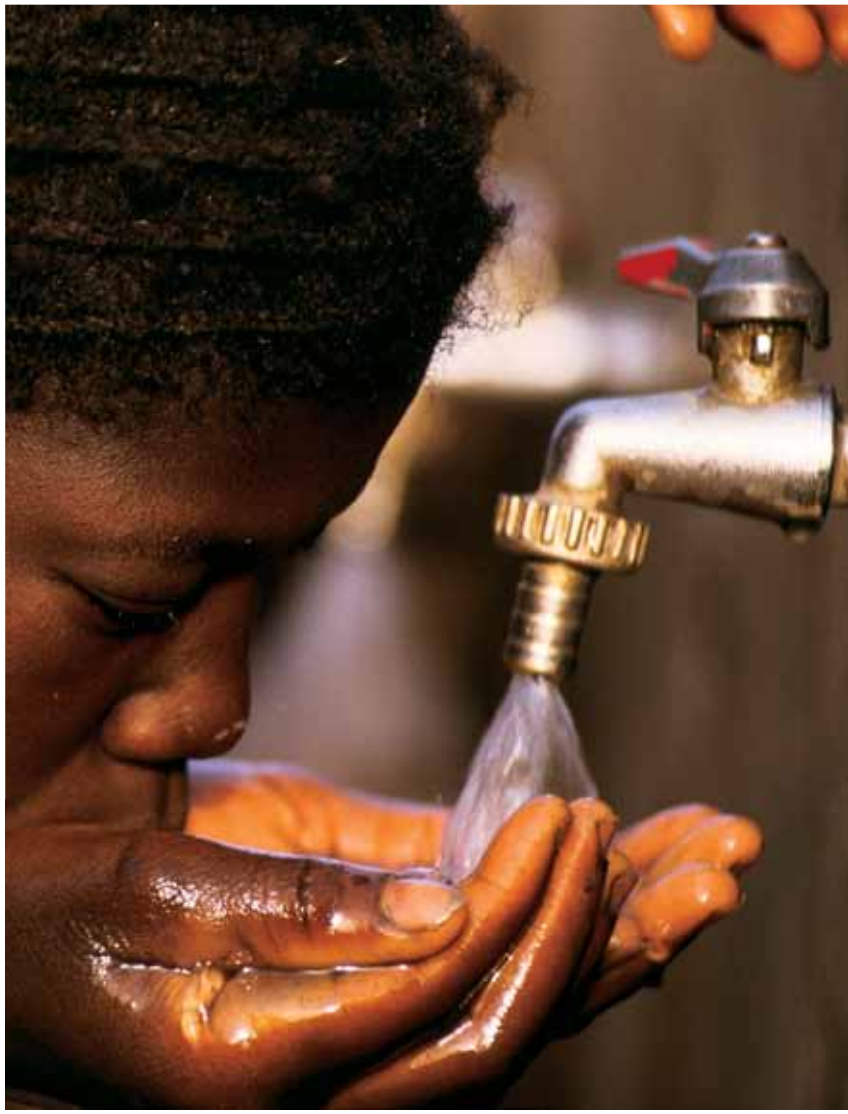
MANAGEMENT'S DISCUSSION AND ANALYSIS (FY09)

FINANCIAL STATEMENTS



Management's Discussion and Analysis (FY09)

Financial Statements and Internal Control Reports

MANAGEMENT'S DISCUSSION AND ANALYSIS FY09

OVERVIEW

Established in 1988, the Multilateral Investment Guarantee Agency (MIGA or "the Agency") is a member of the World Bank Group. The Bank Group also includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the International Centre for Settlement of Investment Disputes (ICSID). MIGA is a legal entity separate and distinct from IBRD, IDA, IFC, and ICSID, with its own charter (the "Convention"), share capital, financial structure, management, and staff. Membership in the Agency, which currently stands at 174, is open to all members of IBRD.

MIGA's mission is to promote foreign direct investment (FDI) into developing countries to support economic growth, reduce poverty, and improve peoples' lives. To this end, the agency acts as a multilateral risk mitigator, providing investors and lenders in the international investment community with the level of comfort necessary to invest in developing countries. MIGA's core business is the provision of political risk insurance. In addition, as part of its mandate, the agency carries out complementary activities such as providing dispute resolution, technical assistance, and online investment information and knowledge services to support FDI.

MIGA is committed to promoting projects that are economically, environmentally, and socially sustainable, and that promise a strong development impact. By providing political risk insurance (PRI) for foreign direct investment in developing countries, MIGA is able to play a critical role in supporting the World Bank Group's broad strategic priorities.

An important milestone for MIGA was the approval of the amendments to MIGA's Operational Regulations granted by the agency's Board of Directors in the fourth quarter of FY09. The amendments will enable MIGA to better respond to market needs and provide additional PRI products already available in the marketplace.

Since its inception, MIGA has issued $21 billion of guarantees (including amounts issued under the Cooperative Underwriting Program), in support of 600 projects in approximately 100 member countries. The agency has also conducted hundreds of technical assistance activities, as well as multiple programs at regional and global levels in member countries.

