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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20543

Title on form #115
JAN 19, 1981

B-201607

To the Board of Directors
Overseas Private Investment
Corporation

We have examined the balance sheets of the Overseas Private Investment Corporation as of September 30, 1980 and 1979, and the related statements of income, changes in capital and reserves, and changes in financial position for the years then ended. Our examinations were made pursuant to the Government Corporation Control Act (31 U.S.C. 841-869) and in accordance with Comptroller General standards for financial and compliance audits, and included such tests of the accounting records and other audit procedures as we considered necessary under the circumstances.

As explained in note 4 of the accompanying financial statements, Section 235(c) of the Foreign Assistance Act of 1961, as added by the Foreign Assistance Act of 1969 (22 U.S.C. 2195 (c)), established an Insurance and Guaranty Reserve for the respective discharge of liabilities under the Corporation's insurance and guaranty contracts. At September 30, 1980, these reserves totaled \$576 million. (See notes 5 and 6.) In addition, section 237(c) of the act provides that the full faith and credit of the United States is pledged for the full payment and performance of the Corporation's insurance and guaranty liabilities. Thus, if claim settlements exceed available resources, the Congress would have to appropriate funds to fulfill this pledge. The standing authority for such appropriations is contained in section 235(f) of the act.

In our opinion, the accompanying financial statements present fairly the financial position of the Overseas Private Investment Corporation as of September 30, 1980 and 1979, and the results of its operations, changes in its capital and reserves, and changes in its financial position for the years then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Robert A. Atchey
Comptroller General
of the United States

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STATEMENT OF INCOME
Overseas Private Investment Corporation

For the year ended
 September 30

REVENUES

	<u>1980</u>	<u>1979</u>
Political risk insurance premiums	\$31,317,787	\$30,992,954
Less premiums on shared risks	4,837,636	4,744,124
	<u>26,480,151</u>	<u>26,248,830</u>
Investment guaranty fees	1,812,283	1,692,331
Direct investment interest	1,779,543	1,464,066
Other income	61,690	94,617
	<u>30,133,667</u>	<u>29,499,844</u>
Interest	45,999,010	38,233,808
	<u>76,132,677</u>	<u>67,733,652</u>

EXPENSES

Salaries and benefits	4,151,027	3,847,689
Loss (Gain) on claim settlements:		
Political risk insurance	2,397,418	984,482
Investment guaranties	<103,498>	642,830
Provision for uncollectable DIF loans	1,600,000	1,600,000
Contractual services	730,688	1,458,381
Rent, communications and utilities	747,099	609,870
Travel	451,892	326,024
Printing and supplies	288,081	216,377
Depreciation and amortization	111,694	42,621
	<u>10,374,401</u>	<u>9,728,274</u>

NET INCOME

	<u>\$65,758,276</u>	<u>\$58,005,378</u>
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The accompanying notes are an integral part of this statement.

BALANCE SHEET**Overseas Private Investment Corporation**At September 3019801979**ASSETS****Cash and investments:**

Cash	\$ 85,085,221	\$ 78,856,552
U.S. Treasury securities at cost plus accrued interest (Note 2)	498,564,605	428,489,417
	<u>583,649,826</u>	<u>507,345,969</u>
Direct Investment Fund loans outstanding less allowance for uncollectable loans of \$4,945,928 in 1980 and \$3,345,928 in 1979 (Note 3)	18,758,388	19,602,259
Accrued interest and fees	2,242,009	3,122,526
Accounts receivable	9,080,653	9,626,582
Prepaid reinsurance premiums	1,136,447	1,070,809
Furniture and equipment at cost less depreciation of \$213,996 in 1980 and \$174,258 in 1979	456,573	162,426
Leasehold improvements at cost less amortization of \$143,040 in 1980 and \$77,437 in 1979	953,235	33,096
Assets acquired in claims settlements	52,359,535	62,341,421
	<u>\$668,636,666</u>	<u>\$603,305,088</u>

The accompanying notes are an integral part of this statement.

