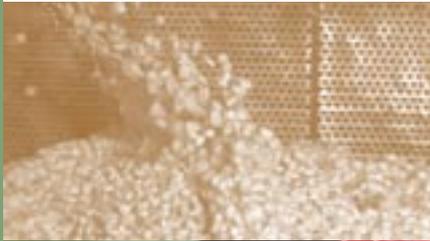


Overseas  
Private  
Investment  
Corporation



# Delivering on the Promise



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# Results



Last year, in my first annual report, I discussed the importance of refocusing on OPIC's mission to make the agency a catalyst for development in the world's new and emerging markets. I offered both broad objectives and specific strategies that would help us to do a better job of bringing the benefits of economic development to the neediest countries, cooperating with private markets, and enabling smaller U.S. businesses to pursue opportunities in the developing world.

OPIC must continue to play a vital role in the economic and social development of less-developed countries, as well as those in transition from non-market economies. These countries look to U.S. private sector-led investment to help create jobs, improve infrastructure, generate goods and services, and support economic growth. By directing private investment toward these areas, we accelerate the reduction of worldwide poverty. We bring a better quality of life to populations that lack the health, the education, or even the access to life's basic necessities that enable them to contribute to—or benefit from—economic growth. Simply put, private sector-led development creates sustainable and enduring economic growth and increased political pluralism.

As 2001 ended, it was clear that OPIC's mission was more important than ever. As 2002 unfolded, fulfilling that mission became more challenging than ever. That is why I am proud to report this year that OPIC leadership and staff responded to the call and delivered on our promise. I am even more proud of everyone in our organization for accomplishing so much through such trying times.

■ **We delivered on our commitment to emphasize public-private partnerships as the best way to leverage investment in projects of potentially greater risk in areas of greatest need.** The Bush Administration's vision statement for the World Summit on Sustainable Development noted that, "in partnership, we will work to unite governments, the private sector, and civil society to strengthen democratic institutions of governance, open markets, and to mobilize and use all development resources more effectively." OPIC has met this challenge by forging innovative partnerships that make a difference.

For example, a \$100 million OPIC loan guaranty enabled Wachovia Bank to expand its lending to small-and medium-sized businesses investing in emerging markets worldwide. Another \$300 million in loan guaranties to Citibank established similar lending facilities for projects in Latin America and Pakistan. Besides delivering on our promise to strengthen OPIC's partnerships with the private markets, these new lending facilities also met OPIC's increased requirement for "additionality." That is, instead of competing with private lenders or insurers, OPIC is enhancing the commercial market's ability to offer loans of longer tenor for projects in riskier environments—financing that would otherwise be difficult or impossible to obtain.

Additionally, our public-private partnerships include local communities and local non-governmental organizations where their inclusion helps to increase economic growth through investment as well as achieve broader social and environmental objectives. In the right circumstances, the inclusion of such groups in development projects can mobilize the

In 2002, despite heightened perceptions of risk—and in a very real sense because of them—OPIC committed \$1.2 billion in loans, guaranties or insurance to support 45 developmental projects around the world.

participation of the local community and help assure that the benefits are widely shared.

OPIC looks forward to providing support for more projects that demonstrate the value of these partnerships: creating a coastal wildlife sanctuary with the active involvement of the local community; rehabilitating an existing rail and port system that will help international relief organizations carry out their important work in sub-Saharan Africa; and working with a not-for-profit located in South Africa to provide housing for HIV positive individuals and their families.

■ **We delivered on our commitment to critically evaluate the developmental impact of every proposed investment.** In 2002, OPIC created a sophisticated measurement tool

including a comprehensive scoring matrix that weighs each developmental indicator according to its importance in contributing to the economic and social welfare of the host country. With this tool, we will be better able than ever to demonstrate OPIC's success in implementing our developmental mission.

■ **We delivered on our commitment to direct investment to underserved and strategically important regions and nations.** In sub-Saharan Africa, OPIC-supported projects will help build 90,000 homes for low-income families, fight the spread of disease, reduce post-harvest losses and provide safe, clean drinking water. OPIC's announced participation in a new \$210 million private equity fund serving Russia and its neighboring states increased our support for their continuing evolution to free market economies. Seizing the earliest opportunity to get involved in the frontline states in the international war against terrorism, we provided \$259 million in finance and insurance for five projects in Pakistan and established a \$50 million line of credit to support economic reconstruction and U.S. investment in post-Taliban Afghanistan.

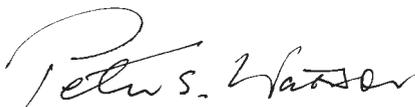
■ **We delivered on our commitment to help meet basic human needs, especially housing, for populations the world over.** In Mexico, Romania, Nicaragua, and South Africa—to name just a few of the countries where OPIC is making a difference—innovative OPIC loans, insurance offerings and public-private partnerships are increasing the availability and quality of affordable residential housing. Equally important, we're supporting solutions that help alleviate critical housing shortages in ways that work best in each host country. One country may benefit from OPIC political risk insurance to third-party lenders, which in turn purchase mortgage loans originated by local commercial banks. Elsewhere, OPIC direct financing is helping to establish on-lending facilities to provide low-cost home improvement loans. With new commitments in 2002, OPIC's growing housing portfolio now includes \$215 million in political risk insurance and \$110 million in financing for projects in six countries.

■ **We delivered on our commitment to create new opportunities for U.S. small businesses in the world's emerging markets.** We refocused our efforts on the sector that generates 40 percent of U.S. Gross Domestic Product, with the result that smaller enterprises were principal participants in 31 OPIC projects receiving \$256 million in support.

Two important programs in 2002 provided the visible culmination of our yearlong focus on U.S. small business. One was the opening of the OPIC Small Business Center. This latest of several OPIC outreach efforts to the small business community offers qualified enterprises access to OPIC resources and a streamlined approval process that reduces their costs of international expansion. In conjunction with the Center's announcement at year's end, we launched the Small Business Initiative in partnership with the U.S. Small Business Administration. The initiative improves government services to U.S. small businesses by training OPIC and SBA staffs on each other's programs and promoting the regular exchange of information on economic, financial and political issues, business development, and risk management. By combining our two organizations' international expertise, we not only respond to President Bush's call for greater coordination among federal agencies; we go a long way toward unleashing the capacity of U.S. small businesses to generate growth, improve living standards and instill entrepreneurial spirit overseas.

For over 30 years, OPIC has been the primary U.S. Government agency focused on private sector investment in the developing world and emerging economies. In that time, OPIC has supported nearly \$145 billion worth of investments that have helped host countries generate over \$11 billion in revenues and create over 680,000 jobs. These OPIC-supported projects have generated \$65 billion in U.S. exports and created more than 254,000 jobs here at home. In 2002, despite heightened perceptions of risk—and in a very real sense because of them—OPIC committed \$1.2 billion in loans, guaranties or insurance to support 45 developmental projects around the world.

If the required financing or insurance would not happen without OPIC's involvement, then neither would the necessary projects themselves: a power plant in remote northeastern Nicaragua, a modern dairy farm near Moscow, or a diagnostic testing laboratory to help Ethiopia win the battle against AIDS. Our proven ability to mobilize private capital investment in areas of such great need—to deliver what we promise—demonstrates the critical role OPIC must continue to play in supporting the economic development of emerging markets and developing nations.



Peter S. Watson  
President and CEO



# Innovative Partnerships, Products and Tools



OPIC has for over 30 years demonstrated a unique ability to find novel solutions to problems inherent in stimulating foreign direct investment in developing countries. Some of our greatest successes result in government, nongovernmental organizations, and private industry working in partnership to accomplish more than they can when working alone.

A prime example is a multi-lateral, public-private partnership that is increasing the supply of affordable housing in South Africa. In this program, a \$15 million OPIC loan guaranty enables a U.S. for profit company to support a local South African bank in providing loans to private developers and contractors who are building low-income houses

under contract to the government's National Urban Reconstruction and Housing Agency. NURCHA subsidies help fulfill the dream of homeownership for individuals with monthly incomes of 3,500 rand (about \$400) or less.