MIGA is financially self-sustaining, and its activities are supported by a robust capital base and a comprehensive risk management framework. The agency prepares its financial statements in accordance with generally accepted accounting principles in the United States of America (US GAAP) and International Financial Reporting Standards (IFRS).

DEVELOPMENT ACTIVITIES

Summary of Business Segments

MIGA seeks to fulfill its mission in developing member countries by offering PRI, investment dispute resolution, technical assistance, and online investment information and knowledge services.

Political Risk Insurance (PRI)

MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. MIGA covers against the risks of 1) transfer restriction and inconvertibility, 2) expropriation, 3) breach of contract, 4) war and civil disturbance, and, as a result of the Board of Directors' April 14, 2009 decision to amend MIGA's Operational Regulations, 5) the non-honoring of a sovereign financial obligation. Investors may choose any combination of these covers[1] (see Box 1). MIGA insures new cross-border investments originating in any MIGA member country, destined for any developing member country. Types of investments that can be covered include equity, shareholder and non-shareholder loans, and loan guarantees (provided the loans have a minimum maturity of three years). Other forms of investments—such as technical assistance and management contracts, or franchising and licensing agreements—may also be eligible. Table 1 contains a summary of cumulative guarantees issued in member countries.

TABLE 1 Cumulative Guarantees Issued in Member Countries

	FY09	FY08	FY07	FY06	FY05
Cumulative Guarantees Issued ($B)[1]	20.9	19.5	17.4	16.0	14.7
Host Countries	99	99	96	95	91

[1] *Includes amounts from Cooperative Underwriting Program.*

[1] *Smaller guarantees may be underwritten through the Small Investment Program (SIP), but SIP coverage is limited to the risks of transfer restriction, expropriation, and war and civil disturbance.*

During FY09, MIGA supported 12 projects in IDA-eligible countries and ten projects in sub-Saharan Africa, which are areas of special focus for the agency. In terms of exposure, IDA-eligible countries accounted for 34 percent of the net portfolio as of June 30, 2009, while coverage for projects in sub-Saharan Africa accounted for 19 percent.

Table 2 details the regional distribution of MIGA's gross and net guarantee exposures over the past three years. The total gross and net exposures at June 30, 2009 amounted to $7.3 billion and $4.0 billion compared to $6.5 billion and $3.6 billion respectively at the end of FY08. The percentage of net exposure in the Europe and Central Asia region increased by 6.7 percent in FY09, as a result of supporting financial sector clients in the region.

TABLE 2 Regional Distribution of Gross and Net Exposure ($M)

	Gross			Net			% of Total Net Exposure		
	FY09	FY08	FY07	**FY09**	FY08	FY07	**FY09**	FY08	FY07
Africa	**939**	1,015	964	**752**	798	711	**19.0**	22.3	22.2
Asia	**754**	689	757	**541**	470	523	**13.6**	13.1	16.3
Europe and Central Asia	**3,802**	2,898	1,941	**1,658**	1,254	902	**41.8**	35.1	28.1
Latin America and the Caribbean	**1,256**	1,321	1,484	**711**	748	876	**17.9**	20.9	27.3
Middle East and North Africa	**677**	682	285	**369**	373	262	**9.3**	10.4	8.2
Adjustment for Master Agreement	**-130**	-130	-130	**-65**	-65	-65	**-1.6**	-1.8	-2.0
Total	**7,297**	6,475	5,301	**3,966**	3,578	3,209	**100.0**	100.0	100.0

Note: numbers may not add up due to rounding.

MIGA is able to provide investors with a higher level of investment insurance coverage through the use of reinsurance arrangements with public and private insurers. MIGA cedes exposure to its reinsurance partners, thereby enhancing its capacity and allowing it to better manage its risk profile, project and country exposure levels. An example of this is the recent Treaty Agreement for reinsurance between Hannover Re and MIGA. Whereas MIGA assumes the credit risk for its reinsurance partners under facultative reinsurance arrangements, this risk is borne by the investor under the Cooperative Underwriting Program (CUP). MIGA may also act as a reinsurer, assuming investment portfolio exposure from both public (e.g. export credit agencies) and private insurers—thereby freeing up their capacity and allowing them to offer additional support to their policyholders.

Risks Covered by MIGA's Guarantees

MIGA provides political risk insurance to eligible investors and lenders against the following non-commercial risks:

- **Transfer restriction and inconvertibility** – the risk of inconvertibility of local currency into foreign exchange for transfer outside the host country. Currency depreciation is not covered.
- **Expropriation** – the risk of partial or total loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment.
- **War and civil disturbance** – the risk of damage to, or the destruction or disappearance of, tangible covered assets caused by politically motivated acts of war or civil disturbance in the host country, including revolution, insurrection, coups d'état, sabotage and terrorism.
- **Breach of contract** – the risk of being unable to obtain or enforce an arbitral or judicial decision recognizing the breach of an obligation by the host government.
- **Non-honoring of a sovereign financial obligation** – the risk that a sovereign may fail to honor an unconditional financial payment obligation or guarantee, where the underlying project meets all of MIGA's normal eligibility requirements. Unlike MIGA's breach of contract coverage, this coverage does not require a final arbitral award or court decision as a precondition to payment of a claim.

