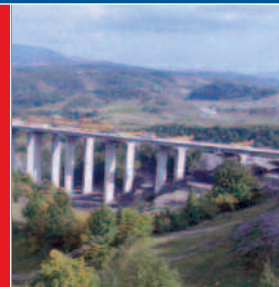


Overseas
Private
Investment
Corporation

E X P A N D I N G
H O R I Z O N S



ANNUAL REPORT 2004

An Agency of
The United States
Government

www.opic.gov

PRESIDENT'S LETTER

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In 2001, I came to OPIC optimistic about the potential of U.S. private investment — in partnership with public support — to bring economic and social development to the world's less-developed countries. Today, I still see continually expanding horizons and an endless stream of opportunities throughout the developing world for entrepreneurial businesses to apply their boundless creativity to help nations grow and their populations prosper. And I see OPIC as the catalyst for making it happen.

OPIC is the U.S. government's principal tool for promoting development, by encouraging the flow of private investment to developing countries and emerging economies. Expanding horizons is our mission. In 2004, we fulfilled that mission by reexamining, rethinking and retooling the mechanisms by which we deliver our financial products and services. As a result, we brought the benefits of economic development to more people, in more places, through more innovative loans, guarantees, and political risk insurance products, and with more business participants, than ever before.

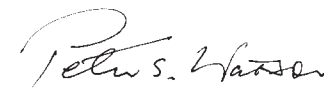
- **We expanded our development impact potential by evaluating new projects against a measurable set of developmental standards.** To assure that we are fulfilling our mandate, every project is now objectively scored for its expected results on 26 developmental indicators within broad areas such as human capacity building, private sector development, and infrastructure improvements. On a scale on which reaching 100 defines a project as *highly developmental*, OPIC-supported projects scored in 2004 averaged 91.1. Our long-term goal is to achieve an average development score of 100 for all projects. Until then, these development scores enable us to evaluate not only individual projects, but our own performance as well.
- **We expanded international opportunities for U.S. small businesses.** In its second year of operation, our Small Business Center (SBC) again enabled more small businesses than before to bring their entrepreneurial skills and know-how to projects in the developing world. **Small business projects accounted for three quarters of OPIC's commitments in 2004.** Entrepreneurs feel comfortable with the SBC because it is responsive to their needs, with reduced documentation requirements and a streamlined approval process. We are extending our outreach to this community by partnering with financial institutions throughout the United States that serve the small and medium-sized enterprise (SME) market. We're committed to finding ways to do more to help small businesses invest overseas because of what small business does for the U.S.: sparking innovation and creating jobs at home, while delivering efficiency and effectiveness in helping to achieve our targeted developmental objectives abroad.

- **We expanded investment in emerging markets, underserved regions, and strategically important nations in all areas of the world.** OPIC took the lead in 2004 in directing private investment across borders and around the globe into geographic territories where business would not otherwise have the confidence to go. Foremost among these was Iraq, where OPIC has provided over \$100 million in insurance coverage for vital reconstruction projects, and supported the creation of a middle market lending facility. We finalized a bilateral agreement that makes all of OPIC's services available for projects in Mexico. And we attracted more than 300 participants to a conference on opportunities for private investment in eastern Europe—the largest OPIC-sponsored conference ever.
- **We expanded the availability of housing and the development of mortgage markets worldwide.** Marketable household assets play a critical role in helping poor societies to accumulate capital. In funding, guaranteeing, or insuring housing-related projects, we not only help host countries meet a pressing social need, we also unleash local savings to spur further economic development, as many families borrow against their homes to finance small enterprises. New projects in Mexico, Iraq, Ukraine, Russia and Latin America expanded OPIC's housing portfolio to over \$660 million of support for investments in 21 countries.
- **We expanded cooperation and partnerships with the private sector.** Central to OPIC's mission is the directive that our insurance and financial products and services complement, rather than compete with, offerings in the private markets. One way we have accomplished this is through a protocol with the insurance industry that gives private insurers first right of refusal on new political risk insurance contracts and seeks complementarity through coinsurance and reinsurance coverage. Large infrastructure projects, with hundreds of millions of dollars of private capital at risk, often depend on this type of public-private partnership. At the same time, OPIC has also re-focused its efforts on smaller projects, especially SBC-eligible projects frequently overlooked by the private sector. Approximately half of OPIC's FY 2004 insurance contracts were issued through the SBC, with over 80 percent of those SBC contracts providing coverage under \$5 million.
- **We expanded our methods for leveraging the power of private investment.** Political risk insurance has long been one of OPIC's most powerful tools for attracting private capital to projects in emerging economies. In 2004, we expanded our support to include coverage against the non-honoring of a sovereign guaranty. For small businesses, we now offer a reduced-rate political risk insurance "wrap" on eligible equity investments. At year's end, we enlisted a private carrier to market and underwrite OPIC's new stand-alone terrorism coverage, helping us to broaden the distribution of our terrorism insurance products and further protect American businesses abroad.

The overall decline of foreign private investment in the developing world makes it that much more important for the U.S. to remain committed to OPIC's developmental mission. Expanding economic development around the globe ultimately improves our own security and prosperity at home. Recognizing OPIC's value as a development tool, our role as an instrument of U.S. foreign policy, and the progress we have made in strengthening and refocusing our programs, both houses of Congress this past year agreed — on a bipartisan and unanimous basis — to reauthorize OPIC for another four years.

And so OPIC will continue to implement what was from its very beginnings a revolutionary concept. Before OPIC, foreign economic assistance meant aid. Government was not positioned to invest in developing economies and the private sector was not willing to go where perceived risks outweighed potential rewards. In a donor-recipient cycle, developing countries' only incentive was to perpetuate grants as income. OPIC was created to expand these limited horizons. By introducing political risk insurance and working with host countries to establish environments of good governance, we built investor confidence in developing nations and helped make those markets attractive to private investment.

But the task is not complete. Much work remains ahead of us. That is why it was so important these past four years to refocus OPIC on its developmental mission, to build partnerships to achieve our objectives, and return the agency to its intended role as an innovator in the delivery of developmental financial services. For a future of peace and security, it is imperative that we realize the full potential of private investment as a powerful engine for expanding the horizons of people and nations throughout the developing world.



Peter S. Watson
PRESIDENT AND CEO

PROVIDING SOLID FOUNDATIONS FOR GROWTH



FOR SEVERAL YEARS NOW, STRENGTHENING OPIC'S developmental mandate has been the agency's top priority. Achieving this goal has required OPIC to examine critically the development impact of each proposed investment.

This renewed emphasis continued into 2004. More importantly, our annual performance plan for this past year was the first in which OPIC incorporated the new developmental measures and supporting scoring matrix that we formulated through consultation with other developmental organizations and with our stakeholders. Now, we can — and will — quantitatively measure and demonstrate that OPIC's products and services are more than anecdotally raising living standards and increasing productivity, but attaining truly developmental results on projects throughout the developing world.

Genuine development results from many different, and often interrelated factors. That is why OPIC's development matrix objectively measures the forecasted developmental impact of each proposed project on the basis of 26 indicators in three broad categories:

- **Category I** covers job creation, training, local procurement, corporate social responsibility, and equal employment oppor-

extended to lower scoring projects with overriding foreign policy or other policy justifications. A score of 100 or more rates a project as *highly developmental*.

OPIC's long-term goal is to achieve an average developmental rating of 100 across all projects. In just the first year of fully applying the scoring matrix, OPIC projects were already approaching that goal, with an average developmental score of 91.1. The tar-

tunity — five highly-weighted impacts that should be achievable on any project, regardless of sector or the host country's level of development.

- **Category II** covers 20 additional, and more variable, development indicators within such broad areas as human capacity building, private sector development, resource leveraging, social effects, infrastructure improvements, macroeconomic and institutional effects, and technology and knowledge transfer.

- **Category III** adjusts for the host country's per capita GNP, reflecting both OPIC's priority to steer investment into the poorest countries and the reality that nations most in need often lack the capacity to support the higher level benefits of economic development.

Scoring for most indicators is based on quantitative information and documentation provided by project sponsors and validated as needed by OPIC staff during monitoring missions once the project becomes operational. The minimum score for a project to be considered *developmental*, and clearly eligible for OPIC support, is 40. Subject to senior management review, support can be

get established in OPIC's operating plan for FY 2005 is 90 and 95 for FY 2006.

From now on, OPIC's annual Development Report to Congress and the Annual Performance Report mandated by the Government Performance and Results Act, will verify the measurable developmental impacts of supported projects. For over 15 years, OPIC has site monitored projects to review and track investors' progress toward their commitments. We also have ten years of experience with a self-monitoring program that uses annual questionnaires to gather information about projects' developmental impacts while also ensuring the projects meet OPIC policy requirements for U.S. economic and environmental impacts, as well as worker and human rights.