At September 30

1980

1979

LIABILITIES, CAPITAL AND RESERVES

Liabilities:

Accounts payable and accrued expenses	\$ 1,439,797	\$ 975,947
Direct liabilities related to claims settlements	2,974,639	4,706,820
Participations in DIF loans	87,370	131,054
Unearned premiums	14,223,295	13,285,709
Fees held pending claims determinations	344,739	397,008
	<u>19,069,840</u>	<u>19,496,538</u>

Contingent liabilities (Notes 5 and 6)

Capital and reserves:

Capital held by U.S. Treasury (Note 3)	50,000,000	50,000,000
Insurance reserve (Notes 4 and 5)	452,707,754	405,105,172
Guaranty reserve (Notes 4 and 6)	123,592,606	113,489,108
Retained earnings	23,266,466	15,214,270
	<u>649,566,826</u>	<u>583,808,550</u>
	<u>\$668,636,666</u>	<u>\$603,305,088</u>

STATEMENT OF CHANGES IN CAPITAL AND RESERVES
Overseas Private Investment Corporation

For the 2 years ended September 30, 1980

	<u>Capital</u>	<u>Insurance reserve</u>	<u>Guaranty reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance September 30, 1978	\$50,000,000	\$283,005,916	\$ 99,965,476	\$17,581,580	\$450,552,972
Cumulative effect on prior years of accounting change for claims settle- ments		73,083,738	2,166,462		75,250,200
Net Income		(984,482)	(642,830)	59,632,690	58,005,378
Transfers from retained earnings		<u>50,000,000</u>	<u>12,000,000</u>	<u>(62,000,000)</u>	
Balance September 30, 1979	\$50,000,000	\$405,105,172	\$113,489,108	\$15,214,270	\$583,808,550
Net Income		(2,397,418)	103,498	68,052,196	65,758,276
Transfers from retained earnings		50,000,000	10,000,000	(60,000,000)	
Balance September 30, 1980	<u>\$50,000,000</u>	<u>\$452,707,754</u>	<u>\$123,592,606</u>	<u>\$23,266,466</u>	<u>\$649,566,826</u>

The accompanying notes are an integral part of this statement.

STATEMENT OF CHANGES IN FINANCIAL POSITION
Overseas Private Investment Corporation

For the year ended
September 30

SOURCE OF FUNDS

	<u>1980</u>	<u>1979</u>
Net income	\$65,758,276	\$ 58,005,378
Depreciation and amortization	111,694	42,621
Provision for uncollectable DIF loans	1,600,000	1,600,000
	<u>67,469,970</u>	<u>59,647,999</u>
Cumulative effect of change in accounting policy		75,250,200
Increase (decrease) in:		
Accounts payable and accrued expenses	463,850	(35,890)
Unearned premiums	937,586	(2,267,410)
Decrease (increase) in:		
Accrued interest and fees	880,517	(1,866,242)
Accounts receivable	545,929	(3,548,447)
Assets acquired in claims settlements	9,981,886	(56,819,601)
	<u>80,279,738</u>	<u>70,360,609</u>

APPLICATION OF FUNDS

Net disbursement on DIF loans	756,129	3,281,422
Acquisition of:		
Furniture and equipment	340,239	53,794
Leasehold improvements	985,741	28,574
Increase (decrease) in prepaid reinsurance	65,638	(101,492)
Decrease (increase) in:		
Direct liabilities related to claims settlements	1,732,181	815,000
Participations in DIF loans	43,684	549,934
Fees held pending claims determinations	52,269	2,045,731
	<u>3,975,881</u>	<u>6,672,963</u>
Increase in cash and investments	<u>\$76,303,857</u>	<u>\$63,687,646</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
Overseas Private Investment Corporation

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies are summarized below:

Revenue recognition: Revenue from political risk insurance is recorded on a pro-rata basis over the contract period. All other revenue is recognized when earned in accordance with generally accepted accounting principles.

Valuation of assets acquired in claims settlements:

Debt of a foreign government acquired in the settlement of a claim is valued at the lower of its present value or the cost of acquisition. All other assets acquired in claims settlements are valued at the lower of management's estimate of the present value of the recovery on the asset or the cost of acquisition. Present value is determined at the time of acquisition using the composite yield for all U. S. Government securities.

Depreciation and amortization: Furniture and equipment are depreciated on a straight-line basis over a 10-year life. Leasehold improvements are amortized over the life of the related lease.

NOTES TO THE FINANCIAL STATEMENTS
Overseas Private Investment Corporation

NOTE 2: INVESTMENTS IN U.S. TREASURY SECURITIES

In conformance with Section 239(d) of the Foreign Assistance Act of 1961, as amended (FAA), investments in U.S. Treasury securities are limited to funds derived from fees and other revenues. The funds available for investment were \$491,738,097 and \$419,401,855 at September 30, 1980 and 1979 respectively. Of these funds \$491,596,301 and \$418,992,373 respectively, represent the original cost of investments included in the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS
Overseas Private Investment Corporation

NOTE 3: DIRECT INVESTMENT FUND

The FAA authorized the establishment of a Direct Investment Fund (DIF), that consisted initially of the \$40,000,000 paid in as capital of the corporation, to make loans on terms and conditions established by OPIC. The DIF is charged with realized losses and credited with realized gains and such additional sums as determined by the Board of Directors. During 1976 OPIC increased the DIF by \$10,000,000 in connection with the transfer of \$10,000,000 from retained earnings to capital held by the U. S. Treasury.