Box 1

Technical Assistance (TA)
MIGA's technical assistance (TA) program was integrated with that of the World Bank Group's Foreign Investment Advisory Service (FIAS) in FY07 to achieve operational synergies. The agency continues to provide budgetary support for the TA program as well as guidance on its work program, which focuses on sub-Saharan African countries, IDA countries, and frontier regions in middle income countries.

Online Dissemination of Investment-related Information
MIGA's online information services include FDI.net (www.fdi.net) and PRI-Center (www.pri-center.com). These help the Agency fulfill its mandate of conducting research and extending knowledge with regard to FDI and political risk-related issues.

Investment Dispute Resolution
Consistent with Article 23 of the MIGA Convention, the agency seeks both to remove impediments to the flow of investment to developing member countries and to encourage the settlement of disputes between investors and host governments. MIGA actively pursues the resolution of disputes affecting MIGA-supported projects. In many cases, these efforts focus on situations in which either a claim has been or is expected to be filed, but MIGA will also assist in resolving problems that are not related to its cover. During FY09, MIGA assisted investors in Guinea-Bissau, Afghanistan, Guatemala, the Kyrgyz Republic, and Nicaragua.

In appropriate circumstances, the agency will mediate disputes between states and investors not guaranteed by MIGA if such disputes inhibit the flow of additional investment to the country. In such circumstances, MIGA may seek compensation for these services and reimbursement for its costs in conducting the mediation. MIGA has recently agreed, for example, to mediate a dispute between the Republic of Seychelles and private investors.

Outlook and Challenges

Market Trends
The disturbance in the financial markets stemming from the tightening of liquidity has had an effect not only on the availability of credit but also on the capacity of the PRI industry to underwrite coverage. At the same time, however, there has been a general increase in perceptions of global risk. Thus, the environment is one of countervailing forces: while there is on the one hand less credit to finance deals and a tightening within the PRI market, there is also a greater general perception of risk which means sponsors proceeding with projects will have a greater desire to identify effective risk mitigants.

Operational Priorities
In 2008, MIGA's Board of Directors endorsed an updated Operational Directions paper identifying areas of special strategic focus for the FY09-11 period. There are four main operational priorities that are coupled with three guiding principles to implement the strategy. The operational priorities are:

- *Investments in IDA countries*, a key area of comparative advantage for MIGA.
- *Investments in conflict-affected countries*, an area of increased engagement for the agency over the past few years and where MIGA remains strongly relevant.
- *Investment in complex projects,* mostly in infrastructure and the extractive industries, often involving government intervention and resulting in a delicate balance of risk-sharing by stakeholders.
- *Support for investments between MIGA Category Two countries*[2] *(South-South investments)*, given the growing proportion of FDI coming from developing countries and the need to provide underserved corporations with political risk insurance.

MIGA's delivery of these operational priorities will be guided by the need to:

- *Support and complement World Bank Group* strategies articulated for specific countries, as well as its strategic themes.
- *Be responsive to clients and the market* through greater flexibility in service and product delivery across all markets.
- *Promote financial sustainability* which will require an efficient use of MIGA's capital and the maintenance of a balanced portfolio.

FUNDING SOURCES

Subscribed Capital

MIGA derives its financial strength primarily from the capital it receives from its shareholders and its retained earnings.

MIGA's Convention established MIGA's authorized capital stock (membership shares) at 100,000 shares—equivalent to $1,082 million—with a provision that the authorized capital stock shall automatically increase upon the admission of a new member to the extent that the total number of authorized shares are sufficient to allow subscription by the new member. As of June 30, 2009, the authorized shares increased to 106,291, equivalent to $1,150.1 million, subscribed by 174 member countries, which now include Iraq and Kosovo who completed their membership requirements this fiscal year. Of the membership shares subscribed, 20 percent or $230.0 million had been paid-in and the remaining 80 percent or $920.1 million was subject to call when needed by MIGA to meet its obligations. At June 30, 2009, $112.2 million was in the form of nonnegotiable, non-interest bearing demand obligations (promissory notes). The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. Since inception, MIGA has not encashed any of the promissory notes.

---

[2] *MIGA's distinction of developed and developing countries; see MIGA Member Countries list in the Appendices section of the Annual Report*

On March 29, 1999, MIGA's Council of Governors approved a General Capital Increase (GCI) of 78,559 shares, equivalent to $850 million. The subscription period ended on March 28, 2003. On March 17, 2003, the Council of Governors approved an amendment to the GCI resolution allowing eligible countries to reserve the GCI shares allocated to them by submitting an instrument of contribution before the end of the GCI subscription period, and requesting such countries to subscribe to their GCI shares as soon as possible. The reserved shares are issued and corresponding voting power accrues when the subscription process reaches completion, i.e. when the requisite payment has been received. No time limit has been set for the payment of the reserved shares. As of June 30, 2009, cumulative subscriptions to the GCI totaled 69,303 shares, equivalent to $749.8 million, and GCI shares reserved through instruments of contribution totaled 6,959 shares, equivalent to $75.3 million. Of the GCI shares subscribed, $132.3 million has been paid-in and $617.5 million is callable.