One of the highest-rated projects of 2004 will result in some 10,000 loans over five years to small and medium-sized enterprises throughout Ukraine's economy. By providing a \$10 million loan to ProCredit Bank Ukraine, the country's largest micro-finance institution, OPIC seeks to demonstrate to both Ukrainian and U.S. investors the benefit of Ukraine's successful economic reforms.

Besides using the new scoring matrix to rate the development impact of every supported project, OPIC is applying two additional indicators derived from project scores to measure the agency's own performance. The first of these indicators is the *development dollar*, which measures the amount of development that results from OPIC-supported projects. It is calculated by adjusting the dollar value of OPIC projects by the development score, where 100 represents a highly developmental project. Adjusting the \$5.1 billion total value of OPIC's 2004 projects scored on the matrix by the year's weighted average development score yields \$4.87 billion in development dollars — a useful measure in the agency's performance-based budgeting.

The second of these new indicators measures *development dollars per administrative dollar*, which is the amount OPIC spends to make a project happen. The FY 2004 ratio of 117.8 development dollars to one administrative dollar speaks to the efficiency with which OPIC is delivering its products and services.

EXPANDING THE WORLDWIDE REACH OF U.S. SMALL BUSINESS

Small businesses in the western United States are now finding it even easier to apply for OPIC support, as financial consultant Interlink Capital Strategies will prepare their OPIC applications. The first approved project from Interlink's fast-track approach promises to revolutionize the production of quality, low-income housing in Mexico. Prefabricados y Modulares de Monterrey, S de R.L. de C.V., will use a \$10

Agriculture-certified 100 percent organic cashews will be exported to the U.S., expanding Guinea-Bissau's markets. R.O.T.A International was a finalist for the 2004 State Department Award for Corporate Excellence, which recognizes U.S. businesses that exemplify good corporate citizenship abroad.

Technology transfer was also a key developmental factor in OPIC's first project in



SMALL BUSINESS HAS A BIG IMPACT ON THE U.S. ECONOMY, employing more than half the private sector workforce and generating more than 50 percent of non-farm private gross domestic product.

But the cost and risk of doing business overseas keeps many otherwise capable small businesses from participating in the international arena. That is why it remains a priority at OPIC to increase our support for small businesses that want to expand their horizons into the developing world.

Our success in 2004 exceeded even our best expectations, as we provided loans, guaranties, or insurance for 95 projects involving small businesses. Many of these projects were handled through our Small Business Center, where qualified businesses with annual revenues below \$35 million can apply for project financing up to \$10 million and a reduced rate political risk insurance "wrap" on eligible equity investments. Our streamlined approval process generally provides them a decision in 60 days or fewer.

million OPIC loan to expand production of prefabricated concrete homes in Monterrey, Mexico. These will be sold to low-income buyers through Mexico's Infonavit program, which collects payroll deductions both for employees' eventual down payments and to provide long-term mortgage financing. The project is expected to produce up to 30,000 homes over the next ten years.

As demonstrated by this project, and many others, small businesses are valuable contributors to international development through their proven ability to bring globally competitive technologies and business practices to developing and underserved markets.

R.O.T.A. International of Virginia, for example, will use an OPIC loan and political risk insurance to expand and modernize the cashew industry in Guinea-Bissau. Though it is the world's fifth-largest exporter of unprocessed cashews, Guinea-Bissau unfortunately derives little value from an economic resource that accounts for 90 percent of its annual exports. This project will introduce organic processing to an industry that currently exports only raw product. And the U.S. Department of

Ukraine in five years: political risk insurance to Hansen, Inc., of Pittsburgh, for a joint venture that will manufacture railroad freight car suspension systems for use on Ukraine's domestic rail system. The OPIC insurance will also cover the lease of Hansen's manufacturing equipment and use of its patented technology. The project will provide substantial benefits to the Ukrainian economy, which relies on both its rail system and heavy industry.

Privatization was a significant benefit of an OPIC-supported project in Rwanda. SORWATHE, one of the nation's largest employers, will use a \$1.1 million OPIC loan to expand an existing plantation and grow its own eucalyptus trees for tea drying, reducing its dependency on local firewood. Employing over 3,000 people, SORWATHE was founded by Tea Importers, Inc., a Connecticut small business that has been an OPIC client since 1976.

In the Philippines, which lacks adequate, reliable, and safe municipal water systems, an OPIC loan and insurance will support the start-up of a small business to sell purified, bottled water to residential and commercial customers on Mactan Island.

Nimble, efficient and inventive, U.S. small businesses can be highly effective role models for local entrepreneurs in developing countries. And like their U.S. counterparts, small business operators overseas often lack access to commercial lending. OPIC is working to change that, by supporting an inventive approach to financing tiny businesses among the working poor. A \$29 million loan to BlueOrchard Microfinance Securities (I) will help to establish the first-ever securitized lending facility that raises money in private U.S. capital markets for lending to microfinance institutions in developing countries. Project sponsors predict the facility will finance 40,000 new micro-entrepreneurs in Latin America, eastern Europe and southeast Asia.

CHANNELING INVESTMENT INTO MARKETS THAT NEED IT MOST



FREE TRADE AND FREE MARKETS CAN LIFT WHOLE societies out of poverty. Which is why OPIC's authorizing legislation specifically directs us to support developmental U.S. private investment in the world's neediest countries. In 2004, OPIC supported projects or announced new investment funds intended to provide housing, improve health care, and lay the groundwork for growth in traditionally underserved and least-developed regions of Africa, Latin America, Central Asia, and the Middle East.

For example, a new investment fund serving all of Latin America will create one of the few sources of investment capital for housing in markets where demand dramatically exceeds supply. Managed by an affiliate of Paladin Realty Partners of Los Angeles, the fund is backed by a \$35 million OPIC guaranty.

A pervasive problem throughout the developing world is the vicious cycle in which the lack of basic infrastructure or services makes it difficult for poor countries to attract investment or benefit from the development they need.

In Botswana, for example, less than one-fourth of the population has access to electricity, even though the nation has coal resources that could be better

propane, butane and pentane plus for export while reducing gas flaring and carbon dioxide emissions.

In an underserved area of the Middle East, an affiliate of a Connecticut company, Morganti Group, Inc., will use OPIC political risk insurance to operate a 140-megawatt power plant in the Gaza Strip, the first under the regulatory control of the Palestinian Energy Authority (PEA).



exploited for power generation. To help meet the country's need for electricity, Kalahari Gas Corporation, owned in part by Covalent Energy Corporation of Arlington, Virginia, will use OPIC financing to support the deep drilling of clean-burning coal bed methane (CBM) gas. CBM contains no particulate pollutants, and the by-product of producing it is water, which can be used for irrigation or industrial processes. This reduces competition for drinking water — another benefit to the African nation. Significant impacts in training, corporate social responsibility, U.S. procurement, environmental protection, and technology transfer rated this one of the year's most highly developmental projects.

OPIC provided a \$325 million guaranty to a joint venture of Mobil Producing Nigeria Unlimited and the Nigerian National Petroleum Corporation to build and operate an offshore extraction platform, undersea pipeline infrastructure, and onshore facilities. This offshore natural gas liquids project in Nigeria will annually produce some \$214 million worth of

OPIC support for the project has helped to further mutually-beneficial regional economic interdependence with the economy of Israel. The power plant will help to provide a reliable source of power for the Gaza Strip and free up electricity generation capacity in Israel that is needed to meet its own growing demand.

Uzbekistan's important tourism industry will get a significant boost from the new 50-room Malika Hotel Bukhara being built by a joint venture led by O&S Consulting, a Washington state small business. The new hotel will offer moderately-priced, Western-quality accommodations as well as modern conference facilities. Lack of amenities such as these is one reason the nation's annual tourism has declined to less than one-third of its level before the fall of the Soviet Union. An OPIC loan will support construction of the hotel as well as the purchase of two buses to carry guests between Bukhara, Tashkent, Samarkand, and Khiva.

Environmentally clean and renewable energy technologies are often the most cost-effective means to generate electricity in developing countries, particularly those with few fossil fuel resources. So OPIC and the U.S. Department of Energy have created a new partnership to promote the export of advanced U.S. energy technologies to emerging markets. The two agencies are already identifying the best opportunities for developing and investing in wind energy systems. The new Efficient Energy and Renewables Program advances goals of the U.S. Clean Energy Initiative and the Clean Energy Technology Export Initiative, which seeks to provide developing nations a foundation for environmentally friendly economic growth.

PROMISING NEW DEVELOPMENTS IN REGIONS OF STRATEGIC IMPORTANCE

OPIC has already begun to mobilize private capital into Iraq. Over \$200 million in direct loans, guaranties, and political risk insurance will help to support construction equipment sales and leasing companies, build cellular communications networks, design a new hotel, cinema and retail center, reconstruct and develop new housing, and provide personnel placement and training services. These projects will pro-

vide the economy with hundreds of jobs and tens of millions of dollars in annual tax revenues and duties. OPIC is also providing financing to support the establishment of a middle market lending facility to provide much-needed capital for Iraqi businesses and to encourage the growth of Iraqi financial institutions.