An agreement between OPIC and the United Nations Mission in Kosovo has enabled OPIC to make its products and services available to leverage the private sector investment that will be crucial to the economic growth of Kosovo and the rest of Yugoslavia.

A \$100 million loan guaranty will enable Wachovia Bank to expand its lending to small-and medium-sized businesses investing



in emerging markets. In a true partnership approach, OPIC and Wachovia will share the risk in the bank's long-term loans in eligible countries. A \$35 million guaranty will also allow National City Bank of Cleveland to expand its medium- and long-term lending to middle-market businesses. Besides reviewing each transaction for U.S. effects, environmental impact, and human and workers'

rights protections, OPIC will establish concentration limits to assure diversity of the facility's portfolio.

Because achieving developmental results is the reason for these partnerships—and for all OPIC activities—we unveiled in 2002 a new measurement tool that now enables us to evaluate and quantify the developmental contribution of OPIC projects. Ultimately, each OPIC project

will receive a comprehensive score and rating based on a weighted total of its development indicators, including human capacity building, private sector development, leveraging of foreign direct investment, corporate social responsibility, and private-public partnerships.

The development of these criteria has been a critical element in our strategy to make OPIC more relevant and more faithful to its original mission. It will also help underpin OPIC's commitment to build strategic partnerships between private investors, host governments, and local community-based organizations.

## HELPING BUSINESS DO BUSINESS

One way OPIC fosters partnerships between U.S. businesses and private and public entities in developing nations is by sponsoring and participating in conferences on international investment opportunities and available OPIC services.

Two such conferences in 2002 showcased opportunities in Serbia and the Andean region. ■ Interest in Serbia's steadily improving investment climate drew more than 50 U.S. companies to the U.S.-Serbia Business Opportunities Conference in Belgrade. Serbia is at the heart of the new South East Europe Free Trade Area, a dynamic emerging market of 60 million people in eight countries. Economic reforms there have led to the monetary stability, fiscal accountability, trade liberalization, business privatization, and legal and regulatory frameworks that can now attract foreign investors. ■ More than 200 companies from the U.S., Bolivia, Colombia, Ecuador, and Peru attended the Andean Regional Trade and Investment Conference, an unprecedented effort by the trade-related agencies of the U.S. government to encourage American companies to do business in the region. Fulfilling President Bush's commitment to support regional economic development with increased U.S. outreach, the conference enabled American and Andean country companies to network for potential joint ventures and partnerships.



# Africa



Sub-Saharan Africa receives the lowest level of foreign investment in the world, suffers one of the world's highest poverty rates, and has almost no private sector. That is why in 2002 OPIC worked not only to support but actively seek developmental projects with the potential to help nations in this region counter these destructive forces, meet their populations' basic developmental needs, and help them prepare for future economic growth.

Facing an AIDS epidemic, the people of Ethiopia will benefit from access to quality medical diagnostic testing services when International Clinical Laboratories (ICL) opens its facility in Addis Ababa. An OPIC loan to

MedPharm, Inc., the U.S. member of the ICL joint venture, will help establish the lab, which will perform according to international standards. The lab will serve the majority of the country and introduce testing technologies not currently available in Ethiopia. In addition, ICL will promote health issues and awareness about AIDS, tuberculosis and malaria through health fairs, screening programs and other outreach efforts.

Our first housing initiative on the African continent involves a



\$15 million loan guaranty to the Soros Economic Development Fund that will enable South Africa's National Urban Reconstruction and Housing Agency to finance the building of 90,000 homes for low-income families. Besides providing affordable homes with potable water for up to half a million people, this project will produce exceptional developmental benefits. All of the new homes will meet provincial and national housing standards, which means building them will

lead to the expansion of local electrical, water and sanitary systems. The project will also stimulate the local construction sector through expanded opportunities for smaller developers and contractors, as well as training for workers.

Technology-sector jobs and productivity-enhancing business services are the leading developmental benefits of \$1.1 million in OPIC political risk insurance that will allow Decision Technologies International (DTI) of Wappingers Falls, New York, to open an office

as well as to develop and market software products and services in Nigeria. From this new office in the capital city of Abuja, DTI will market its Web-enabled e-commerce and enterprise management software solutions to Nigerian clients. As DTI grows and its need for skilled workers increases, the company plans to attract students from Nigerian universities by sponsoring science fairs and offering scholarships and on-the-job training in Web-enabled software and other technologies.

## NO LONGER A PIPE DREAM

Following last year's groundbreaking project in Kenya, OPIC and Texas-based nonprofit Living Water International (LWI) are working together again to make a clean glass of water an everyday experience for people throughout Africa. ■ Just \$100,000 in OPIC financing will provide LWI a new drilling machine, air compressor, and other equipment to drill dozens of wells in Ghana, providing local communities with clean water and the better health that goes with it. Communities raise the funding to pay for drilling the wells, driven by both the need for clean water and the knowledge that similar LWI projects have reduced the rates of waterborne diseases by 95 percent. ■ To protect public health, all wells are tested for contamination before use. LWI trains local citizens to maintain the wells, pumps, and storage tanks, keeping them free from contamination. To finance maintenance and give the communities a sense of ownership, local water boards established at each site are encouraged to sell water for a penny a bucket. ■ OPIC will continue to build partnerships with organizations like LWI as well as other members of the Millennium Water Alliance to bring potable water to communities throughout Africa.



# Housing

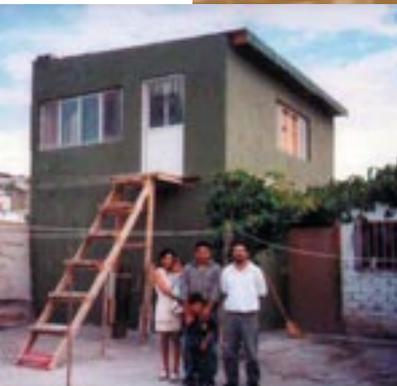


Housing is a basic human need. In some countries it is, by law, a human right. Yet more than a billion people around the world live in inadequate shelter. And for many people throughout the developing world, owning a home is even further out of reach. The typical Latin American household needs 5.4 times its annual income to buy a house; an African household, 12.5 times. While some governments subsidize the cost of housing for their neediest citizens, most of the world's working poor still must struggle to own even the most basic home. To meet the projected growth of households, developing countries may need as many as 21 million new housing units per year through 2010.

Only the combined strength of public, private, local, and international investment can reduce the

housing deficit in the world's emerging markets.

That is one reason OPIC has made housing a strategic priority. Another is that a vibrant housing sector can be one of a country's primary economic engines, providing jobs and opportunities for growth, not only in the host countries, but for U.S. businesses as well.



The U.S. housing sector is the world's most efficient and diversified, and our housing finance model can be replicated to create primary and secondary mortgage markets. So OPIC is supporting projects to leverage the unique capacity of both U.S. housing and finance expertise to help countries around the world meet their citizens' need for quality, affordable homes.

That is exactly what we're helping to accomplish in Mexico through a \$2.5 million loan to the U.S. nonprofit, Cooperative Housing Foundation (CHF). Proceeds of the loan flow through CHF to Mexican nonprofit organizations, which in turn lend money to private citizens to finance home improvements or new home construction. The project especially targets the need

for safe and adequate housing for workers along the U.S.-Mexico border. CHF is also offering educational programs for potential lenders and borrowers.

OPIC's support of housing projects dates to our very beginnings in 1971. Later we provided the loan guaranty that helped establish a secondary mortgage loan market in Costa Rica. Since that time, our housing portfolio has grown to include \$200 million in political risk insurance and \$115 million in financing for projects in Argentina, Guatemala, Nicaragua, the Dominican Republic, South Africa, and Mexico.