TABLE 3 Summary of General Capital Increase (as of June 30, 2009)

	Category One[1]		Category Two[1]		All Countries	
	Number	**$M**	**Number**	**$M**	**Number**	**$M**
Fully Subscribed	22	329.1	87	290.4	109	619.5
Partly Subscribed	1	130.3			1	130.3
Total Subscribed	**23**	**459.4**	**87**	**290.4**	**110**	**749.8**
Reserved through Instrument of Contribution		38.9	24	36.4	24	75.3
Total Subscribed and Reserved	**23**	**498.3**	**111**	**326.8**	**134**	**825.1**
Allocated	23	498.3	138	351.7	161	850.0
Subscribed (%)		92.2		82.6		88.2
Subscribed and Reserved (%)		100.0		92.9		97.1

[1] *MIGA's classification of developed and developing countries; see Schedule A of the Convention.*

As of June 30, 2009, MIGA's total subscribed capital amounted to $1,899.9 million, of which $362.3 million was paid-in and $1,537.6 million was callable. Since its inception, no call has been made on MIGA's callable capital. Any calls on unpaid subscriptions are uniform on all shares. If the amount received by MIGA on a call is insufficient to meet the obligations which necessitated the call, MIGA may make further calls until the amounts received are sufficient to meet such obligations. The liability of a member on a call or calls is limited to the unpaid balance of its capital subscription.

Equity

Total shareholders' equity as reported in MIGA's balance sheet as of June 30, 2009 was $900 million compared with $891 million as of June 30, 2008. This amount consists of subscribed capital, less uncalled portions of subscriptions, plus retained earnings and accumulated other comprehensive income (loss). The increase of $9 million in FY09 primarily reflects the increase in retained earnings of $31 million which was offset by the decrease in accumulated other comprehensive income (loss) of $26 million.

CAPITAL MANAGEMENT

Underwriting Capacity

MIGA's equity base ensures the financial sustainability of the agency, over both the short-term and long-term. The subscribed capital and retained earnings determine the agency's statutory underwriting capacity. The Council of Governors and the Board of Directors have set the maximum amount of contingent liability that may be assumed by MIGA as 350 percent of the sum of its unimpaired subscribed capital and reserves and retained earnings, 90 percent of reinsurance obtained by MIGA with private insurers, and 100 percent of reinsurance obtained with public insurers. In other words, the maximum amount of net guarantee exposure is determined by the amount of available capital, and is expressed on a gross exposure basis by adding the current amount of portfolio reinsurance. As of June 30, 2009, MIGA's underwriting capacity was $12,096 million, as follows:

Table 4 Current Underwriting Capacity ($M)	
Subscribed Capital	1,900
Retained Earnings	540
Accumulated Other Comprehensive Income	(4)
Insurance Portfolio Reserve (net)	145
Total	**2,581**
350% of Subscribed Capital, Retained Earnings, Other Comprehensive Income and Reserve	9,035
90% of Reinsurance Ceded with Private Insurers	2,434
100% of Reinsurance Ceded with Public Insurers	627
Statutory Underwriting Capacity June 30, 2009	**12,096**

As of June 30, 2009, MIGA's gross exposure was $7,297 million and represented 60.3 percent of MIGA's statutory underwriting capacity.

Capital Adequacy

Following the adoption of its formal Economic Capital-based capital adequacy framework in FY07, MIGA's measures of capital adequacy and risk-bearing capacity include economic capital consumed by the guarantee portfolio. Modeled economic capital (EC) is the portion of MIGA's capital that is placed at risk by the guarantee portfolio exposure. It provides an analytically rigorous measure for assessing the agency's consumption of risk capital, and incorporates the effects from portfolio diversification and concentration. As of June 30, 2009, the economic capital consumed by the guarantee portfolio amounted to $310 million, compared to $250 million as of June 30, 2008.

Through an annual exercise of gauging the capital adequacy position, the current amount of EC consumed by MIGA's activities is calculated to measure how much of available operating capital is currently utilized. In addition, as part of the capital adequacy framework, MIGA assesses how much EC is projected to be utilized in the future under various scenarios of growth and development of the guarantee portfolio. These are stressed scenarios, estimating the EC consumed under assumptions of continued growth to MIGA's portfolio over five years, in combination with increased concentration of exposures, country rating downgrades, and regional and global contagion effects.