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OPIC is also committed to supporting reconstruction efforts in Afghanistan, where one priority is rebuilding the Kabul-to-Kandahar highway, parts of which were destroyed after the Soviet invasion in 1979. The U.S. has pledged \$80 million to the effort, which will reduce travel time between the two cities from two days to six hours. OPIC has provided a New York City small business, ARC Construction Company, \$5.4 million in political risk insurance for heavy equipment used on the first 30 miles of highway and in future road and infrastructure projects.

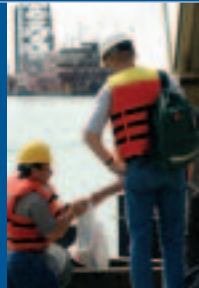
Afghanistan's first domestic bottling facility will provide clean and affordable drinking water to overcome inadequate municipal water supplies and reduce the nation's dependence on expensive imports. ABI Group Ltd. received \$4.5 million in

depressed rural regions of Pakistan, farmers will gain access to advanced soil treatment technology that could help them increase crop yields by more than 30 percent. Sweetwater International, Inc., of Salt Lake City, will use \$1.1 million in political risk insurance to sell or lease its patented Sulfurous Acid Generator equipment, which increases production by reducing soil salinity and sodicity. The company has also established a research and training institute. Estimated to hire 71 permanent employees in its first five years, the project will begin in Punjab province, where the soil is particularly affected by high saline and saline/sodic content.

OPIC has issued insurance coverage to a non-governmental organization, the International Rescue Committee (IRC), to carry out humanitarian assistance, refugee resettlement, and retraining programs in 19 developing countries. Among the 19 nations where IRC maintains branch offices, OPIC has already insured the organization's properties in Afghanistan, Tanzania, Pakistan, Kenya, Rwanda, Russia, Republic of Congo, Bosnia-Herzegovina, Azerbaijan, Eritrea, Croatia, Kosovo and Jordan. OPIC plans to issue insurance coverage in the six remaining countries in 2005.

OPIC PLAYS AN IMPORTANT ROLE IN FULFILLING U.S. development-based foreign policy objectives. Our unique ability to mobilize capital and mitigate risk makes the agency an effective tool in gaining new allies and helping strategically important nations move toward genuine private sector-led economic growth. No countries are currently of more strategic importance to the U.S. than those at the front lines in the international war on terrorism.

Foremost among these is Iraq, which is not only a compelling foreign policy priority, but a nation clearly in need of foreign investment. By empowering U.S. businesses to invest in the new Iraqi economy, OPIC can promote development and reconstruction, and support the principles of free markets, rule of law and private property that are prerequisites for sustained social and economic growth.



LEADING THE WAY INTO NEW AND EMERGING MARKETS

OPIC also promotes private investment through market-specific international conferences. At OPIC's conference in Bucharest, *Forging New Partnerships in Emerging Europe*, companies eager to access investment opportunities in one of the world's leading new markets met with experts who can help them realize their ambitions. Through its support for the international war against terrorism, emerging

Throughout the world, nothing equals the power of robust housing and mortgage markets for building domestic wealth and unleashing local savings, which can in turn be leveraged to generate economic growth. That is why OPIC places such a high priority on projects that support or create housing markets in developing countries. In the first project completed under the auspices of an agreement between OPIC



OPIC DOES MORE THAN FINANCE AND INSURE INDIVIDUAL private investments in developing countries. We help to create entire new markets and opportunities for private investment.

But foreign capital can only satisfy a small portion of any country's investment needs. And it can never substitute for domestic savings. So in our role as a developmental agency, we must often look beyond the commercial aspects of individual investment projects and act more broadly to transform U.S. private capital into a force multiplier for leveraging host countries' domestic savings and investment capacity.

One way we accomplish this is by negotiating bilateral agreements that provide investor protections and encourage host countries to establish sound business practices, market-oriented public policies, and incentives for local entrepreneurship.

Europe has already demonstrated its commitment and strength as a U.S. ally. With solid economic growth projected for the near-term, the region's 15 nations offer significant returns to U.S. investors.

Following the Europe conference, OPIC announced its intention to provide a debt facility of \$65 million in support of a private equity investment fund for projects in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Macedonia, Moldova, Poland, Romania, Serbia and Montenegro, Slovakia, Slovenia, Turkey, and Kosovo. OPIC has selected Bedminster Capital Management, LLC to manage the new \$200 million Southeast Europe Equity Fund II (SEEF II).

In one major project in the region, OPIC is providing \$250 million in political risk insurance for the financing of a new four-lane highway in Croatia that will help to improve the country's infrastructure, reduce transportation costs, and develop the tourism potential of the Dalmatian coast. Private Export Funding Corporation received the coverage on its loan to Hrvatske Autoceste d.o.o (Croatian Motorways Ltd.).

and the government of Kenya to specifically develop the country's housing market, Texas-based developer JNP Properties, Inc. will use a \$7.1 million loan to build 400 affordable housing units in Nairobi. Besides introducing higher-quality amenities not typically associated with affordable housing, the homes will be offered under a unique long-term lease-for-purchase program that makes them more accessible to people for whom the dream of homeownership seemed previously unattainable. Making the project itself attainable is Kenya's commitment to work with OPIC in realizing the prospects to create wealth, generate employment, and improve the nation's investment climate.

Based on its own demonstrated commitment to rule justly, invest in its people, and encourage economic freedom, Mongolia has earned eligibility for Millennium Challenge Corporation assistance. To encourage U.S. investment there, OPIC announced a \$50 million support facility for U.S. involvement in projects that promise significant benefits to Mongolia's economic and social development.

At OPIC, we strive to bring the added value we call "additionality" to every project. We bring additionality when a developmental project can only be completed by OPIC providing the financing or insurance that the private market cannot. We bring additionality when investors or financial institutions, who would not otherwise have participated, sign on only because we did. We bring additionality when a host country receives real and measurable developmental benefits that would not have resulted without OPIC participation. And we bring additionality when OPIC's involvement assures that a project is structured to preserve both worker rights and the environment.

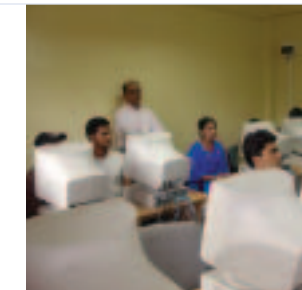
With these standards always in mind, OPIC has, since 1971, supported over \$164 billion of investments that have helped developing countries generate \$13 billion in host-government revenues and created more than 732,000 host country jobs. At the same time, these projects have supported more than 264,000 American jobs and generated over \$69 billion in U.S. exports.

LEVERING THE POWER OF PRIVATE INVESTMENT

OPIC also launched a stand-alone terrorism facility in partnership with Montpelier Reinsurance, Ltd. Under the program, Montpelier will market and underwrite OPIC's terrorism coverage, consistent with our statutory and policy guidelines. This important initiative helps us broaden the distribution of our terrorism insurance products and further protect American businesses abroad.

create the infrastructure for long-term debt markets, but need the market stimulation of private sector investment. Supported with an OPIC guaranty of up to \$40 million, the fund is unique for focusing on the SME market and local currency credits, parts of the Asian market not served by large global firms.

Because crossing the digital divide has become a basic requirement for sustainable



PRIVATE INVESTMENT IS THE KEY ENGINE OF ECONOMIC development. But largely because of perceived risk, the flow of private capital into developing countries has slowed considerably in recent years. In 2004, OPIC introduced new products, revitalized traditional programs, and expanded its use of available tools and techniques to attract private investment to emerging markets.

To protect investors against one potential risk in developing nations, OPIC launched new insurance coverage for the non-honoring of a sovereign guaranty (NHSG). Private investments have been lost on infrastructure projects, in particular, when host governments found it politically expedient to renege on their commitments. Now, on projects backed by an unconditional and irrevocable sovereign guaranty, NHSG coverage provides lenders an assurance of debt service payments should the guarantor default on its obligations for any number of political or financial reasons.

Partnerships such as this are essential in fulfilling OPIC's mission because neither government nor the private sector acting alone can achieve meaningful development in less-developed countries. The most effective partnerships are those in which OPIC and our private sector counterparts focus on what we each do best. For example, on several OPIC-guaranteed lending facilities we have turned loan-making decisions over to our partners in leading international banks, with OPIC reviewing each downstream loan to ensure compliance with our policies on U.S. effects, worker and human rights, and the environment.