#### A HOME OF THEIR OWN

With little liquidity and an estimated shortage of over 750,000 units, Guatemala's housing market typifies the problems experienced in developing economies. A lack of consistent long-term financing often leaves low- and medium-income buyers unable to obtain mortgage loans. With fewer qualified buyers to sell to, local builders are unable to construct enough homes to meet demand. It's a vicious cycle that OPIC hopes to stop with \$15 million in insurance coverage for a project that will serve as a catalyst for the creation of a secondary mortgage market in Guatemala. The insurance will enable Mercury Mortgage Finance-Guatemala, Ltd., of Miami, to raise \$100 million through a bond offering in U.S. capital markets to acquire and securitize new home mortgages originated by private Guatemalan banks. The mortgage notes will then be used as collateral and the primary source of repayment for mortgage-backed securities sold in the U.S. to qualified institutional buyers. All of this should help lower interest costs, increase the availability of mortgage funds, and standardize mortgage procedures. Another result of OPIC's first mortgage securitization insurance should be the unbundling of the Guatemalan mortgage industry into origination, servicing, investing, and risk-bearing components, similar to the U.S.



# Russia and its Neighboring States



President Bush has committed the U.S. to “building a constructive, respectful relationship with Russia—a relationship that has the potential to benefit not only our two countries, but also the world.” As the primary U.S. agency focused on private sector investment in the developing world and economies in transition, OPIC plays an important role in making this relationship work by helping Russia and its neighboring states transition to market economies.

Our latest efforts in this region delivered on OPIC’s own commitment to refocus on our traditional developmental mission and drew on OPIC’s strength in supporting the establishment of open, competitive markets and entrepreneurial enterprises in countries where

these were once alien concepts.

For example, OPIC has created a \$210 million private equity fund that will directly invest in mid-sized, consumer-services companies that are new, expanding, or undergoing privatization. Focused primarily on Russia, the fund may also invest in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The fund will benefit from new internal controls, streamlined administration, a



transparent and competitive selection process, and a new leverage ratio that will attract investment capital while providing an appropriate balance of risk and return for the U.S. government. OPIC will also provide a \$150 million guaranty to Citibank for U.S. dollar and local currency projects in Russia, Azerbaijan, Kazakhstan, Ukraine, and Uzbekistan. Supporting U.S. objectives for the region, OPIC must clear each

project for its environmental impact, assurance of human and workers' rights and its impact on the U.S. economy.

While Romania has made tremendous economic progress since the Cold War, the benefits of an expanding and stable economy have not filtered down to many of the country's small or family owned businesses. To correct this situation, the Cooperative Housing Foundation (CHF), a

U.S. nonprofit, is using a \$2.5 million OPIC loan to implement a community-based business loan program in seven western Romanian counties. The organization's local affiliate, CHF/Romania, will provide local banks with technical training and risk sharing to improve their lending to micro, small, and medium-sized businesses, making them more competitive with their regional counterparts.

In Moldova, a CIS economic reform success story, Foodpro International, Inc., of San Jose, California, received \$675,000 in OPIC insurance for the walnut and dried fruit processing plant of its Alamantara Pro joint venture. Among Europe's largest producers of walnuts, Moldova exports both a commercially important product and the fruits of a free market.

### CREAM OF THE CROP

With a 50 percent drop in its cow population since 1991, the dairy industry in Russia's Dmitrov region has become unable to assure a reliable supply of raw milk to processors in Moscow and the Moscow Oblast. ■ A \$1.2 million OPIC loan to Dmitrov Dairy Farms supported by Russian Dairy Farms, Inc. of Minneapolis, Minnesota, will help reverse the industry's decline with what is expected to be one of the most modern and efficient dairy farms in all of Russia. When completed in 2004, the 500-cow farm will ship 12 tons of milk daily and sell approximately 200 bull calves a year to local beef producers. Introducing state-of-the-art American dairy production technology, modern dairy management practices, and high-quality genetics to the Russian dairy industry, the project will set the country's standard of performance. ■ And it will help others duplicate its success. As part of the region's Integrated Dairy Improvement Project, Dmitrov Dairy Farms will partner with the local agricultural technical college to train future professional dairy managers and specialists. And it will develop an extension program to share new production technology with local dairy producers and forage technology to forage producers who have signed supply contracts.



# Frontline States



In war-torn Afghanistan, more than half the population lives in dire poverty. In Pakistan, following a decade of political and economic instability, almost a third of the nation lives on less than one dollar a day. Yet there is cause for hope. In 2002, U.S. foreign economic policy—supported by OPIC efforts—helped to deliver increased private U.S. investment in these frontline states.

As part of the Bush Administration's multi-agency initiatives for the reconstruction of post-Taliban Afghanistan, OPIC announced in January that it would establish an initial \$50 million line of credit to support U.S. investment there. That announcement followed an OPIC

co-hosted conference earlier in the month that represented the first high-level discussion of U.S. private sector involvement in the country. The event assembled more than 40 Afghan-American business leaders and senior U.S. officials to outline investment opportunities in the war-torn country.

In May, Executive Vice President and Chief Operating Officer Ross Connelly represented OPIC on an exploratory investment mission with the U.S. Trade and Development Agency to meet with senior Afghan officials and



assess opportunities specifically in the telecommunications and lodging industries.

Post-Taliban Afghanistan will require support as it rebuilds its economy and economic institutions, including the capacity to make use of foreign direct investment to the benefit of the Afghan population.

In Pakistan, OPIC provided \$259 million in finance and insurance for five projects in 2002. OPIC's first project in a frontline

state provides up to \$7 million in political risk insurance for Avaz Networks, Inc. to expand the software development facility in Islamabad, where it produces embedded voice and data solutions for telecommunications equipment manufacturers. Expansion of the Communications Enabling Technologies, Pakistan (CETP) operation will include equipment purchase and upgrade, office renovation, and staff hiring. By the fifth year of the project, CETP

will employ and train approximately 250 employees. Avaz had been unable to find political risk insurance on the private market.

Meanwhile, a new \$75 million loan guaranty to Citibank will create a lending facility for Pakistan as part of the \$300 million in support for the country. OPIC had announced the previous October. By sharing the risk of new investments with Citibank, OPIC leverages its ability to finance projects while helping the bank to expand its medium- and long-term lending.

#### MANAGING RISK IN A CHANGING WORLD

In addition to the efforts we have already undertaken to promote and support investment in Pakistan, OPIC continues to find ways to encourage and enable private sector investment. OPIC has been able to mitigate some of the perceived risks of doing business in frontline states with programs to stabilize existing investment and shore up existing markets that capital may otherwise abandon. ■ OPIC has provided and will continue to provide to existing businesses or projects confronted with cancellation of sabotage and terrorism insurance or the inability to refinance their operations. ■ OPIC will continue to explore these and other options so that we can better work with the private sector to target investment to strategically important countries in the fight against terrorism. Most important, we will continue to fulfill our mission and to help ensure that, in the wake of September 11, the American business community does not retreat from global investment opportunities in developing nations and emerging markets.



# Small Business



Long recognized as the engine of commerce here at home, U.S. small businesses typically lack the resources to pursue opportunities abroad. OPIC facilitates the type of public-private partnerships that can provide small businesses access to loans and political risk insurance generally not available to them through the private markets. Additionally, U.S. entrepreneurs can serve as role models for local host country entrepreneurs, spurring the development of small businesses in countries that lack a dynamic small business sector.

In 2001, we renewed our commitment to help unleash the full power of U.S. small business to stimulate free markets in developing countries. In 2002, we delivered measurable results: 31 new

OPIC projects, representing \$256 million in financing and insurance for small businesses, demonstrating the limitless promise of the U.S. entrepreneurial spirit.

ISP Optics of New York will rely on \$777,600 in political risk insurance to expand its optical components manufacturing facility in Russia. With OPIC's coverage insuring equipment and accessories, the company will increase output and quality control of the lenses, domes, prisms, polarizers,



and wave plates it produces for markets around the world.

Rapid Mail Company Ltd. received a \$100,000 direct OPIC loan to open a Mail Boxes Etc. (MBE) franchise in Belize City—the first business to provide a full range of packing, shipping, and private mail services in a country heavily dependent on the import of manufactured goods from the U.S.