Throughout the year, MIGA's management monitors the level and utilization of available operating capital. This includes paid-in-capital, retained earnings, and the insurance portfolio reserve, net of the corresponding reinsurance recoverable. MIGA management's objective is to have sufficient operating capital to sustain losses associated with claims and to support the ongoing business without facing a significant risk of having to avail itself of the callable capital. As a measure of the current utilization of this capital by the guarantee portfolio, Table 5 shows the ratio of EC to operating capital over the past three years. This ratio has increased to 29.7 percent in FY09 compared with 24.6 percent in FY08. Table 5 also shows the ratio of EC to portfolio net exposure, to gauge year-on-year changes to the relative risk-level of the portfolio. As of end-FY09, this ratio stood at 7.8, percent compared to 7.0 percent at end-FY08. Due to increasing portfolio concentration in a few countries and a substantial number of country rating downgrades, this ratio reflected the slight increase in the risk level of the guarantee portfolio, taking into account the increased size of the portfolio. Together, the two ratios indicate a strong and stable capital position at the end of FY09.

Table 5 Capital Adequacy Summary, FY07-09, ($M)			
	FY09	**FY08**	**FY07**
Guarantee Portfolio Economic Capital (EC)	**310**	**250**	**229**
Insurance Portfolio Reserve (net)	145	128	118
Retained Earnings and Accumulated Other Comprehensive Income	536	530	472
Paid-in Capital	**362**	**361**	**360**
Operating Capital	**1,044**	**1,019**	**950**
Net Exposure	**3,966**	**3,578**	**3,209**
EC / Operating Capital	**29.7%**	**24.6%**	**24.1%**
EC / Net Exposure	**7.8%**	**7.0%**	**7.1%**

Note: numbers may not add up due to rounding.

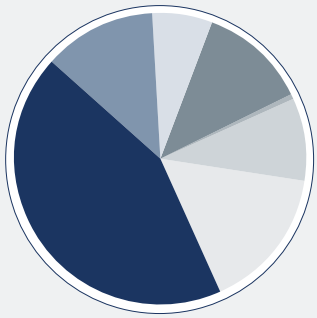
INVESTMENT MANAGEMENT

MIGA's investment policy sets the objectives and constraints that must be considered in managing MIGA's investment strategy in light of its contingent liabilities, which are the investment guarantees it issues. As claims arise, MIGA's invested assets will be liquidated to pay claims on a pre-recovery basis. As such, a certain portion of the portfolio is held in highly liquid assets with the amount determined by MIGA's EC model. The amount is equal to the capital loss expected to occur within one year with 1 percent probability, plus the amount of MIGA's specific reserve on a gross pre-recovery basis.

At present MIGA's investment portfolio is managed in two tranches subject to the constraints in the Investment Authorization approved by the Board of Directors in June 2004. Tranche 1 is managed with a risk tolerance of 1 percent probability of annual capital loss over a one-year horizon, reflecting the main objective of this tranche to meet near-term liquidity needs described above. Tranche 2 is managed with a 1 percent probability of annual capital loss over a three-year horizon, reflecting the objective of providing more long-term capital growth. Portfolio management activities, including trading, risk analytics and reporting, are provided by IBRD's Treasury Department under an Investment Management Agreement and the associated Investment Management Guidelines between MIGA and IBRD.

The composition of MIGA's investment portfolio is shown in Figure 1. At the end of FY09, the portfolio held cash, treasury securities, agency securities, mortgage-backed securities (MBS), asset-backed securities (ABS), sovereign and government guaranteed securities and derivatives. Also, the portfolio held cash and government securities denominated in currencies other than USD. The portfolio yield was 4.1 percent in FY09 versus 5.3 percent in FY08. And the market value of MIGA's asset portfolio was $951 million as of June 30, 2009, of which $800 million resided in USD investments.

Figure 1 Portfolio Composition of MIGA's Holdings, as of June 30, 2009[3]



CRITICAL ACCOUNTING POLICIES

The footnotes to MIGA's financial statements contain a detailed summary of MIGA's accounting policies. Described below are those significant policies where MIGA management is required to form estimates when preparing the agency's financial statements and accompanying notes to conform to both IFRS and US GAAP. Accounting estimates generally involve the establishment of parameters by management based on judgments about the probable outcome of future conditions, transactions, or events. Because these are projections, actual results may differ from those estimates in a variety of areas. The area which management deems most critical with respect to the application of estimates and assumptions is the establishment of its loss reserves.

Reserve for Claims

MIGA's provisioning methodology builds on portfolio risk quantification models which use both individually assessed loss probabilities for projects at risk and rating-based loss probabilities that are applied to the entire guarantee portfolio. Under this methodology, for the purpose of presentation in the financial statements, MIGA's reserve consists of two primary components, the Specific Reserve and the Insurance Portfolio Reserve.[4] These components are defined based on the degree of probability and the basis of estimation.

Reserves are shown on a gross basis on the liability side of the balance sheet, and reinsurance assets on the asset side. A detailed summary of MIGA's provisioning policy can be found in the Notes to Financial Statements – Note A.