The status of the DIF was as follows, in millions:

	<u>September 30</u> <u>1980</u>	<u>1979</u>
Appropriated DIF capital	\$40.0	\$40.0
Transfer from earnings	10.0	10.0
Net losses	(6.5)	(4.9)
Uncommitted funds	<u>(14.5)</u>	<u>(18.6)</u>
Outstanding commitments	29.0	26.5
Undisbursed portion	<u>(5.4)</u>	<u>(3.7)</u>
Net loans outstanding	<u>\$23.6</u>	<u>\$22.8</u>

Proceeds received from the sale of participations were credited to the DIF for further lending in accordance with Sections 231(c), 235(b) and 239(d) of the FAA. The

NOTES TO THE FINANCIAL STATEMENTS (Note 3 continued)
Overseas Private Investment Corporation

figures above are net of such participations, which amounted to \$87,370 and \$131,054 at September 30, 1980 and 1979 respectively. Pursuant to provisions of Sections 239(d) and 234(b) of the FAA, OPIC has guaranteed full payment of the participated portion of DIF loans. This liability for outstanding participations is included in the amount of investment guaranties outstanding (Note 6).

NOTES TO THE FINANCIAL STATEMENTS
Overseas Private Investment Corporation

NOTE 4: 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 Guaranty Reserve for the respective discharge of liabilities under investment insurance and under guaranties issued under Section 234(b) of the FAA and similar predecessor guaranty authority. Both Reserves may be replenished or increased by transfers from retained earnings or by new Congressional appropriations. Retained earnings at September 30, 1980, available for transfer to the Insurance or Guaranty Reserve, were \$23,266,466.

Should funds at any time not be sufficient to discharge obligations arising under investment insurance or guaranties, as the case may be, Congress would have to appropriate funds 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.

All investment insurance issued by OPIC, all guaranties issued by OPIC in connection with the settlement of claims under investment insurance and all guaranties referred to in the first paragraph above constitute obligations of the United States of America. The full faith and credit of the United States of America is pledged for the full payment and performance of such obligations.

NOTES TO THE FINANCIAL STATEMENTS
Overseas Private Investment Corporation

NOTE 5: INSURANCE RESERVE

The Insurance Reserve at September 30, 1980 totaled \$452,707,754. Charges against the Insurance Reserve could arise from contingent obligations under (A) guaranties issued in settlement of claims arising under investment insurance contracts, (B) pending claims under investment insurance contracts, and (C) outstanding investment insurance contracts. These three categories of contingent obligations are discussed in more detail in the balance of this Note.

NOTES TO THE FINANCIAL STATEMENTS (Note 5 continued)
Overseas Private Investment Corporation

(A) Claims Settlement Guaranties

Pursuant to Sections 237(i) and 239(d) of the FAA, OPIC has in some instances settled claims arising under investment insurance contracts by issuing payment guaranties of host government obligations. These claims settlement guaranties represent contingent obligations backed by the Insurance Reserve.

The contingent liability at September 30, 1980 under these guaranties, including liability as to interest, was \$133,020,000. If the principal obligors default in full, and if OPIC does not exercise certain prepayment rights, OPIC would be liable during the following fiscal years for the following amounts, in thousands:

<u>Fiscal year</u>	<u>Contingent liability</u>
1981	\$ 30,344
1982	36,494
1983	32,269
1984	21,263
1985-8	12,650
	<u>\$133,020</u>

Of the total contingent liability under claims settlement guaranties, \$122,834,411 represents guaranties of obligations either incurred by the Government of Chile in compensation agreements with OPIC insureds or recognized by the Government of Chile in respect of debt previously insured by OPIC.

NOTES TO THE FINANCIAL STATEMENTS (Note 5 continued)
Overseas Private Investment Corporation

Also, in connection with the settlement of one claim, OPIC entered into an indemnity agreement with an insured in 1978 which could result in OPIC liability of up to \$8 million.

(B) Pending Claims

OPIC follows a policy of recording investment insurance contract claims as financial liabilities only upon determination that a liability exists and where the amount of such liability can be reasonably estimated. In the case of most expropriation claims, the expropriatory action must continue for a period of one year before the claim matures. Formal applications for compensation are generally filed only with respect to mature claims and specify the particular events which have occurred and which, in the opinion of the investor, subject OPIC to liability.