Likewise, we have continued to improve OPIC's investment funds program, which in its 17 years has evolved into a flexible instrument for catalyzing equity capital into emerging markets. A new \$100 million fund, managed by Clearwater Capital Partners, LLC, will purchase and restructure the credits of financially-distressed small and medium-sized enterprises (SMEs) in South Korea, India, Indonesia, Malaysia, Thailand, and the Philippines. Many of these countries are making needed regulatory changes to

development and economic growth, OPIC announced the creation of a \$400 million support facility to encourage U.S. investment specifically in the telecommunications and information technology sectors of the world's emerging markets. This followed by two months our announcement of a similar \$150 million facility targeting projects in Brazil, in support of President Bush's One Hemisphere initiative.

But what if a small business needs nothing more than new computers or telephones? OPIC is meeting even that need, through the creativity of entrepreneurs in the countries of Georgia and Mexico who are using loans of \$1 million and \$20 million to establish or expand the leasing of state-of-the-art equipment to small businesses in their respective markets. Georgian Leasing Company of Tbilisi, and CSI Latina Financial, Inc., a subsidiary of Computer Sales International, Inc. of St. Louis, are each providing an important and affordable financing alternative to bank loans, which for many SME customers can be difficult and expensive to obtain.

Through its Investment Funds Program, OPIC is one of the largest providers of emerging market private equity in the world. The beneficial impact OPIC has on the companies and countries in which its funds invest is significantly greater than the amount of capital that OPIC contributes directly. This occurs because private equity creates a "multiplier effect" whereby new capital attracts additional investment and financing in companies. A recent study performed by an OPIC-supported fund indicated that the \$100 million invested by OPIC in the fund generated an additional \$542 million in investments, at both the fund and portfolio company levels.

2004 INVESTMENT ACTIVITIES

AFRICA AND THE MIDDLE EAST

AFGHANISTAN

ABI Group, Ltd.	ABI Group, Ltd.	Beverage Production Facility	\$9,230,000 \$4,473,000	Finance Insurance
ARC Construction Company, LLC	ARC Construction Company, LLC	Road Construction/Infrastructure	\$5,400,000	Insurance
Jalaludeen Bakhtari & Mohammed H. Karimzada	QWO Joint Stock Company	Beverage Bottling Plant	\$3,133,000	Finance
International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$1,841,177	Insurance

BOTSWANA

Covalent Energy Corporation	Goldham PTY, Ltd. T/A Kalahari Gas Corporation	Power Generation	\$8,500,000	Finance
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CONGO

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$385,557	Insurance
Seaboard Overseas Limited	Minoterie du Congo, S.A.	Flour Mill & Animal Feed Facility	\$10,781,789	Insurance

CONGO, DEMOCRATIC REPUBLIC OF

Alexander's Group Telecommunications, Inc.	Congo Gates SPRL	Telecommunications	\$15,000,000	Insurance
Number One Contracting Corporation	Bureau for Coordination of Market Infrastructure	Bid Bond/Road Construction	\$45,000	Insurance
Number One Contracting Corporation	Ministry of Finance of DRC	Bid Bond/Road Construction	\$180,000	Insurance

EGYPT

Apache Corporation	Various Apache Egypt Concession Subsidiaries	Gas Development	\$300,000,000	Insurance
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ERITREA

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$272,925	Insurance
Team Technology, Inc.	National Computing Center of Eritrea	Computer Assembly Plant	\$523,250	Insurance

ETHIOPIA

MedPharm, Inc.	MedPharm, Inc.	Clinical Laboratory	\$149,400	Insurance
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GHANA

Dr. Paul A. Lartey & Dr. Alexandra E. Graham	Lagray Chemical Company, Ltd.	Pharmaceuticals	\$4,901,000	Finance
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GUINEA-BISSAU

Ronald D. Jordan c/o ROTA International Exporting, LLC	Rota International Exporting, LLC	Organic Cashew Nuts	\$1,670,000 \$810,000	Finance Insurance
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IRAQ

ARCADD, Inc.	Cinema Sinbad Hotel Company	Architectural Design Services	\$7,200,000	Insurance
Aziz Khudairi	Khudairi Trading Company, Ltd.	Construction Equipment	\$8,100,000	Insurance
American Equipment Company, Incorporated	N/A	Construction Equipment	\$14,400,000	Insurance
Citibank, N.A.	Citibank, N.A. (Al-Mansour Automotive Co.)	Vehicle Distribution	\$22,500,000	Finance
Citibank N.A.	IRAQ Middle Market Development Foundation	Loans to Middle Market Enterprises	\$24,800,000	Finance
Citibank N.A.	IRAQ Middle Market Facility-Tranche B	Loans to Middle Market Enterprises	\$68,000,000	Finance
Iraq Recovery Fund, LLC	TBD	Investment Fund	\$50,000,000	Insurance

David M. Morris	Morris & McDaniel, Inc.	Personnel Placement & Training Services	\$740,000	Finance
Motorola Credit Corporation	Orascom Telecom Iraq Corp.	Cellular network	\$21,000,000	Insurance
H&W Holdings Group, LLC	Dijlat Al-khair Real Estate Services Co.	Housing	\$8,175,000	Insurance

KENYA

Harold F. & Judith Flynn, Jr.	GeoSurvey International, LLC	Land Registration, Tax Mapping & Collection System	\$840,000	Finance
International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$710,285	Insurance
JNP Properties, Inc.	Jopa Villas, LLC	Duplex Apartment Units	\$7,100,000	Finance

JORDAN

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$54,155	Insurance
Beau Lendman c/o Middle East Central Gas, Ltd.	Middle East Central Gas, Ltd.	Liquid Propane Gas Distribution	\$250,000	Finance

LEBANON

Velma Hermez & Selma Osseiran	PETCO S.A.L.	Plastic Bottles & Preforms	\$9,496,500	Finance
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MALAWI

Railroad Development Corporation (USA)	Central East Africa Railways Company Limited	Railway Rehabilitation	\$11,900,000	Finance
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MALI

Robert Paul Marshall dba Sahel International Leather	Adoberia Sahel, S.A.	Tannery	\$1,000,000 \$293,320	Finance Insurance
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MAURITIUS

Casamar Holdings, Inc.	Casamar Mauritius, Ltd.	Tuna Fishing Nets	\$1,100,000	Finance
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MOZAMBIQUE

David Herbert	GameTrackers Management, Ltd./ Mercury Investments	Lodge at Vilanculos Coastal Wildlife Sanctuary	\$10,000,000	Finance
Railway Development Corporation (USA)	Corredor De Desenvolvimento Do Norte S.A.R.L.	Railway Rehabilitation	\$17,700,000	Finance

NIGERIA

AfriHUB, LLC	AfriHUB Nigeria Limited	Information Technology Facilities	\$13,100,000	Insurance
Danos & Curole Marine Contractors, LLC	Danos & Curole Nigeria Limited	Lift Boat Services	\$12,060,000	Insurance
Exxon Corporation	Natural Gas Liquids (II) Financing Company	Natural Gas Liquids Extraction	\$325,000,000	Finance

RWANDA

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$562,786	Insurance
Tea Importers, Inc.	Societe Rwandaise Pour La Prod/Comm Du The	Tea Plantation	\$1,100,000	Finance

SOUTH AFRICA

Purple Rhino Imports, Inc.	Purple Rhino Imports, Inc.	Artwork & Curios	\$100,000	Finance
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TANZANIA

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$1,479,884	Insurance
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TUNISIA

Riggs Bank N.A.	American Cooperative School of Tunis (ACST) Association	School Renovation	\$1,060,052	Insurance
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2004 INVESTMENT ACTIVITIES

WEST BANK & GAZA

Morganti Development, LLC	Gaza Power Generating Private Limited Company	Power Generation	\$48,150,000	Insurance
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ZIMBABWE

K&S International, Inc.	Merodent Zimbabwe (Pvt.), Ltd.	Toothpaste & over-the-counter ointments & toiletries	\$14,294	Insurance
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ASIA AND THE PACIFIC

BANGLADESH

Citibank, N.A.	Pacific Bangladesh Telecommunications, Ltd.	Cellular Telephone Network	\$18,000,000	Finance
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INDIA

Domes International, Inc.	Domes International, Inc.	Modular Home Manufacturing	\$360,000	Insurance
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INDONESIA

EI Paso Corporation	PT Energy Sengkang	Power Generation	\$12,236,088	Insurance
General Electric Energy Rentals, Inc.	PT Mega Power Mandiri	Power Generation	\$540,000	Insurance

MONGOLIA

Edward Nef	Santis Educational Services, LLC	English Language Instruction School	158,000	Finance
Nueces Investment Trust, Ltd.	IKH Tokhoirol XXK	Gold Mine	\$883,313	Insurance

PAKISTAN

Sweetwater International, Inc.	Sweetwater Pakistan (Private), Ltd.	Water & Soil Treatment Equipment	\$1,125,900	Insurance
International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$807,482	Insurance