---

3 *Derivatives asset holdings may include futures, options, covered forwards and swaps. At June 30, 2009 the market value of the overall swap position related to covered forward contracts is -$5.2 million USD or -0.5% of the investment portfolio.*

4 *The Insurance Portfolio Reserve is calculated as the 95th percentile loss less the mean loss from the Economic Capital Model.*

Claims Paid

In FY09, MIGA paid two claims in the Africa region. Both claims totaled $0.5 million, with losses to projects arising from war and civil disturbance. For further details, please refer to the Notes to Financial Statements – Note E.

Pension and Other Postretirement Benefits

Along with IBRD and IFC, MIGA participates in a number of pension and post-retirement benefit plans that cover almost all of their staff members. All costs, assets, and liabilities associated with these plans are allocated among IBRD, IFC, and MIGA based upon their employees' respective participation in the plans. The underlying actuarial assumptions, fair value of plan assets, and funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. For further details, please refer to the Notes to Financial Statements – Note F.

RESULTS OF OPERATIONS

Operating Income and Net Income

FY09 operating income was $50.6 million, a decrease of $4.4 million versus FY08 primarily due to lower investment income offset by an increase in net premium income. FY09 net income of $31.2 million decreased by $34.5 million mainly on account of currency translation losses. Table 6 below shows the breakdown of MIGA's operating income and net income.

Table 6 Analysis of Operating Income and Net Income, $M

	FY09	FY08	FY07
Total Guarantees Issued [1]	1,377	2,098	1,368
Gross Exposure	7,297	6,475	5,301
Net Exposure	3,966	3,578	3,209
Premium Income	64.1	54.4	49.0
Premium Ceded	(27.0)	(21.1)	(17.3)
Fees and Commissions	6.5	4.9	3.8
Net Premium Income	**43.6**	**38.2**	**35.5**
Income from Investments	36.9	45.3	42.8
Administrative and Other Expenses	(29.8)	(28.5)	(29.2)
Operating Income	**50.6**	**55.0**	**49.0**
Translation Gain (Loss)	(17.6)	19.7	8.8
Release of (Provision for) Claims	(1.9)	(9.0)	4.6
Net Income	**31.2**	**65.7**	**62.3**
Operating Capital	**1,044**	**1,019**	**950**
ROOC[2] (before provisions)	**3.2%**	**7.3%**	**6.1%**
ROOC (after provisions)	**3.0%**	**6.5%**	**6.6%**

Note: numbers may not add up due to rounding.

[1] *Including Cooperative Underwriting Program contracts.*

[2] *Return on Operating Capital*

FY09 versus FY08

MIGA issued $1.4 billion in guarantees during FY09, $721 million lower than in FY08. The lower volume of business issued was directly related to delays in concluding projects already in MIGA's business pipeline. Investors re-evaluated the viability of proceeding with their projects in light of challenging economic conditions. New issues when combined with lower policy cancellations resulted in growth of MIGA's guarantee portfolio and premium income. In FY09, gross exposure and gross premium income increased by $822 million and $9.7 million, respectively. Premium amounts ceded to

[3] *The Insurance Portfolio Reserve is calculated as the 95th percentile loss less the mean loss from the Economic Capital Model.*

reinsurers also increased to $5.9 million as a result of increased average ceded exposure. Fees and commissions increased in FY09 in line with the increase in premium income.

MIGA's investment portfolio generated $36.9 million of investment income in FY09, compared with $45.3 million in FY08. The yield was 4.1 percent in FY09, compared with 5.3 percent in FY08. Investment income was lower this fiscal year to due to a lower overall interest rate environment.

Administrative and other expenses slightly increased to $29.8 million in FY09, compared with $28.5 million in FY08. Net income in FY09 was $31.2 million compared with $65.7 million in FY08.

FY08 versus FY07

MIGA issued $2.1 billion in guarantees during FY08, $730 million higher than in FY07. Higher new business volumes coupled with a decline in cancellations, saw gross exposure and gross premium income increase by $1.2 billion and $5.4 million, respectively. Premium amounts ceded to reinsurers also increased by $3.8 million in FY08 as a result of increased volumes. Fees and commissions increased in FY08 in line with the increase in premium income.

During FY08, MIGA's investment portfolio generated $45.3 million of investment income, compared with $42.8 million in FY07. The yield was 5.3 percent in FY08, compared with 5.4 percent in FY07.

In FY08, administrative and other expenses decreased marginally to $28.5 million, compared with $29.2 million in FY07. Net income in FY08 was $65.7 million compared with $62.3 million in FY07.

CORPORATE GOVERNANCE

General Governance

Board Membership
In accordance with MIGA's Convention, members of MIGA's Board of Directors are appointed or elected by their member governments. Directors are neither officers, nor staff of MIGA. The President is the only management member of the Board of Directors, serving as a non-voting member (except when needed to cast a deciding vote in the case of an equal division) and as Chairman of the Board. The Directors have established several committees including:

- Committee on Development Effectiveness
- Audit Committee
- Budget Committee
- Personnel Committee
- Ethics Committee
- Committee on Governance and Administrative Matters

The Directors and their committees function in continuous session at the principal offices of MIGA, as business requires. Each committee's terms of reference establishes its respective roles and responsibilities. As committees do not vote on issues, their role is primarily to serve the full Board of Directors in discharging its responsibilities.