In 2002, OPIC launched two major programs to further increase the participation of U.S. small busi-

nesses in world markets. The OPIC Small Business Center, under the direction of OPIC Chief Financial Officer Gary Keel, a former acting associate administrator of the SBA, will coordinate OPIC activities to encourage small business deals through a streamlined and cost-saving approval process.

The OPIC/SBA initiative, meanwhile, will coordinate the capabilities and offerings of our two agencies, further improving small businesses' access to capital, services, and foreign markets.

Under this initiative, each agency will provide training on its programs to the other's personnel in order to better serve U.S. small business. OPIC and SBA staff will also meet regularly to share information about economic, financial, and political developments, business development, as well as risk mitigation and management.

## THE POWER TO GROW

Though it is the largest country in Central America, Nicaragua currently has one of the region's lowest levels of electricity usage. Only 51 percent of the country's population even has access to electricity. For those who have it, supply is unreliable, resulting in frequent brownouts. ■ Recognizing that reliable electrical power is a vital ingredient for economic growth, the government of Nicaragua is committed to expanding generating capacity to meet a projected six percent annual increase in demand. OPIC and the U.S. small business sector are committed to help.

■ American & Caribbean International Corporation, a Pinecrest, Florida, engineering firm, received \$2 million in OPIC political risk insurance to build and operate a 4.5-megawatt diesel-fired power plant near remote Puerto Cabezas. Besides serving as the city's sole source of energy, the plant will bring this region multiple developmental benefits, including improved infrastructure and increased industrial output. Without OPIC, none of this might be happening; we provided American & Caribbean International the political risk insurance it could not find in the private sector.



# 2002 Investment Projects

Company	Project Description	Amount	Support Type
<b>Africa and the Middle East</b>			
<b>Angola</b>			
S&N Pump Company (S&N Pump Africa, LDA)	Pump and motor distribution and repair facility	\$495,000	Finance
S&N International LLC (S & N Pump Africa LDA )	Pump and motor distribution and repair facility	\$750,000	Insurance
<b>Chad</b>			
Pride International, Inc. (Pride Forasol SAS)	Oil and gas drilling	\$100,000,000	Insurance
<b>Ethiopia</b>			
Mr. Tilaye Berihune (Medpharm, Inc.)	Medical diagnostic testing facility	\$489,677	Finance
<b>Ghana</b>			
B&C Management, Inc. (B&C Management, Inc.)	Operation of a gravel quarry	\$168,560	Finance
Jewell Industries, Inc. (African-American Trading Company, Inc.)	Dehydration facility to process spices, dried fruit and nuts	\$2,000,000	Finance
Living Water International (Living Water International) (Ghana)	Drilling potable-water wells	\$100,000	Finance
<b>Namibia</b>			
Diamond Fields International Ltd. (Diamond Fields International Ltd.)	Mining of off shore diamond deposits	\$15,000,000	Finance
<b>Nigeria</b>			
Decision Technologies International, Inc. (Decision Software Research Centre Ltd)	Software business center development	\$1,080,000	Insurance
<b>South Africa</b>			
Soros Economic Development Fund/Soros Charitable Foundation (South Africa Financing Enterprise)	Low-income residential housing construction	\$15,000,000	Finance
<b>Togo</b>			
Sterling Merchant Finance Ltd. (Sterling Merchant Bank Togo, S.A.)	Banking	\$13,500,000	Insurance
<b>Asia and the Pacific</b>			
<b>Indonesia</b>			
Unocal Corporation (West Seno I & II)	Oil and gas exploration and production	\$350,000,000	Finance
<b>Mongolia</b>			
Mr. Lee Cashell (Mongolian Resorts XXX)	Tourist camps to provide adventure travel activities	\$250,000	Finance
<b>Pakistan</b>			
Remington Holdings, Inc. (Western Acquisitions, Inc.)	Purchase oil and gas concessions	\$130,750,000	Finance
Citibank, N.A. (Citibank, N.A. (Pakistan On Lending Facility)	On-lending facility	\$75,000,000	Finance
Avaz Networks, Inc. (Communications Enabling Technologies, Pakistan)	Software development	\$7,000,000	Insurance
El Paso Corporation (Habibullah Coastal Power (Private) Company)	Power plant	\$23,000,000	Insurance
El Paso Corporation (Fauji Kabirwala Power Company Limited)	Power plant	\$23,000,000	Insurance

Company	Project Description	Amount	Support Type
<b>Sri Lanka</b>			
General Electric International, Inc. (Lakdhanavi Private Ltd)	Power plant	\$9,000,000	Insurance
<b>Thailand</b>			
Pacific Subsea Saipan, Inc. (Pacific Subsea Saipan, Inc.)	Underwater submarine tourism	\$600,000	Finance
<b>Europe and the New Independent States</b>			
<b>Georgia</b>			
Steadfast Insurance Company (Marriott Tbilisi Hotel and Marriott Courtyard Hotel)	Hotel development	\$4,349,250	Insurance
<b>Latvia</b>			
Vernon E. Sandy Contractors Ltd. (Vernon Business Group Ltd.)	Hotel development	\$4,145,850	Insurance
<b>Moldova</b>			
International Communication Systems, Inc. (International Communication Systems Inc., S.R.L.)	Transit & traffic routing	\$300,000	Insurance
Foodpro International, Inc. (Alimentara Pro S.R.L.)	Walnut and dried fruit processing plant	\$675,000	Insurance
<b>NIS Regional and Caucasus</b>			
Citibank, N.A. (Citibank, N.A. (Russia/CIS Lending Facility))	On-lending facility	\$150,000,000	Finance
<b>Romania</b>			
The Cooperative Housing Foundation (The Cooperative Housing Foundation)	Loan program to SME's/homeowner associations.	\$2,500,000	Finance
<b>Russia</b>			
Gordon P. Getty Family Trust (ZAO Stimul)	Oil and gas exploration	\$30,000,000	Finance
Scott Nicol (Joint Stock Company Firm Clear Water)	Bulk bottled water & water cooler distribution	\$2,500,000	Finance
Russian Dairy Farms, Inc. (Dmitrov Dairy Farms, CJSC)	Dairy farm	\$1,200,000	Finance
Soros Economic Development Fund (Small Business Credit Bank)	On-lending facility for micro and small companies	\$30,000,000	Finance
International Scientific Products Corporation (ISP Optics, Sankt Saint Petersburg)	Expansion of an optic components manufacturing facility	\$777,600	Insurance
<b>Turkey</b>			
National Union Fire Insurance Company of Pittsburgh, Pennsylvania (Adapazari Electricity Generation Company)	Gas power plant	\$2,125,440	Insurance
National Union Fire Insurance Company of Pittsburgh, Pennsylvania (Izmir Electricity Generation Company)	Gas power plant	\$3,699,840	Insurance
National Union Fire Insurance Company of Pittsburgh, Pennsylvania (Gebze Electricity Generation Company)	Gas power plant	\$3,709,440	Insurance