PHILIPPINES

New Hampshire Insurance Co. of Harrisburg, PA	CBK Power Company Limited	Power Generation	\$50,000,000	Insurance
General Electric Energy Rentals, Inc.	The National Power Corporation	Power Generation	\$9,180,000	Insurance
Richard Gould & Jerome Rotando	Golden Cypress Water Co., Ltd.	Bottled Water Manufacturing & Distribution	\$198,444	Insurance
Richard Gould, Jerome Rotando, & Almera Guba-Gould	Golden Cypress Water Co., Ltd.	Bottled Water Manufacturing & Distribution	\$348,000	Finance

VIETNAM

Kimberly-Clark Corp.	Kimberly-Clark Vietnam Co., Ltd.	Hygienic Products	\$4,240,800	Insurance
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ASIA REGIONAL

Citibank N.A.	Citibank Asia Framework	Framework Agreement	\$125,000,000	Finance
Clearwater Capital Partners, LLC	Clearwater Capital Partners Investments II LP	Direct Equity Fund	\$40,000,000	Finance

EUROPE AND INDEPENDENT STATES

AZERBAIJAN

BTC Pipeline Project 2003 Trust	The Baku-Tbilisi-Ceyhan Pipeline Company	Oil Pipeline	\$141,800,000	Insurance
International Rescue Committee	International Rescue Committee, Inc.	Humanitarian services	\$352,863	Insurance
Jeff St. Clair	Baku Oil Tools, Ltd.	Oil Well Perforating Equipment	\$1,200,000	Finance

BOSNIA-HERZEGOVINA

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$360,565	Insurance
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CROATIA

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$131,557	Insurance
Private Export Funding Corporation	Hrvatske Autoceste d.o.o.	Motorway	\$250,000,000	Insurance

GEORGIA

Scott A. Sarran & Jenik Radon	Georgian Leasing Company	Small & Medium-sized Enterprise Leasing	\$1,000,000	Finance
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IRELAND (REPUBLIC OF)

Agronix, Inc.	Organic Waste Returns, Ltd. /DBA/Agronix Ireland	Organic Waste Processing	\$2,900,000	Finance
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KOSOVO

International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$62,200	Insurance
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MOLDOVA

International Communications Systems, Inc.	International Communications Systems, Inc.	Prepaid Phone Card Services	\$150,000	Finance
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POLAND

SEAF, LLC	Biuro ProjekTowania Systemow Cyfrowych S.A.	Business Software Services	\$1,000,000	Finance
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ROMANIA

Nabiel Fareed	S.C. "International Communication Systems" S.R.L.	Telecommunications & Internet Services	\$180,000	Insurance
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RUSSIA

Carlson Restaurants Worldwide, Inc.	Rostik Restaurants Limited	Restaurant Franchises	\$7,737,000	Finance
Globus International Resources Corp	Limited Liability Co. "Globus Cold Storage"	Cold Storage Warehouse	\$4,879,000	Finance
International Rescue Committee	International Rescue Committee, Inc.	Humanitarian Services	\$469,177	Insurance
ISP Optics Corporation	ZAO "ISP Optics, Saint-Petersburg"	Optical Components Manufacture	\$243,000	Insurance
Joseph Caldwell & Michael Thompson	Tiger Machinery Company, LLC	Machinery Distributorship	\$4,000,000	Finance
Subway Russia, LLC	Subway Russia, LLC	Restaurant Franchise	\$380,000	Finance
The U.S. Russia Investment Fund	Deltacredit Bank	Long-term Residential Mortgage Loans	\$125,000,000	Finance
Three Papas, LLC	Three Papas, LLC	Restaurant Franchise	\$2,000,000	Finance
Thomas P. Scichili & Lawrence S. Detmer	Zao Star Networks	Internet Service Provider	\$2,000,000	Finance

SERBIA

Motorola Israel, Ltd.	Ministry of Interior, Republic of Serbia	Telecommunications	\$21,600,000	Insurance
Uniwold Holdings, Ltd.	ATD Putnik a.d., Belgrade	Bid Bond/Tourism Privatization	\$20,610,000	Insurance
Uniwold Holdings, Ltd.	Srbija Turist, a.d., Nis	Bid Bond/Tourism Privatization	\$4,140,000	Insurance

TURKEY

Turkish-American Development Partners, LLC ("TADP")	SFC Entegre Orman Urunleri Sanayi Ve Tic AS	Fiberboard products	\$9,652,500	Finance
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UKRAINE

Hansen, Inc.	A. Stucki—Ukraine	Rail Car Suspensions	\$1,506,700	Insurance
Holtec International	The State Enterprise National Atomic Energy Generating Co.	Fuel Storage Facility	\$2,519,190	Insurance

2004 INVESTMENT ACTIVITIES

TransNational Resources, LLC	N/A	Real Estate	\$9,000,000	Insurance
Western NIS Enterprise Fund	International Mortgage Bank	Long-Term Residential Mortgage Loans	\$30,000,000	Finance
Western NIS Enterprise Fund	ProCredit Bank, Ukraine	Micro-Lending	\$10,000,000	Finance

UZBEKISTAN

Erik Brooks Owen/O&S Consulting	Malika Hotel Bukhara, LLC	Tourist Hotel & Buses	\$400,000	Finance
Erik Brooks Owen/O&S Consulting	Khiva Malikasi, Ltd.	Hotel	\$560,000	Insurance
Erik Brooks Owen/O&S Consulting	Takoma, Ltd.	Hotel	\$620,000	Insurance
TIS, Ltd.	Tashkent International School	Co-educational Day School	\$1,530,000	Insurance
			\$1,657,000	Finance

THE AMERICAS

ARGENTINA

Bravo Energy Latin America, LLC	Bravo Energy Argentina SCA	Fuel Oil Recycling	\$1,550,000	Finance
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BOLIVIA

Coeur d'Alene Mines Corporation	Empresa Minera Manquiri, S.A.	Silver Mining	\$60,000,000	Insurance
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BRAZIL

Bank of New York	Brasil Telecom, S.A.	Telecommunications	\$16,875,000	Insurance
Computer Services International, Inc.	CSI Latina Financial, Inc.	Commercial Leases	\$10,000,000	Finance
Douglas Carlberg, Dennis Cote, & Robin Foor	Ruralfone, Inc.	Cellular Telephone Networks	\$202,500	Insurance
			\$3,375,000	Finance
Princeton Healthcare, Inc.	Princeton Healthcare	Medical Consulting Practice	\$150,000	Finance
			\$72,000	Insurance
UBS Securities, LLC	Petroleo Brasileiro S.A.	Oil & Gas Exploration	\$110,000,000	Insurance

CHILE

Stephen W. Houghton/South American Gold & Copper, Ltd.	Compania Minera Pimenton S.A.	Gold Mining	\$2,800,000	Finance
MBIA Insurance Corporation	Sociedad Concesionaria Vespucio Norte Expres	Toll Road	\$200,000,000	Finance

COLOMBIA

Sada Joshi & Claudette Joshi	Joshi Technology International, Inc.	Oil Well Drilling	\$3,800,000	Finance
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COSTA RICA

Colite Outdoor, LLC	Colite Costa Rica, S.A.	Commercial Billboard Leasing	\$90,000	Insurance
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GUATEMALA

Alvaro Enrique Luna, Alvaro Luna	Administradora De Inversiones Peggy, S.A.	Commercial/Residential Building	\$1,246,539	Finance
Colite Outdoor, LLC	Colite Guatemala, S.A.	Commercial Billboard Leasing	\$910,000	Insurance

HONDURAS

Colite Outdoor, LLC	Colite Honduras, S.A.	Commercial Billboard Leasing	\$135,000	Insurance
E+Co, Inc.	E+CO, Inc.	Power Generation	\$100,000	Finance

JAMAICA

Wachovia Bank, N.A.	Trans Jamaican Highway Limited	Toll Road	\$75,000,000	Insurance
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MEXICO

Computer Services International, Inc.	CSI Latina Financial, Inc.	Commercial Leases	\$20,000,000	Finance
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Magnum Machining Incorporated	Magnum Machining Incorporated	Machining Facility	\$1,300,000	Finance
Modular Prefab-USA, LLC	Prefabricados y Modulares De Monterrey(PYMM)	Prefabricated Housing	\$10,000,000	Finance
Movie Theater Entertainment Group, Inc.	Xtreme Cinemas, SRL De C.V./IEHC, Inc.	Movie Theater	\$2,655,000	Finance
Kent Hamilton	Southern Valley Fruit & Vegetable, Inc.	Agriculture	\$3,300,000	Finance

NICARAGUA

Colite Outdoor, LLC	Colite Nicaragua, S.A.	Commercial Billboard Leasing	\$93,000	Insurance
Seminole Tribe of Florida	Seminole S.A.	Cattle Ranch	\$4,500,000	Insurance
MKJ Exploraciones Internacionales, LLC	MKJ Exploraciones Internacionales, S.A.	Oil & Gas Exploration	\$4,000,000	Insurance
MKJ Exploraciones Internacionales, LLC	MKJ Exploraciones Internacionales, S.A.	Oil & Gas Exploration	\$4,000,000	Insurance
Oklahoma-Nicaragua, LLC	Industria Oklahoma-Nicaragua, S.A.	Oil & Gas Exploration	\$270,000	Insurance

