OPIC. Amounts withheld for FERS employees are matched by OPIC, up to an additional 4%, for a total of 5%.

Although OPIC funds a portion of employee pension benefits under the CSRS, the FERS, and the TSP, and makes necessary payroll withholdings, it has no liability for future payments to employees under these programs. Furthermore, separate information related to OPIC's participation in these plans is not available for disclosure in the financial statements. Paying retirement benefits and reporting plan assets and actuarial information is the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board, which administer these plans. Data regarding the CSRS and FERS actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.

(16) Concentration of Risk

OPIC is subject to certain risks associated with financial instruments not reflected in its balance sheet. These financial instruments include political risk insurance, loan guaranties, and committed-but-undisbursed direct loans.

With respect to political risk insurance, OPIC insures against currency inconvertibility, expropriation of assets, and political violence. Additionally, OPIC provides investment financing through direct loans and investment guaranties.

OPIC's credit policy is to take a senior security position in the assets of the projects or transactions it guaranties. The nature and recoverable value of the collateral pledged to OPIC varies from transaction to transaction and may include tangible assets, cash collateral or equivalents, and/or a pledge of shares in the project company as well as personal and corporate guaranties. OPIC takes all necessary steps to protect its position in such collateral and retains the ability to enforce its rights as a secured lender if such action becomes necessary.

The following is a summary of OPIC's off-balance-sheet risk at September 30, 2006 and 2005 (dollars in thousands):

	2006		
	Total	Outstanding	Unused commitments
Guaranties	\$ 6,259,122	\$ 4,114,295	\$ 2,144,827
Undisbursed direct loans	513,613	—	513,613
Insurance	3,679,952	2,490,365	1,189,587
	2005		
	Total	Outstanding	Unused commitments
Guaranties	\$ 7,127,950	\$ 3,594,490	\$ 3,533,460
Undisbursed direct loans	568,863	—	568,863
Insurance	4,512,216	3,122,869	1,389,347

OPIC's off-balance-sheet finance and insurance exposure involves coverage outside of the United States. The following is a breakdown of such total commitments at September 30, 2006 by major geographical area (dollars in thousands):

	Loan guaranties	Undisbursed portion on direct loans	Insurance
Africa	\$ 738,037	\$ 123,390	\$ 630,808
Asia	432,360	57,918	647,472
Europe	966,279	7,475	183,202
Latin America	1,971,807	169,626	1,319,774
Middle East	781,303	40,700	579,928
NIS (New Independent States)	1,061,939	77,840	332,237
Worldwide	307,397	36,664	—
Insurance stop-loss adjustment	—	—	(13,469)
	<u>\$ 6,259,122</u>	<u>\$ 513,613</u>	<u>\$ 3,679,952</u>

OPIC has several client-specific contracts with stop-loss limits that are less than the aggregate coverage amounts. The insurance stop-loss adjustment represents the difference between the aggregate coverage amount and OPIC's actual exposure under these contracts.

At September 30, 2006, OPIC's largest finance and insurance exposure was in the following countries and sectors (dollars in thousands):

Country		Sector	
Turkey	\$ 698,082	Financial services	\$ 3,800,376
Russia	697,653	Power generation	2,322,530
Columbia	677,315	Oil and gas services	180,662
Nigeria	608,317	Manufacturing	824,208
Venezuela	560,908	Construction	753,235

(17) Other Contingencies

OPIC is currently involved in certain legal claims and has received notifications of potential claims in the normal course of business. There are substantial factual and legal issues that might bar any recovery in these matters. It is not possible to evaluate the likelihood of any unfavorable outcome, nor is it possible to estimate the amount of compensation, if any, that may be determined to be owed in the context of a settlement. Management believes that the resolution of these claims will not have a material adverse impact on OPIC.

(18) Accounting and Disclosure Requirements for Guaranties

In FY 2006 and FY 2005 pursuant to the requirements of FIN 45, OPIC recognized a guaranty liability and a guaranty fee receivable of \$167.3 million and \$152.7 million, respectively. OPIC collected \$28.4 million and \$17.2 million of guaranty fees in FY 2006 and FY 2005, respectively, on the investment guaranties issued since December 31, 2002.

(19) Statutory Covenants

OPIC's enabling statute stipulates both operating and financial requirements with which OPIC must comply. In management's opinion, OPIC is in compliance with all such requirements.



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