Company	Project Description	Amount	Support Type
<b>The Americas</b>			
<b>Belize</b>			
Jennifer Lovell (Rapid Mail Company Limited)	Operation of retail center	\$100,000	Finance
<b>Ecuador</b>			
James Besch (Besch International, Inc./ San Martin Farms CIA. Ltda.)	Agriculture (farm)	\$450,000	Finance
<b>El Salvador</b>			
ECSI International, Inc. Gun registration (ID-Systems S.A.)	Computer information systems	\$4,250,000	Insurance
<b>Guatemala</b>			
Texas Overseas Gas Corp. (Zeta Gas de Centro America S.A.)	Liquefied petroleum gas distribution	\$25,000,000	Insurance
Colite Outdoor, LLC (Colite Guatemala, S.A.)	Outdoor advertising, billboards	\$350,000	Insurance
Mercury Mortgage Finance (Guatemala Mortgage Trust Ltd.)	Mortgage securitization	\$15,000,000	Insurance
<b>Haiti</b>			
Harding Enterprises, Inc. (Caribbean Hotel Ventures S.A.)	Tourism/hotels	\$25,000,000	Insurance
Western Wireless International Corporation (Communication Cellulaire d'Haiti)	Building and operation of a cellular network	\$18,000,000	Insurance
<b>Mexico</b>			
Heron, Ltd. (Wend-Rey Restaurants, Ltd.)	Restaurant franchises	\$1,219,000	Finance
Brad Schwarz/Marvin Schwarz/Benny Cherry (Faro de Agua SA DE C.V.)	Curbside water purification and distribution sites	\$1,500,000	Finance
<b>Nicaragua</b>			
American & Caribbean International Corp. (Puerto Cabezas Power S.A.)	Power plant	\$2,000,000	Insurance
Colite Outdoor, LLC (Colite Nicaragua, S.A.)	Outdoor advertising, billboards	\$150,000	Insurance
<b>Turks &amp; Caicos Islands</b>			
Blanchard TCI Ltd. (Caicos Television Holdings Ltd.)	Telecommunications	\$4,273,114	Insurance
<b>Venezuela</b>			
Saul Siegel (Raymond de Venezuela, C.A.)	Concrete pile manufacturing facility	\$2,250,000	Finance
WilPro Energy Services (El Furrrial) Ltd. (WilPro Energy Services (El Furrrial) Limited)	Gas compression	\$25,000,000	Insurance
Caterpillar Financial Services Corporation (Consolidada de Ferrys, C.A.) (Conferry)	Purchase and operation of a passenger ferry	\$35,000,000	Insurance
Wilpro Energy Services (PIGAP II) Limited (Wilpro Energy Services (PIGAP II) Limited)	Gas compression	\$25,000,000	Insurance

# 2002 Investment Funds' Projects

OPIC-supported privately managed private equity investment funds provide long-term growth capital, management expertise, and new technologies, while supporting adoption of international standards of reporting and transparency and environmental and worker rights sensitivity; all to promote private sector enhancement fundamental to the development of emerging market economies. OPIC's funds operate in every region of the world. Current OPIC funds include:<sup>1</sup>

Africa Growth Fund	Draper International	Newbridge Andean Partners
Africa Millennium Fund	Emerging Europe Fund	New Century Capital Partners
Agribusiness Partners International	Global Environment Emerging Markets Fund	Poland Partners
AIG Brunswick Millennium Fund	Global Environment Emerging Markets Fund, II	Russia Partners
Allied Small Business Fund	Great Circle Fund	South America Private Equity Growth Fund
Aqua International Partners	India Private Equity Fund	Soros Investment Capital Ltd.
Asia Development Partners	InterArab Investment Fund	ZM Africa Investment Fund
Asia Pacific Growth Fund	Israel Growth Fund	
Bancroft Eastern Europe Fund	Modern Africa Growth and Investment Fund	

<sup>1</sup> This list does not include two OPIC funds which have completed operations.

In 2002, OPIC-supported funds invested \$130 million in 70 projects around the globe, with an average investment of \$1.8 million per project. Highlights from these projects are:<sup>2</sup>

Portfolio Company	Country	Description
<b>Africa and the Middle East</b>		
Songhai Financial Holdings	Ghana	Investment banking and brokerage
Cora de Comstar	Cote d'Ivoire	Telecommunications
Bayt.com	Jordan	Bilingual Arabic-English Internet enabled recruitment service
Aregon	Jordan	Procurement services provider
Africa Broadcast Network	South Africa	Media/communications
Phyto-Riker Pharmaceutical	Ghana	Pharmaceutical company
<b>Asia and the Pacific</b>		
First Pacific Company Limited	Philippines, Thailand, & Indonesia	Consumer goods
Jain Irrigation Systems	India	Water irrigation systems
<b>The Americas</b>		
Despegar	Colombia, Argentina	On-line travel services
Net Uno	Venezuela	Telecommunications
<b>New Independent States and Europe</b>		
Efes Breweries	Romania, NIS	Brewery distribution
Nova Banka	Croatia	Financial services
Eastbridge Poland	Poland, Central Europe	Department store chain, CD/book chain
Stern Cement	Russia	Cement manufacturing
Synergia 99	Poland	Real estate development
Serbia Broadband Networks	Serbia	Media/communications
Eksimbanka	Serbia	Financial services
MV Centrum	Czech Republic	Commercial office space real estate development

<sup>2</sup> These projects are a sampling of projects in which OPIC-supported investment funds invested during fiscal year 2002.

# OPIC Countries and Areas

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

OPIC programs are generally available in the more than 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  
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

## 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

Netherlands Antilles  
Nicaragua  
Panama  
Paraguay  
Peru  
St. Kitts & Nevis  
St. Lucia  
St. Vincent & The Grenadines  
Suriname  
Turks & Caicos  
Trinidad & Tobago  
Uruguay  
Venezuela

## Asia and the Pacific

Bangladesh  
Cambodia  
Cook Islands  
East Timor  
Fiji  
India  
Indonesia  
Kiribati  
Korea  
Laos  
Malaysia  
Marshall Islands  
Micronesia, Federated States of  
Mongolia  
Nepal  
Pakistan  
Palau  
Papua New Guinea  
Philippines  
Singapore  
Sri Lanka  
Taiwan  
Thailand  
Tonga  
Vietnam  
Western Samoa

## Europe and the New Independent States

Albania  
Armenia  
Azerbaijan  
Bosnia & Herzegovina  
Bulgaria  
Croatia  
Cyprus  
Czech Republic  
Estonia  
Georgia  
Greece  
Hungary  
Ireland  
Kazakhstan  
Kosovo  
Kyrgyzstan  
Latvia  
Lithuania  
Macedonia, Former Yugoslav Republic of  
Malta  
Moldova  
Montenegro  
Northern Ireland  
Poland  
Portugal  
Romania  
Russia  
Slovakia  
Slovenia  
Tajikistan  
Turkey  
Turkmenistan  
Ukraine  
Uzbekistan  
Yugoslavia

\*In Mexico, OPIC's programs are limited to direct loans to projects that significantly involve U.S. small businesses or cooperatives.

## Independent Auditors' Report on Financial Statements



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, 2002 and 2001, 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 audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 at September 30, 2002 and 2001 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 December 18, 2002 on our consideration of OPIC's internal control over financial reporting and its compliance with laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**KPMG LLP**

December 18, 2002



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

## Balance sheets

### OVERSEAS PRIVATE INVESTMENT CORPORATION

At September 30 (\$ in thousands)

	2002	2001
<b>ASSETS</b>		
Fund Balance with U.S. Treasury (Notes 2 and 4)	\$ 661,696	\$ 678,570
U.S. Treasury securities, at amortized cost plus related receivables (Notes 2 and 7)	3,629,543	3,524,168
Direct loans outstanding of \$138,601 and \$75,379 less allowance for uncollectible loans of \$19,373 and \$10,079 in FY 2002 and FY 2001 (Notes 2 and 10)	119,228	65,300
Accounts receivable resulting from investment guaranties of \$115,371 and \$69,808 less allowance for doubtful recoveries of \$45,261 and \$29,576 in FY 2002 and FY 2001 (Notes 2 and 11)	70,110	40,232
Assets acquired in insurance claims settlements of \$220,843 and \$239,776 less allowance for doubtful recoveries of \$89,808 and \$97,690 in FY 2002 and FY 2001 (Notes 2 and 11)	131,035	142,086
Accrued interest and fees and other	18,888	19,237
Furniture, equipment and leasehold improvements at cost less accumulated depreciation and amortization of \$11,000 in FY 2002 and \$10,201 in FY 2001 (Notes 2, 14 and 19)	3,409	8,273
<b>TOTAL ASSETS</b>	<b>\$ 4,633,909</b>	<b>\$ 4,477,866</b>
<b>LIABILITIES, CAPITAL AND RETAINED EARNINGS</b>		
Liabilities:		
Reserve for political risk insurance (Note 2)	\$ 275,000	\$ 260,000
Reserve for investment guaranties (Note 2)	570,000	550,000
Accounts payable and accrued expenses	8,304	8,475
Customer deposits and deferred income	32,918	35,717
Borrowings from U.S. Treasury (Note 6)	131,529	57,763
Unearned premiums	13,071	18,565
Deferred rent & rent incentives from lessor of \$20,418 and \$20,486 net of accumulated amortization of \$10,921 and \$9,618 in FY 2002 and FY 2001 (Note 14)	9,497	10,868
	1,040,319	941,388
Contingent liabilities (Notes 9, 10, 17 and 18)		
Capital and retained earnings:		
Contributed capital	50,000	50,000
Credit funding (Note 5)	148,427	79,896
Interagency transfers	1,072	1,147
Retained earnings and statutory reserves:		
Insurance (Notes 9 and 12)	1,801,177	1,846,826
Guaranty (Notes 10 and 12)	1,418,115	1,558,609
Retained earnings	174,799	0
	3,593,590	3,536,478
<b>TOTAL LIABILITIES, CAPITAL AND RETAINED EARNINGS</b>	<b>\$ 4,633,909</b>	<b>\$ 4,477,866</b>

See accompanying notes to the financial statements.