PANAMA

Colite Outdoor, LLC	Colite Panama, S.A.	Commercial Billboard Leasing	\$450,000	Insurance
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PERU

National Union Fire Insurance Co.	Alterra Partners, LLC	Airport	\$9,160,000	Insurance
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ST. MAARTEN

Christopher Muglia & Barry Bhola	Leeward Island Ferry Transport, Inc.	Ferry Transport	\$8,450,000	Finance
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URUGUAY

EI Saladero USA, LLC/Tedford V. Eidson	EI Saladero, UY SRL	Cattle Ranch	\$4,860,000	Insurance
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LATIN AMERICA REGIONAL

Joseph Townsend	AmerIndia International, Inc.	Tourism	\$3,860,000	Finance
Citibank N.A.	Citibank CCAII Framework	Framework Agreement	\$100,000,000	Finance
Darby Overseas Partners, Ltd.	Darby-BBVA Latin American Holdings, LLC	Direct Equity Fund	\$55,000,000	Finance
Sylvia Blanchet, Jack Bodger, & Cynthia Bodger	ForesTrade, Inc.	Agriculture	\$5,460,000	Finance
TeleworX Group, Inc.	Newcom, Ltd.	Telecommunications	\$9,447,750	Finance
Palador Realty I GP, LLC	Paladin Realty Latin America Investors II,LP.	Direct Equity Fund	\$35,000,000	Finance

ALL OPIC COUNTRIES

Aegis Capital Corporation, LLC	Aegis Investment Company	Mezzanine Debt/Equity in Companies Enhancing Global Security	\$30,000,000	Finance
AIG Capital Partners, Inc.	AIG Global Emerging Markets Fund II, L.P.	Direct Equity Fund	\$100,000,000	Finance
Developing World Markets Microfinance LLC	BlueOrchard Microfinance Securities I, LLC	Micro-lending	\$53,900,000	Finance
National City Bank	National City Bank Global Framework	Framework Agreement	\$200,000,000	Finance
Wachovia Bank National Association	Wachovia Bank Global Framework	Framework Agreement	\$100,000,000	Finance
UPS Capital Corp.	UPS Capital Corp Framework	Framework Agreement	\$6,000,000	Finance

OPIC COUNTRIES AND AREAS

OPIC PROGRAMS ENCOURAGE U.S. PRIVATE INVESTMENT in some 150 countries and areas around the world, contributing to economic growth at home and abroad.

OPIC programs are generally available in the approximately 150 countries and areas listed below. From time to time, statutory and policy constraints may limit the availability of OPIC programs in certain countries, or countries where programs were previously unavailable may become eligible. Investors are urged to contact OPIC directly for up-to-date information on the availability of OPIC services in specific countries, as well as information on program availability in countries not listed.



AFRICA AND THE MIDDLE EAST

Afghanistan
Algeria
Angola
Bahrain
Benin
Botswana
Burkina Faso
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
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Namibia
Niger
Nigeria
Oman
Rwanda
São Tomé & Príncipe
Senegal
Sierra Leone
Somalia
South Africa
Swaziland
Tanzania
Togo
Tunisia
Uganda
West Bank & Gaza
Yemen
Zambia
Zimbabwe

ASIA AND THE PACIFIC

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 THE NEW INDEPENDENT STATES

Albania
Armenia
Azerbaijan
Bosnia & Herzegovina
Bulgaria
Croatia
Cyprus
Czech Republic
Estonia
Georgia
Greece
Hungary
Ireland
Kazakhstan
Nepal
Kyrgyzstan
Latvia
Lithuania
Macedonia, Former Yugoslav Republic of
Malta
Moldova
Northern Ireland
Poland
Portugal
Romania
Russia

Serbia & Montenegro
Slovakia
Slovenia
Tajikistan
Turkey
Turkmenistan
Ukraine
Uzbekistan

THE AMERICAS

Anguilla
Antigua & 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 & Nevis
St. Lucia
St. Vincent & The Grenadines
Suriname
Trinidad & Tobago
Turks & Caicos
Uruguay
Venezuela

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, 2004 and 2003, 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. Those standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 OPIC as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 10, 2004 on our consideration of OPIC's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts, 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. 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 considering the results of our audit.

KPMG LLP

November 10, 2004

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

BALANCE SHEETS

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003
(\$ in thousands)

ASSETS	2004	2003
Fund Balance with U.S. Treasury (notes 2 and 4)	\$ 1,084,107	\$ 909,934
U.S. Treasury securities, at amortized cost plus related receivables (notes 2 and 7)	3,910,895	3,801,695
Direct loans outstanding of \$499,859 and \$190,265 less allowance for uncollectible loans of \$52,462 and \$34,766 in FY2004 and FY2003 (notes 2 and 10)	447,397	155,499
Accounts receivable resulting from investment guaranties of \$184,335 and \$122,719 less allowance for doubtful recoveries of \$83,142 and \$44,675 in FY2004 and FY2003 (notes 2 and 11)	101,193	78,044
Assets acquired in insurance claims settlements of \$309,709 and \$240,565 less allowance for doubtful recoveries of \$98,609 and \$62,477 in FY2004 and FY2003 (notes 2 and 11)	211,100	178,088
Guaranty Receivable (notes 2 and 18)	132,107	70,000
Accrued interest and fees and other	24,655	23,532
Furniture, equipment and leasehold improvements at cost less accumulated depreciation and amortization of \$12,357 in FY2004 and \$11,925 in FY2003 (notes 2, 14, and 19)	1,353	1,390
Total assets	\$ 5,912,807	\$ 5,218,182
LIABILITIES, CAPITAL, AND RETAINED EARNINGS		
Liabilities:		
Reserve for political risk insurance (note 9)	\$ 270,000	\$ 260,000
Reserve for investment guaranties (notes 10 and 11)	667,000	630,000
Accounts payable and accrued expenses	5,963	5,443
Guaranty liability (notes 2 and 18)	132,107	70,000
Customer deposits and deferred income	37,373	35,280
Borrowings from U.S. Treasury (note 6)	593,761	196,453
Unearned premiums	15,499	13,897
Deferred rent & rent incentives from lessor of \$2,827 and \$19,991 net of accumulated amortization of \$145 and \$12,327 in FY2004 and FY2003 (note 14)	2,682	7,632
	1,724,385	1,218,705
Contingent liabilities (notes 9, 10, 17 and 18)		
Capital and retained earnings:		
Contributed capital	50,000	50,000
Credit funding (note 5)	173,238	166,082
Interagency transfers	18,631	814
Retained earnings and reserves:		
Insurance (notes 9 and 12)	1,767,145	1,965,841
Guaranty (notes 10 and 12)	2,179,408	1,816,740
	4,188,422	3,999,477
Total liabilities, capital, and retained earnings	\$ 5,912,807	\$ 5,218,182

See accompanying notes to financial statements.

STATEMENTS OF INCOME

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003
(\$ in thousands)

REVENUES	2004	2003
Political risk insurance premiums and fees (note 9)	\$ 43,782	\$ 46,739
Investment financing interest and fees	97,177	88,510
Interest on finance program deposits	55,289	37,706
Other operating income	4,278	1,336
Interest on U.S. Treasury securities	193,149	185,108
	393,675	359,399
EXPENSES		
Provisions for reserves:		
Political risk insurance (notes 2 and 9)	54,000	(41,817)
Investment financing (notes 2 and 10)	85,404	72,163
Salaries and benefits (note 15)	24,544	22,421
Rent, communications and utilities (note 14)	6,399	5,380
Contractual services	24,873	11,033
Travel	3,028	2,836
Interest on borrowings from U.S. Treasury (note 6)	30,335	10,724
Depreciation and amortization (note 2)	433	925
Write-down of internally developed software (note 19)	—	1,488
Other general and administrative expenses	1,603	2,442
	230,619	87,595
Net income before cumulative effect of change in amortization method of discounts and premiums	163,056	271,804
Cumulative effect on prior year of changing to different amortization method of discounts and premiums (note 2)	—	23,932
Net income	\$ 163,056	\$ 295,736

See accompanying notes to financial statements.