The total amount of compensation requested in connection with formal applications for which no determination has yet been made is approximately \$16 million. There are 3 claims filed under inconvertibility coverage, 7 under expropriation, 3 under war/revolution/insurrection, and 2 under expropriation and /or inconvertibility.

NOTES TO THE FINANCIAL STATEMENTS (Note 5 continued)
Overseas Private Investment Corporation

In addition to requiring formal applications for claimed compensation, the contracts require investors to notify OPIC promptly of host government action which the investor has reason to believe is or may become an expropriatory action. Careful investor compliance with this notice provision will sometimes result in their filing notice of events that do not mature into expropriatory actions.

The highly speculative nature of these notices both as to the likelihood that the event referred to will constitute expropriatory action and the amount of compensation, if any, that may become due leads OPIC to follow a consistent policy of making no reference to such notices in its financial statements. Any claims that might arise from these situations are, of course, encompassed in management's estimate that maximum potential exposure, prior to reinsurance, under existing investment insurance contracts is \$3.1 billion (Note 5C).

NOTES TO THE FINANCIAL STATEMENTS (Note 5 continued)
 Overseas Private Investment Corporation

(C) Political Risk Investment Insurance

OPIC issues investment insurance under limits fixed by the legislative authorization in the FAA and prior authorities. The utilization of these authorized amounts at September 30, 1980 (excluding obligations under guaranties issued in settlement of claims) was as follows, in millions:

	<u>Total</u>	<u>Uncommitted</u>	<u>Outstanding</u>
Prior authorities	\$2,155		\$2,155
FAA Section 235	7,500	\$4,267	3,233
	<u>\$9,655</u>	<u>\$4,267</u>	<u>\$5,388</u>

OPIC, as did its predecessors, insures the same investment against three different risks (inconvertibility of currency; expropriation; and war, revolution or insurrection). Under some contracts issued by predecessors, theoretically an investor could make successive claims under more than one coverage with respect to the same investment, thereby collecting aggregate compensation exceeding any single coverage amount. The outstanding amount reflects this theoretical possibility and in addition includes provision for insurance as to which OPIC is not currently at risk but is contractually obligated to provide upon the investor's future request to cover increases in retained earnings and accrued interest.

The outstanding amount pursuant to legislative authorizations is of little use in evaluating realistically the maximum exposure at September 30, 1980 to insurance claims, because it includes insurance for which OPIC is not currently

NOTES TO THE FINANCIAL STATEMENTS (Note 5 continued)
Overseas Private Investment Corporation

at risk and because it is improbable that multiple payments would be made for each investment. Management believes that a more accurate representation of maximum potential exposure to future claims arising from existing investment insurance contracts can be obtained by assuming that only one claim would be brought under each contract and that the coverage under which the claim would be brought would be the coverage with the highest amount of current insurance in force. Based on this assumption, management believes the maximum potential liability to claims at September 30, 1980 is \$3.1 billion.

NOTE 6: GUARANTY RESERVE

The Guaranty Reserve at September 30, 1980 totaled \$123,592,606 and OPIC has cash and U.S. Treasury securities in excess of this amount. Section 235 of the FAA requires OPIC to have, at the time OPIC commits itself to issue any guaranty under Section 234(b) of the FAA, a Guaranty Reserve equal to at least 25 percent of guaranties then issued and outstanding or committed under 234(b) and prior authorities. At September 30, 1980, the Guaranty Reserve exceeded by \$49 million the required minimum reserve. (See Note 4 for description of the Guaranty Reserve and full faith and

NOTES TO THE FINANCIAL STATEMENTS (Note 6 continued)
 Overseas Private Investment Corporation

credit status of guaranties.) Guaranties under prior authori-
 ties and Section 234(b) of the FAA include guaranties of debt,
 equity, and participation in DIF loans. The outstanding
 commitments at September 30, 1980 were as follows, in millions:

	<u>Prior authority</u>	<u>FAA 234(b) and 235</u>	<u>Total</u>
Legislative authorization	\$15.0	\$750.0	\$ 765.0
Uncommitted	-	<u>465.5</u>	<u>465.5</u>
Total outstanding commitments	<u>\$15.0</u>	<u>\$284.5</u>	<u>\$ 299.5</u>
Currently at risk, net of unfunded commitments	<u>\$15.0</u>	<u>\$ 88.4</u>	<u>\$103.4</u>