## Statements of income

### OVERSEAS PRIVATE INVESTMENT CORPORATION

For the years ended September 30 (\$ in thousands)

	2002	2001
<b>REVENUES</b>		
Political risk insurance premiums and fees (Note 9)	\$ 57,651	\$ 66,577
Investment financing interest and fees	91,706	93,501
Other operating income	32,346	30,958
Interest on U.S. Treasury securities	223,186	227,557
	<b>404,889</b>	<b>418,593</b>
<b>EXPENSES</b>		
Provisions for reserves:		
Political risk insurance (Note 2)	11,710	43,848
Investment financing (Notes 2 and 10)	162,162	103,411
Salaries and benefits (Notes 15 and 16)	21,098	19,078
Rent, communications and utilities (Note 14)	5,406	5,126
Contractual services	15,291	23,814
Travel	1,632	1,431
Interest on borrowings from U.S. Treasury (Note 6)	5,245	3,738
Depreciation and amortization (Note 2)	1,001	1,965
Writedown of internally developed software (Note 19)	4,358	0
Other general and administrative expenses	2,187	1,563
	<b>230,090</b>	<b>203,974</b>
<b>NET INCOME</b>	<b>\$ 174,799</b>	<b>\$ 214,619</b>

See accompanying notes to the financial statements.

## Statements of capital and retained earnings

OVERSEAS PRIVATE INVESTMENT CORPORATION  
For the years ended September 30 (\$ in thousands)

	Contributed Capital	Credit Funding	Interagency Transfers	Statutory Reserves		Retained Earnings	Total
				Insurance (Notes 9 and 12)	Guaranty (Notes 10 and 12)		
<b>Balance September 30, 2000</b>	<b>\$50,000</b>	<b>\$ 96,308</b>	<b>\$1,085</b>	<b>\$1,883,973</b>	<b>\$1,289,843</b>	<b>\$ 0</b>	<b>\$3,321,209</b>
Net income	—	—	—	(36,935)	251,554	—	214,619
Credit funding received from:							
Accumulated earnings	—	23,750	—	(1,000)	—	(22,750)	0
Credit funding used	—	(39,962)	—	—	17,212	22,750	0
Interagency transfers	—	(200)	62	788	—	—	650
<b>Balance September 30, 2001</b>	<b>\$50,000</b>	<b>\$ 79,896</b>	<b>\$1,147</b>	<b>\$1,846,826</b>	<b>\$1,558,609</b>	<b>\$ 0</b>	<b>\$3,536,478</b>
Net income	—	—	—	—	—	174,799	174,799
Return credit funding to U.S. Treasury	—	—	—	—	(135,420)	—	(135,420)
Credit funding received from:							
Accumulated earnings	—	69,862	—	(46,697)	—	(23,165)	0
Upward Reestimates	—	127,806	—	—	—	—	127,806
Credit funding used	—	(128,664)	—	—	105,499	23,165	0
Dividend to U.S. Treasury	—	—	—	—	(110,573)	—	(110,573)
Interagency transfers	—	(473)	(75)	1,048	—	—	500
<b>Balance September 30, 2002</b>	<b>\$50,000</b>	<b>\$148,427</b>	<b>\$1,072</b>	<b>\$1,801,177</b>	<b>\$1,418,115</b>	<b>\$174,799</b>	<b>\$3,593,590</b>

See accompanying notes to the financial statements.

## Statements of cash flows

### OVERSEAS PRIVATE INVESTMENT CORPORATION

For the years ended September 30 (\$ in thousands)

	2002	2001
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 174,799	\$ 214,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for:		
Political risk insurance	11,710	43,848
Investment financing	162,162	103,411
Insurance claim recoveries	61	270
Amortization of premiums on U.S. securities	22,646	18,205
Accretion of discounts on U.S. securities	(4,599)	(4,064)
Amortization of deferred rent and rental incentives	(1,371)	(1,333)
Depreciation and amortization of furniture, equipment and leasehold improvements	1,001	2,043
Write down of internally developed software	4,358	0
(Increase) Decrease in assets:		
Accrued interest and fees	2,534	(6,520)
Accounts receivable	17	61
Assets acquired in insurance claims settlements	0	(938)
Recoveries on assets acquired in insurance claims settlements	16,712	1,276
Assets acquired in finance claims settlements	(174,077)	(31,879)
Recoveries on assets acquired in finance claims settlements	9,519	7,188
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	(172)	(441)
Unearned premiums	(5,494)	(1,825)
Customer deposits and deferred income	(2,799)	270
Insurance claim payments	(2,431)	(2,812)
<b>Cash Provided by Operating Activities</b>	<b>214,576</b>	<b>341,379</b>
<b>Cash Flows from Investing Activities:</b>		
Sale and maturity of U.S. Treasury securities	1,124,009	401,190
Purchase of U.S. Treasury securities	(1,249,632)	(634,194)
Repayment of direct loans	8,595	27,844
Disbursement of direct loans	(70,006)	(47,880)
Acquisition of furniture and equipment	(495)	200
<b>Cash Used in Investing Activities</b>	<b>(187,529)</b>	<b>(252,840)</b>
<b>Cash Flows from Financing Activities:</b>		
Dividend to U.S. Treasury	(110,573)	0
Return credit funding to U.S. Treasury	(135,420)	0
Interagency transfers	500	650
Upward Reestimates	127,806	0
Credit Reform borrowings from U.S. Treasury	73,766	41,896
Repayments of borrowings from U.S. Treasury	0	(47,059)
<b>Cash Used in Financing Activities</b>	<b>(43,921)</b>	<b>(4,513)</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(16,874)</b>	<b>84,026</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>678,570</b>	<b>594,544</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 661,696</b>	<b>\$ 678,570</b>

See accompanying notes to the financial statements.

# Notes to Financial Statements

OVERSEAS PRIVATE INVESTMENT CORPORATION  
September 30, 2002 and 2001

## (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 guarantees, 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 generally 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 Guarantee 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 convertibility 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 guarantee collection efforts. The initial U.S. dollar equivalent is recorded and revalued annually until the foreign currency is utilized by OPIC or other agencies of the United States Government or until it is exchanged for U.S. dollars by the foreign government.

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

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

### Reserves for Political Risk Insurance and Investment

**Guarantees:** The reserves for political risk insurance and investment guarantees 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 guarantees outstand-

ing, 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 guarantees 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 guarantees outstanding, worldwide economic and political conditions, and project-specific risk factors.

**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 guarantee fees on investment guarantees are accrued based on the principal amount outstanding. Revenue from both loan interest payments and guarantee 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.

**Reclassifications:** Certain FY2001 balances have been reclassified to conform to FY2002 financial statement presentations.

**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, 2002 and 2001 consists of the following (dollars in thousands):

	2002	2001
Restricted:		
Pcredit reform	\$ 3,655	861
Credit reform	652,741	661,041
Interagency fund transfers	1	2
Unrestricted	5,299	16,666
<b>Total</b>	<b>\$ 661,696</b>	<b>\$ 678,570</b>

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 guarantees, they are transferred to OPIC's noncredit insurance account. In 2001, OPIC transferred \$5 million to the noncredit insurance account. No funds were transferred in 2002. 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.