STATEMENTS OF CAPITAL AND RETAINED EARNINGS

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003

(\$ in thousands)

	CONTRIBUTED CAPITAL	CREDIT FUNDING	INTERAGENCY TRANSFERS	EQUITY RESERVES		RETAINED EARNINGS	TOTAL
				INSURANCE (NOTES 9 AND 12)	GUARANTY (NOTES 10 AND 12)		
Balance, September 30, 2002	\$ 50,000	\$ 148,427	\$ 1,072	\$ 1,801,177	\$ 1,418,115	\$ 174,799	\$ 3,593,590
Net income	—	—	—	100,151	195,585	—	295,736
Allocate retained earnings to statutory reserves	—	—	—	87,399	87,400	(174,799)	—
Return credit funding to U.S. Treasury	—	—	—	—	(58,421)	—	(58,421)
Credit funding received from:							
Accumulated earnings	—	47,775	—	(23,844)	—	(23,931)	—
Credit appropriations	—	168,322	—	—	—	—	168,322
Credit funding used	—	(197,992)	—	—	174,061	23,931	—
Interagency transfers	—	(450)	(258)	958	—	—	250
Balance, September 30, 2003	\$ 50,000	\$ 166,082	\$ 814	\$ 1,965,841	\$ 1,816,740	\$ —	\$ 3,999,477
Net income	—	—	—	182,428	345,484	—	163,056
Return credit funding to U.S. Treasury	—	(5,579)	—	—	(127,231)	—	(132,810)
Credit funding received from:							
Accumulated earnings	—	48,635	—	(23,951)	—	(24,684)	—
Credit appropriations	—	133,699	—	—	—	—	133,699
Credit funding used	—	(169,099)	—	—	144,415	24,684	—
Interagency transfers	—	(500)	17,817	7,683	—	—	25,000
Balance, September 30, 2004	\$ 50,000	\$ 173,238	\$ 18,631	\$ 1,767,145	\$ 2,179,408	\$ —	\$ 4,188,422

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003

(\$ in thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 163,056	\$ 295,736
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for:		
Political risk insurance	54,000	(41,817)
Investment financing	85,404	72,163
Amortization of premiums on U.S. securities	22,988	28,760
Accretion of discounts on U.S. securities	(3,227)	(2,618)
Amortization of deferred rent and rental incentives	(4,950)	(1,865)
Depreciation and amortization of furniture, equipment and leasehold improvements	433	925
Write-down of internally developed software	—	1,488
(Increase) decrease in assets:		
Accrued interest and fees	4,870	(1,901)
Assets acquired in insurance claims settlements	(96,241)	(32,512)
Recoveries on assets acquired in insurance claims settlements	19,525	12,790
Assets acquired in finance claims settlements	(77,869)	(32,794)
Recoveries on assets acquired in finance claims settlements	23,757	26,001
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	520	(2,861)
Customer deposits and deferred income	2,093	2,362
Unearned premiums	1,602	826
Capitalized interest	—	500
Insurance claim payments	(296)	(514)
Cash provided by operating activities	195,665	324,669
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale and maturity of U.S. Treasury securities	1,129,059	638,186
Purchase of U.S. Treasury securities	(1,264,015)	(839,231)
Repayment of direct loans	9,967	7,489
Disbursement of direct loans	(319,305)	(57,564)
Acquisition of furniture and equipment	(396)	(394)
Cash used in investing activities	(444,690)	(251,514)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Return credit funding to U.S. Treasury	(40,425)	(58,421)
Interagency transfers	25,000	258
Credit appropriations	41,315	168,322
Credit reform borrowings from U.S. Treasury	397,308	64,924
Cash provided by financing activities	423,198	175,083
Net increase in cash	174,173	248,238
Fund balance with U.S. Treasury at beginning of year	909,934	661,696
Fund balance with U.S. Treasury at end of year	\$ 1,084,107	\$ 909,934

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003

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, to facilitate 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 Insurance and Investment Guaranty 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 amor-

tization 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 using the straight-line method. 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.

New accounting pronouncements: 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.

Contingent Liabilities Related to Investment Guaranties: The fair value of investment guaranties entered into after December 31, 2002 is recognized as a liability with a corresponding amount recorded as an asset to reflect the fact that OPIC is compensated for the assumption of the liability. See also note 18.

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.

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.

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, 2004 and 2003 consists of the following (dollars in thousands):

	2004	2003
RESTRICTED:		
PRECREDIT REFORM	\$ 66	5,525
CREDIT REFORM	1,067,631	897,751
INTERAGENCY FUND TRANSFERS	1	1
UNRESTRICTED	16,409	6,657
TOTAL	\$ 1,084,107	909,934

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 2004 and 2003, OPIC transferred \$3.5 million and \$2.8 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. Those balances are also expected to grow as the volume of Credit Reform financings grows over time.

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 2004, OPIC's appropriations legislation authorized the corporation to use \$24 million of its accumulated earnings to cover the future costs of credit transactions committed in fiscal years 2004 and 2005. 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):

	2004	2003
BALANCE CARRIED FORWARD	\$ 166,082	148,427
UPWARD REESTIMATES	133,699	168,322
TRANSFERRED FROM EARNINGS	48,635	47,775
TRANSFERRED TO EARNINGS	(5,579)	—
INTERAGENCY TRANSFERS (NET)	(500)	(450)
CREDIT FUNDING USED	(169,099)	(197,992)
CREDIT FUNDING REMAINING	\$ 173,238	166,082

Changes in financial and economic factors over time can affect the subsidy estimates made at the time of loan commitments. Therefore, in accordance with OMB guidelines, OPIC reestimates subsidy costs for each group of loans 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 \$133.7 million and \$168.3 million and decreases in subsidy costs of \$92.4 million and \$58.3 million in fiscal years 2004 and 2003, respectively.

The way in which OPIC calculates the subsidy cost of its loans 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. While both the subsidy calculations and the GAAP loss allowances factor into the risk of individual credits, the GAAP loss allowances do not recognize the present value of future interest and fees, as to do so would effectively record revenue prior to realization.

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 \$402.6 million in 2004 and \$64.9 million in 2003, all of which have been disbursed. OPIC paid a total of \$30.3 million and \$10.7 million in interest to the U.S. Treasury during fiscal years 2004 and 2003, respectively. In fiscal year 2004, OPIC repaid \$5.3 million in borrowings from the U.S. Treasury. No repayments were made in 2003. Future payments, excluding interest, for borrowings outstanding at September 30, 2004 are as follows (dollars in thousands):

NOTES TO FINANCIAL STATEMENTS

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003

	AMOUNT DUE
PAYMENT DUE IN:	
FISCAL YEAR 2005	\$ 5,140
FISCAL YEAR 2006	11,853
FISCAL YEAR 2007	37,040
FISCAL YEAR 2008	46,651
FISCAL YEAR 2009	18,307
THEREAFTER	474,770
TOTAL	\$ 593,761

7 INVESTMENT IN U.S. TREASURY SECURITIES

The composition of investments and related receivables at September 30, 2004 and 2003 is as follows (dollars in thousands):

	2004	2003
INVESTMENTS, AMORTIZED COST	\$ 3,860,684	3,745,490
INTEREST RECEIVABLE	50,211	56,205
TOTAL	\$ 3,910,895	3,801,695

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	OTHER ADJUST- MENTS	ESTIMATED FAIR VALUE
AT SEPT. 30, 2004	\$ 3,860,684	280,584	(3,852)	—	4,137,416
AT SEPT. 30, 2003	\$ 3,745,490	434,077	(62,204)	6,408	4,123,771

At September 30, 2004, the securities held at year end had an interest range of 0% to 14% and a maturity period from one month to almost 24 years.

OPIC holds its securities to maturity. The amortized cost and estimated fair value of U.S. Treasury securities at September 30, 2004, by contractual maturity, are shown below (dollars in thousands):

	AMORTIZED COST	ESTIMATED FAIR VALUE
DUE IN ONE YEAR OR LESS	\$ 611,909	617,863
DUE AFTER ONE YEAR THROUGH FIVE YEARS	1,598,842	1,644,929
DUE AFTER FIVE YEARS THROUGH 10 YEARS	935,802	987,805
DUE AFTER 10 YEARS	714,131	886,819
TOTAL	\$ 3,860,684	4,137,416

8 STATUTORY LIMITATIONS ON THE ISSUANCE OF INSURANCE AND FINANCE

OPIC issues insurance and financing under a single limit for both programs fixed by statute in the FAA. At September 30, 2004, this combined limit was \$29 billion, of which combined insurance and finance utilization was \$14 billion.

9 POLITICAL RISK INSURANCE

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

	2004	2003
POLITICAL RISK INSURANCE PREMIUMS	\$ 43,680	46,602
MISCELLANEOUS INSURANCE INCOME	102	137
TOTAL INSURANCE REVENUE	\$ 43,782	46,739

OPIC's capital, retained earnings, and reserves available for insurance at September 30, 2004 totaled \$2.2 million and \$2.3 billion at September 30, 2003. 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

OPIC 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, 2004 and 2003 was \$6.3 billion and \$6.9 billion. 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, 2004 and 2003 was \$3.8 billion and \$4.9 billion, respectively.

(b) Pending Claims

At September 30, 2004 and 2003, the total amount of compensation formally requested in insurance claims for which no determination of specific liability had yet been made was approximately \$50.7 million and \$291.2 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 notice of events that do not mature into claims.