Audit Committee

Membership
The Audit Committee consists of eight members of the Board of Directors. Membership on the Committee is determined by the Board of Directors, based upon nominations by the Chairman of the Board, following informal consultation with the Directors. In addition, the composition of the Committee is expected to reflect the economic and geographic diversity of MIGA's member countries. Other relevant selection criteria include seniority, continuity, and relevant experience. Some or all of the responsibilities of individual Committee members are performed by their alternates or advisors. Generally, Committee members are appointed for a two-year term; reappointment to a second term, when possible, is desirable for continuity. Audit Committee meetings are generally open to any member of the Board who wishes to attend, and non-Committee members of the Board may participate in the discussion but cannot vote. In addition, the Chairman of the Audit Committee may speak in that capacity at meetings of the Board of Directors, with respect to discussions held in the Audit Committee.

Key Responsibilities
The Audit Committee has a mandate to assist the Board of Directors in overseeing MIGA's finances and accounting, including the effectiveness of financial policies, the integrity of financial statements, the system of internal controls regarding finance, accounting and ethics (including mechanisms for dealing with fraud and corruption), and financial and operational risks. The Audit Committee is also responsible for recommending to the Board of Directors the appointment of the external auditor, as well as monitoring the performance and independence of the external auditor. The Audit Committee oversees the internal audit function, including reviewing the responsibilities, staffing and effectiveness of internal audit. The Audit Committee likewise reviews the annual internal audit plan, and discusses periodically with management as well as the external and internal auditors financial issues and policies which have an impact on the institution's financial position and risk-bearing capacity. The Audit Committee monitors the evolution of developments in corporate governance and reports regularly to the Board of Directors on the execution of its duties and responsibilities.

Communications
The Audit Committee communicates regularly with the full Board of Directors through distribution of the following documents:

- The minutes of its meetings.
- Reports of the Audit Committee prepared by the Chairman, which document discussions held. These reports are distributed to the Directors, Alternates, World Bank Group Senior Management, and the Senior Management of MIGA.
- "Statement(s) of the Chairman" and statements issued by other members of the Audit Committee.
- The Annual Report to the Board of Directors, which provides an overview of the main issues addressed by the committee over the year.

The Audit Committee's communications with the external auditor are described in the Auditor Independence section.

Executive Sessions
Under the Audit Committee's terms of reference, members of the Audit Committee shall meet regularly, as circumstances dictate. The Audit Committee may request any member of MIGA staff or management to attend one of its meetings. Furthermore, the Audit Committee meets periodically in separate executive sessions with management, the Auditor General, and the External Auditor to discuss matters it believes should be discussed separately.

Access to Resources and to Management
Throughout the year, the Audit Committee receives a large volume of information, with respect to financial condition, financial statement presentations, risk assessment, and risk management, as well as governance and controls. The Audit Committee meets both formally and informally throughout the year to discuss financial and accounting matters. Directors have complete access to management. The Audit Committee reviews and discusses with management the quarterly and annual financial statements. The committee also reviews with the external auditor the financial statements prior to their publication and recommends these for approval to the Board of Directors.

The Audit Committee has the capacity, under exceptional circumstances, to obtain advice and assistance from outside legal, accounting, or other advisors as deemed appropriate.

Code of Ethics

MIGA strives to foster and maintain a positive work environment that supports the ethical behavior of its staff. To facilitate this effort, the World Bank Group has in place a Code of Professional Ethics—Living our Values. MIGA has adopted the code, which applies to all staff (including managers, consultants, and temporary employees) worldwide.

This code is available in nine languages on IBRD's website, www.worldbank.org. Staff relations, conflicts of interest, and operational issues, including the accuracy of books and records, are key elements of the code.

In addition to the code, an essential element of appropriate conduct is compliance with the obligations embodied in the Principles of Staff Employment, Staff Rules, and Administrative Rules, the violation of which may result in disciplinary actions. In accordance with the Staff Rules, senior managers must complete a confidential financial disclosure instrument with the Office of Ethics and Business Conduct.

Guidance for staff is also provided through programs, training materials, and other resources. Managers are responsible for ensuring that internal systems, policies, and procedures are consistently aligned with MIGA's ethical goals. In support of its efforts on ethics, MIGA offers a variety of methods for informing staff of these resources. Many of these efforts are headed by the following groups:

- The Office of Ethics and Business Conduct (EBC) provides leadership, management and oversight for MIGA's ethics infrastructure including the Ethics HelpLine, a consolidated conflicts of interest disclosure/resolu tion system, financial disclosure, ongoing training to both internal and external audi ences, and communication resources.
- The Integrity Vice Presidency (INT) is charged with investigating allegations of fraud and corruption in projects benefiting from World Bank Group funding or guarantees. The Department also investigates allegations of misconduct by MIGA staff and trains and educates staff and clients in detecting and reporting fraud and corruption in MIGA-guaranteed projects. The Department reports directly to the President and is composed of professionals from a range of disciplines including financial analysts, researchers, investigators, lawyers, prosecutors, forensic accountants, and staff with operational experience across the World Bank Group.