From time to time the Agency for International Development (A.I.D.) has entered into various memoranda of understanding with OPIC that provide for the transfer of funds from A.I.D. to OPIC to carry out specific programs. These cash balances may not be commingled with other OPIC cash and are available solely for the purposes of the individual agreements.

#### (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 2001, 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 2001 and 2002. In fiscal year 2002, OPIC received no credit funding authority for new loan commitments; however, approximately \$19 million in carryover 2001 credit authority was available for use in fiscal year 2002. 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):

	2002	2001
Balance carried forward	\$ 79,896	96,308
Upward reestimates	127,806	—
Transferred from earnings	69,862	23,750
Interagency transfers	(473)	(200)
Credit funding used	(128,664)	(39,962)
<b>Credit funding</b>	<b>\$ 148,427</b>	<b>79,896</b>

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. The cost of reestimates that result in increases to subsidy are automatically funded while decreases to subsidy costs result in excess funds that are deposited at the U.S. Treasury. OPIC incurred increased subsidy costs of \$127.8 million and decreases in subsidy costs of \$135.4 million in FY 2002.

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 in 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 \$73.8 million in 2002 and \$41.9 million in 2001, all of which have been disbursed. OPIC paid a total of \$5.2 million and \$3.7 million in interest to the U.S. Treasury during fiscal years 2002 and 2001, respectively, and principal repayments of \$47.1 million were made in 2001 under OPIC's borrowing agreement with the U.S. Treasury. No repayments were made in 2002. Future payments and interest rates for borrowings outstanding at September 30, 2002 are as follows (dollars in thousands):

	Interest rate	Principal amount due
Payment due in:		
Fiscal year 2003	N/A	\$ —
Fiscal year 2004	N/A	—
Fiscal year 2005	6.5%	1,823
Fiscal year 2006	4.76% – 6.53%	15,048
Fiscal year 2007	4.71% – 5.13%	31,252
Thereafter	4.65% – 7.12%	83,406
<b>Total</b>		<b>\$ 131,529</b>

#### (7) INVESTMENT IN U.S. TREASURY SECURITIES

The composition of investments and related receivables at September 30, 2002 and 2001 is as follows (dollars in thousands):

	2002	2001
Investments, amortized cost	\$ 3,570,586	3,447,289
Matured investment receivables	—	15,721
Interest receivable	58,957	61,158
<b>Total</b>	<b>\$ 3,629,543</b>	<b>3,524,168</b>

The investment receivable at September 30, 2001 includes two investments that matured on Saturday, September 30, 2001, but were not redeemed by the U.S. Treasury until the first business day of fiscal year 2002.

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

	Gross amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At September 30, 2002	\$ 3,570,586	452,661	(411)	4,022,836
At September 30, 2001	\$ 3,447,289	323,070	(1,121)	3,769,238

At September 30, 2002, the securities held at year end had an interest range of 2.75% to 14% and a maturity period from one month to almost 26 years.

OPIC generally holds its securities to maturity. The amortized cost and estimated fair value of U.S. Treasury securities at September 30, 2002, by contractual maturity, are shown below (dollars in thousands):

	Amortized cost	Estimated fair value
Due in one year or less	\$ 329,290	336,587
Due after one year through five years	1,219,199	1,331,999
Due after five years through 10 years	1,211,078	1,321,810
Due after 10 years	811,019	1,032,440
<b>Total</b>	<b>\$ 3,570,586</b>	<b>4,022,836</b>

#### (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 Foreign Assistance Act (FAA). At September 30, 2002, this combined limit was \$29 billion, of which combined insurance and finance utilization was \$13 billion.

#### (9) POLITICAL RISK INSURANCE

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

	2002	2001
Political risk insurance premiums	\$ 55,080	66,212
Miscellaneous insurance income	2,571	365
<b>Total insurance revenue</b>	<b>\$ 57,651</b>	<b>66,577</b>

OPIC's capital, retained earnings, and reserves available for insurance at both September 30, 2002 and 2001 totaled \$2.3 billion. Charges against retained earnings could arise from (A) outstanding political risk insurance contracts, (B) pending claims under insurance contracts, and (C) guarantees 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 were reported as assets acquired in insurance settlements.

OPIC's Maximum Contingent Liability at September 30, 2002 and 2001 was \$6.8 billion and \$8.2 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, 2002 and 2001 was \$4.8 billion and \$5.3 billion.

(b) **Pending Claims:** At September 30, 2002 and 2001, the total amount of compensation formally requested in insurance claims for which no determination of specific liability had yet been made was approximately \$349.6 million and \$19.5 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 Guarantees and Indemnities:** OPIC also has off-balance-sheet risk in connection with one claim settlement. OPIC settled a claim in 1991 through a guarantee of \$30 million of host government obligations. Payments by the host government have reduced OPIC's exposure to \$10.2 million and \$12.4 million at September 30, 2002 and 2001, 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 2002 and 2001 were as follows (dollars in thousands):

	2002	2001
Beginning balance	\$ 260,000	220,000
Charge offs	(2,431)	(2,812)
Recoveries	61	270
Increase in provisions	11,710	39,423
Transfers from other reserves	5,660	3,119
<b>Ending balance</b>	<b>\$ 275,000</b>	<b>260,000</b>

#### (10) INVESTMENT FINANCING

OPIC is authorized to provide investment financing to projects through direct loans and investment guarantees. Project financing provides medium- to long-term funding through direct loans and investment guarantees 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 guarantees 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 guarantees that supplement the fund's privately raised equity. OPIC's guarantee 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 guarantee 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 guarantees can be found in sections 234(c) and 234 (b) of the Foreign Assistance Act (FAA), respectively. Direct loans and investment guarantees 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 2002 and 2001, \$24 million was made available 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 both September 30, 2002 and 2001 totaled \$2.1 billion.

**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, 2002 totaled \$362 million, of which \$138.6 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 \$21.7 million at September 30, 2002 and \$12.8 million at September 30, 2001. If interest income had been accrued on those loans, it would have approximated \$800,000 during fiscal year 2002 and \$600,000 during fiscal year 2001. Interest collected on delinquent loans and recorded as income when received amounted to \$1.1 million and \$1.3 million for fiscal years 2002 and 2001, respectively.

Changes in the allowance for uncollectible loans during fiscal years 2002 and 2001 were as follows (dollars in thousands):

	2002	2001
Beginning balance	\$ 10,079	10,120
Charge offs	(920)	(1,880)
Recoveries	2,536	3,242
Increase/decrease in provisions	7,482	(1,479)
Increase in capitalized interest	196	76
<b>Ending balance</b>	<b>\$ 19,373</b>	<b>10,079</b>

**Investment Guarantees:** OPIC's investment guarantee covers the risk of default for any reason. In the event of a claim on OPIC's guarantee, OPIC makes payments of principal and interest to the lender. These payments are recorded as accounts receivable resulting from investment guarantees. 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 guarantee 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. Guarantees 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 guarantees, including claim-related assets, was \$5.8 billion at September 30, 2002, of which \$3.1 billion was outstanding. Of the \$5.8 billion, \$3.1 billion related to project finance and \$2.7 billion related to investment fund guarantees. Included in the \$2.7 billion of investment fund exposure is \$837 million of estimated interest that could accrue to the guaranteed 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, 2002, \$253 million of the \$837 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 guarantees during fiscal years 2002 and 2001 were as follows (dollars in thousands):

	2002	2001
Beginning balance	\$ 550,000	460,000
Charge offs	(119,485)	—
Increase in provisions	139,485	89,625
Transfers to/from other reserves	—	375
<b>Ending balance</b>	<b>\$ 570,000</b>	<b>550,000</b>

#### (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 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.

In FY2000, OPIC paid two insurance claims totaling \$217.5 million. OPIC's potential loss on these claims is included in allowance for doubtful recoveries at September 30, 2002 and 2001. In fiscal year 2001, OPIC entered into an agreement related to these claims with the host government of Indonesia to recover, over a 14-year period, the outstanding receivable plus interest that is due on these two claims. In FY2002, OPIC received \$16 million in recoveries against these claims.