The highly speculative nature of such notice, both as to the likelihood that the event referred to will ripen into a claim and the amount, if any, of compensation that may become due, leads OPIC to follow a policy of not recording a specific liability related to such notices in its financial statements. 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 \$5.8 million and \$8 million at September 30, 2004 and 2003, respectively. Any claims that might arise from these situations are factored into the nonspecific reserve for political risk insurance.

Changes in the reserve for political risk insurance during fiscal years 2004 and 2003 were as follows (dollars in thousands):

	2004	2003
BEGINNING BALANCE	\$ 260,000	275,000
CHARGE OFFS	(296)	(514)
RECOVERIES	—	—
INCREASE (DECREASE) IN PROVISIONS	54,001	(41,817)
TRANSFERS FROM (TO) OTHER RESERVES	(43,705)	27,331
ENDING BALANCE	\$ 270,000	260,000

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 Foreign Assistance Act (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 2004 and 2003, \$24 million was made available each year for credit funding costs. OPIC is in compliance with all relevant limitations and credit funding appropriations guidance. OPIC's capital, retained earnings, and reserves available for claims on its investment financing at September 30, 2004 and 2003 totaled \$3 billion and \$2.6 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, 2004 totaled \$897 million, of which \$500 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 \$35.1 million at September 30, 2004 and \$23.8 million at September 30, 2003. If interest income had been accrued on those loans, it would have approximated \$1.1 million during fiscal year 2004 and \$600,000 during fiscal year 2003. Interest collected on delinquent loans and recorded as income when received amounted to \$1 million and \$1.2 million for fiscal years 2004 and 2003, respectively.

NOTES TO FINANCIAL STATEMENTS

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003

Changes in the allowance for uncollectible loans during fiscal years 2004 and 2003 were as follows (dollars in thousands):

	2004	2003
BEGINNING BALANCE	\$ 34,766	19,373
CHARGE OFFS	—	(313)
RECOVERIES	254	1,815
INCREASE IN PROVISIONS	17,441	13,303
PROVISION FOR CAPITALIZED INTEREST	1	588
ENDING BALANCE	\$ 52,462	34,766

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 \$6.8 billion at September 30, 2004, of which 3.8 billion was outstanding. Of the \$6.8 billion of exposure, \$4.4 billion was related to project finance and \$2.4 billion was related to investment fund guaranties. Of the \$3.8 billion outstanding, \$2.7 billion related to project finance and \$1.1 billion related to investment fund guaranties. Included in the \$2.4 billion of investment fund exposure is \$642 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, 2004, \$309 million of the \$642 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 2004 and 2003 were as follows (dollars in thousands):

	2004	2003
BEGINNING BALANCE	\$ 630,000	570,000
CHARGE OFFS	(2,555)	—
RECOVERIES	5,518	79
INCREASE IN PROVISIONS	34,037	59,921
ENDING BALANCE	\$ 667,000	630,000

11 CLAIM-RELATED ASSETS

Claim related assets may result from payments on claims under either the insurance program or the investment financing 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.

Changes in the allowance for doubtful recoveries for assets resulting from investment guaranties during fiscal years 2004 and 2003 were as follows (dollars in thousands):

	2004	2003
BEGINNING BALANCE	\$ 44,675	45,261
INCREASE (DECREASE) IN PROVISIONS	33,925	(1,061)
RECOVERIES	2,420	475
INCREASE IN CAPITALIZED INTEREST	2,122	—
ENDING BALANCE	\$ 83,142	44,675

Changes in the allowance for doubtful recoveries for assets acquired in insurance claims settlements during fiscal years 2004 and 2003 were as follows (dollars in thousands):

	2004	2003
BEGINNING BALANCE	\$ 62,477	89,808
CHARGE OFFS	(7,573)	—
TRANSFERS TO (FROM) OTHER RESERVES	43,705	(27,331)
ENDING BALANCE	\$ 98,609	62,477

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 FY2004 and FY2003, 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 September 30, 2004 and 2003, the Insurance Reserve totaled \$1.8 billion and \$2.0 billion, respectively, and the Guaranty Reserve totaled \$2.2 billion and \$1.8 billion, respectively. 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, 2004 are as follows (dollars in thousands):

	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS:		
CASH	\$ 1,084,107	1,084,107
U.S. TREASURY SECURITIES	3,860,684	4,137,416
INTEREST RECEIVABLE ON SECURITIES	50,211	50,211
DIRECT LOANS	447,397	447,397
ACCOUNTS RECEIVABLE FROM		
INVESTMENT GUARANTIES	101,193	101,193
ASSETS ACQUIRED IN INSURANCE		
CLAIMS SETTLEMENTS	211,100	211,100
FINANCIAL LIABILITIES:		
BORROWINGS FROM THE		
U.S. TREASURY AND		
RELATED INTEREST		
PAYABLE	\$ 593,761	590,735

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 dis-

counted 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 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 will be amortized to reduce rent expense on a straight-line basis over the 15-year life of the lease.

Rental expense for 2004 and 2003 was approximately \$4.9 million and \$5.1 million, respectively. Minimum future rental payments under the 15-year lease at 1100 New York Avenue, N.W. will be approximately \$4.5 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 7.0% of employees' gross 2004 earnings and contributed 7.5% of employees' 2004 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. In 2004, OPIC contributed 10.7% of employees' gross earnings. This sum is transferred 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 (after an initial eligibility period) and CSRS employees may elect to participate in the Thrift Savings Plan (TSP). Based on employee elections, 0% to 9% of gross CSRS earnings is withheld and 0% to 14% 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%.

NOTES TO FINANCIAL STATEMENTS

OVERSEAS PRIVATE INVESTMENT CORPORATION — SEPTEMBER 30, 2004 AND 2003

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, 2004 and 2003 (dollars in thousands):

	2004		UNUSED
	TOTAL	OUTSTANDING	COMMITMENTS
GUARANTIES	\$ 6,633,786	3,664,447	2,969,339
UNDISBURSED			
DIRECT LOANS	397,172	—	397,172
INSURANCE	6,254,516	3,845,516	2,409,000

	2003		UNUSED
	TOTAL	OUTSTANDING	COMMITMENTS
GUARANTIES	\$ 5,530,542	2,990,630	2,539,912
UNDISBURSED			
DIRECT LOANS	525,870	—	525,870
INSURANCE	6,890,413	4,919,103	1,971,310

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, 2004 by major geographical area (dollars in thousands):

	UNDISBURSED		
	LOAN GUARANTIES	PORTION ON DIRECT LOANS	INSURANCE
AFRICA	\$ 708,508	67,732	550,074
ASIA	991,974	61,074	1,177,609
EUROPE	941,542	17,746	696,673
LATIN AMERICA	1,836,139	115,794	2,646,627
MIDDLE EAST	259,079	990	738,347
NIS (NEW INDEPENDENT STATES)	1,076,176	101,636	447,677
WORLDWIDE	820,368	32,200	—
INSURANCE STOP-LOSS ADJUSTMENT	—	—	(2,491)
	\$ 6,633,786	397,172	6,254,516

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, 2004, OPIC's largest finance and insurance exposure was in the following countries and sectors (dollars in thousands):

COUNTRY	SECTOR		
TURKEY	FINANCIAL SERVICES	\$ 1,111,526	\$ 4,100,938
BRAZIL	POWER GENERATION	1,039,351	3,513,097
VENEZUELA	OIL AND GAS SERVICES	916,718	2,436,618
INDONESIA	MANUFACTURING	768,863	1,027,757
PHILIPPINES	COMMUNICATIONS	668,963	721,867

17 OTHER CONTINGENCIES

OPIC is currently involved in certain legal claims and has received notifications of potential claims in the normal course of business. OPIC is a part of an expropriation claim brought against it. The amount of active coverage is \$50 million. However, it is not possible to evaluate the likelihood on any unfavorable outcome, nor is it possible to estimate the amount of compensation, if any, that may be determined to be owed. In addition, there are other claims that are recent and the effect can not be predicted at this time, management believes that the resolution of these other claims will not have a material adverse impact on OPIC.

18 ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTIES

In FY 2004 and FY 2003 OPIC recognized a guaranty liability and a guaranty fee receivable of \$132.1 million and \$70 million, respectively. OPIC received \$0.3 million and \$2.3 million of guaranty fee and other income in FY 2004 and FY 2003, respectively, on the investment guaranties issued since December 31, 2002, all of which represents guaranty fee income.

19 WRITE-DOWN OF INTERNALLY DEVELOPED SOFTWARE

In fiscal year 2003, management analyzed previously capitalized costs associated with internally developed software and determined that portions of those costs would no longer be of future benefit and should be written down by \$1.5. The write-down was calculated as the difference between the carrying amount less costs identified by management as having future economic benefit, in accordance with FAS 144, "Accounting for Impairment or Disposal of Long-lived Assets." No costs were written down in fiscal year 2004.

20 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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