Changes in the allowance for doubtful recoveries for assets acquired in insurance claims settlements during fiscal years 2002 and 2001 were as follows (dollars in thousands):

	2002	2001
Beginning balance	\$ 97,690	102,284
Charge offs	—	(5,900)
Increase in provisions	—	4,425
Recoveries	(2,222)	—
Transfers to other reserves	(5,660)	(3,119)
<b>Ending balance</b>	<b>\$ 89,808</b>	<b>97,690</b>

Changes in the allowance for doubtful recoveries for assets resulting from investment guaranties during fiscal years 2002 and 2001 were as follows (dollars in thousands):

	2002	2001
Beginning balance	\$ 29,576	26,935
Charge offs	—	(12,249)
Recoveries	490	—
Increase in provisions	15,195	15,265
Transfers to other reserves	—	(375)
<b>Ending balance</b>	<b>\$ 45,261</b>	<b>29,576</b>

(12) STATUTORY RESERVES AND FULL FAITH AND CREDIT Section 235(c) of the FAA established a fund with separate accounts known as the Insurance Reserve and the Guarantee Reserve for the respective discharge of potential future liabilities arising from insurance or from guarantees issued under Section 234(b) of the FAA. These amounts may be increased by transfers from retained earnings or by appropriations. In FY 2001, OPIC's Board of Directors authorized the allocation of all retained earnings to these statutory reserves, thereby reflecting OPIC's increased ability to absorb potential losses without having to seek appropriated funds. The allocation of retained earnings to the Insurance Reserve and the Guarantee Reserve was based on the amount of maximum exposure outstanding for insurance and guarantees, respectively.

All valid claims arising from insurance and guarantees issued by OPIC constitute obligations on which the full faith and credit of the United States of America is pledged for full payment. At both September 30, 2002 and 2001, the statutory Insurance Reserve totaled \$1.8 billion and the statutory Guarantee Reserve totaled \$1.4 billion and \$1.6 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, 2002 are as follows (dollars in thousands):

	Carrying amount	Fair value
<b>Financial assets:</b>		
Cash	\$ 661,696	661,696
U.S. Treasury securities	3,570,586	4,022,836
Interest receivable on securities	58,957	58,957
Direct loans	119,228	119,228
Accounts receivable from investment guarantees	70,110	70,110
Assets acquired in insurance claims settlements	131,035	131,035
<b>Financial liabilities:</b>		
Borrowings from the U.S. Treasury	131,529	125,326

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 Guarantees, and Assets Acquired in Insurance Claims Settlements:** These assets are stated on the balance sheet at the present value of the amount expected to be realized. This value is based on management's quarterly review of the portfolio and considers specific factors related to each individual receivable and its collateral. The stated value on the balance sheet is also management's best estimate of fair value for these instruments.

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

**Investment Guarantees Committed and Outstanding:** OPIC's investment guarantees 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, it is not meaningful to calculate their fair value.

(14) OPERATING LEASE

Minimum future rental expenses under the 15-year lease at 1100 New York Avenue, N.W. will be approximately \$5.2 million annually, with additional adjustments tied to the consumer price index. Lease incentives related to OPIC's 1992 move to this location totaled \$16.7 million. The value of these incentives is deferred in the balance sheets and is being amortized to reduce rent expense on a straight-line basis over the 15-year life of the lease. Rental expense for 2002 and 2001 was approximately \$5.0 million and \$4.5 million.

(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 2002 earnings. In 2001 through October 5, 2002, OPIC contributed 8.51% of employees' gross earnings, and after October 5, 2002, 7.5%. 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 2002 and 2001, 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; 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 7% of gross CSRS earnings is withheld and 0% to 12% of gross FERS earnings is withheld subject to the IRS elective deferral limit for the tax year. FERS employees receive an automatic 1% contribution from OPIC. Amounts withheld for FERS employees are matched by OPIC, up to an additional 4%, for a total of 5%.

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

(16) POSTRETIREMENT BENEFITS

OPIC sponsors three defined benefit postretirement plans that cover qualifying employees. The three plans provide major medical coverage, dental and vision coverage, and life insurance. The medical and the dental and vision plans are both contributory plans. The life insurance plan includes options that are contributory and noncontributory.

Shown below is disclosure information for the years ended September 30, 2002 and 2001 (dollars in thousands):

	2002	2001
<b>Reconciliation of accrued benefit cost:</b>		
Benefit liability at end of year	\$ (3,332)	(3,324)
Fair value of plan assets at end of year	—	—
Funded status at year-end	(3,332)	(3,324)
Unrecognized net actuarial gain	(907)	(812)
<b>Accrued benefit cost</b>	<b>\$ (4,239)</b>	<b>(4,136)</b>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 100	107
Interest cost	206	228
Expected return on plan assets	—	—
Recognized net actuarial loss	(96)	(69)
<b>Net periodic benefit cost</b>	<b>\$ 210</b>	<b>266</b>

**Effect of Health Care Trend:** Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects as of or for the year ended September 30, 2002 (dollars in thousands):

	1 percentage point increase	1 percentage point decrease
Effects on total service cost and interest cost components	\$ 50	(40)
Effect on postretirement benefit liability	522	(422)

Change in benefit liability:

	2002	2001
Benefit liability at beginning of year	\$ (3,324)	(3,032)
Service cost	(100)	(107)
Interest cost	(206)	(228)
Actuarial gain/loss	191	(62)
Benefits paid	107	105
Benefit liability at end of year	\$ (3,332)	(3,324)

Weighted-average discount rate assumption as of September 30 6.75% 7.50%

For measurement purposes, a 9% annual rate of increase in the per capita cost of medical benefits was assumed for 2002. The rate was assumed to decrease gradually to 8% for 2003, 7% in 2004, 6% in 2005, 5.5% in 2006 and remain at that level thereafter. The per capita cost for dental benefits was assumed to increase by 5.5% for each year.

#### (17) 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 guarantees, 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 guarantees.

OPIC's credit policy is to take a senior security position in the assets of the projects or transactions it guarantees. 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 guarantees. 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, 2002 and 2001 (dollars in thousands):

	2002		
	Total	Outstanding	Unused commitments
Guarantees	\$ 5,717,443	3,027,938	2,689,505
Undisbursed direct loans	222,943	—	222,943
Insurance	6,810,941	4,829,428	1,981,513
<b>2001</b>			
	Unused commitments		
	Total	Outstanding	commitments
Guarantees	\$ 6,498,216	3,378,881	3,119,335
Undisbursed direct loans	317,590	—	317,590
Insurance	8,246,003	5,323,861	2,922,142

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, 2002 by major geographical area (dollars in thousands):

	Undisbursed		
	Loan guarantees	portion on direct loans	Insurance
Africa	\$ 540,996	24,053	221,841
Asia	1,057,762	80,200	1,226,989
Europe	819,816	23,611	665,820
Latin America	1,503,101	40,929	4,095,175
Middle East	158,178	—	365,789
NIS (New Independent States)	934,239	51,200	235,327
Worldwide	703,351	2,500	—
	\$ 5,717,443	222,493	6,810,941

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, 2002, OPIC's largest finance and insurance exposure was in the following countries and sectors (dollars in thousands):

Country		Sector	
Brazil	\$ 1,364,282	Financial services	\$ 4,035,213
Argentina	1,086,661	Power generation	3,847,790
Turkey	1,069,037	Oil and gas services	1,907,500
Venezuela	1,054,175	Manufacturing	1,051,747
Indonesia	807,484	Communications	713,587

#### (18) OTHER CONTINGENCIES

OPIC is currently involved in certain legal claims and has received notifications of potential claims in the normal course of business. Management believes that the resolution of these matters will not have a material adverse impact on OPIC.

#### (19) WRITE-DOWN OF INTERNALLY DEVELOPED SOFTWARE

In fiscal year 2002, management analyzed previously capitalized costs associated with internally developed software and determined that a portion of those costs would no longer be of future benefit and should be written down by \$4.4 million. 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 121, "Accounting for Impairment of Long-lived Assets."

#### (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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