MIGA has in place procedures for the receipt, retention, and treatment of complaints received regarding accounting, internal control and auditing matters, including close collaboration with EBC and INT.

Auditor Independence

In February 2003, the Board of Directors adopted a set of principles applicable to the appointment of the external auditor for the World Bank Group. Key features of those principles include:

- Prohibition of the external auditor from the provision of all non audit-related services
- Certain extremely and strictly limited audit-related consulting services must be pre-approved on a case-by-case basis by the Board of Directors, upon recom mendation by the Audit Committee
- Mandatory rebidding of the external audit contract every five years
- Prohibition of any firm serving as external auditors for more than two consecutive five-year terms
- Mandatory rotation of the senior partner after five years
- An evaluation of the performance of the external auditor at the mid-point of the five year term

External auditors are appointed to a five-year term of service. This is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Executive Directors. Following a mandatory re-bidding of the external audit contract during FY 2008, IBRD's Executive Directors approved the appointment of KPMG as the WBG's auditors for a five-year term commencing FY 2009.

As standard practice, the external auditor is present as an observer at virtually all Audit Committee meetings and is frequently asked to present its perspective on issues. In addition, the Audit Committee meets periodically with the external auditor in private sessions without the presence of management. Communication between the external auditor and the Audit Committee is ongoing, as frequently as is deemed necessary by either party. MIGA's auditors follow the communication requirements with audit committees set out under US Generally Accepted Auditing Standards and International Standards on Auditing. In keeping with these standards, significant formal communications include:

- Quarterly and annual financial statement reporting
- Annual appointment of the external auditors
- Presentation of the external audit plan
- Presentation of control recommendations and discussion of the COSO attestation and report
- Presentation of a statement regarding independence

In addition to committee meetings, individual members of the Audit Committee have independent access to the external auditor.

World Bank Group
Multilateral Investment Guarantee Agency

Management's Report Regarding Effectiveness of Internal Controls Over External Financial Reporting

August 5, 2009

The management of the Multilateral Investment Guarantee Agency (MIGA) is responsible for the preparation, integrity, and fair presentation of its published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards and, as such, include amounts based on informed judgments and estimates made by management.

The financial statements have been audited by an independent audit firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. Management believes that all representations made to the independent auditors during their audit of MIGA's financial statements and attestation of its internal controls over financial reporting were valid and appropriate. The independent auditors' report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls over external financial reporting, which are subject to scrutiny by management and the internal auditors, and are revised as considered necessary, support the integrity and reliability of the external financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

MIGA assessed its internal control over external financial reporting for financial statement presentations in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards as of June 30,

1818 H Street, NW Washington, DC 20433 www.miga.org

2009. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that MIGA maintained effective internal control over external financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards, as of June 30, 2009. The independent audit firm that audited the financial statements has issued an attestation report on management's assessment of MIGA's internal control over external financial reporting.

The Board of Directors of MIGA has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of MIGA. The Audit Committee is comprised entirely of Directors who are independent of MIGA's management. The Audit Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities.

The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of MIGA in addition to reviewing MIGA's reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over external financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.

Robert B. Zoellick
President

Izumi Kobayashi
Executive Vice President

Kevin W. Lu
Director and Chief Financial Officer

1818 H Street, NW Washington, DC 20433 www.miga.org

REPORT OF INDEPENDENT AUDITORS ON MANAGEMENT ASSERTION REGARDING EFFECTIVENESS OF INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency

We have examined management's assertion, included in the accompanying *Report Regarding Effectiveness of Internal Controls Over External Financial Reporting*, that Multilateral Investment Guarantee Agency (MIGA) maintained effective internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). MIGA's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Report Regarding Effectiveness of Internal Controls Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards as issued by the International Accounting Standards Board. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that MIGA maintained effective internal control over financial reporting as of June 30, 2009 is fairly stated, in all material respects, based on *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the balance sheet, including the statement of subscriptions to capital stock and voting power and statement of guarantees outstanding as of June 30, 2009, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows, and our report dated August 5, 2009 expressed an unqualified opinion on those financial statements.

KPMG LLP

August 5, 2009

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

We have audited the accompanying balance sheet of the Multilateral Investment Guarantee Agency (MIGA) as of June 30, 2009, including the statement of subscriptions to capital stock and voting power and statement of guarantees outstanding as of June 30, 2009, and the related statements of income, comprehensive income, changes in shareholders equity, and cash flows for the fiscal year then ended (2009 financial statements). These financial statements are the responsibility of the MIGA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of MIGA as of June 30, 2008 and for the year then ended, were audited by other auditors whose report dated August 7, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of MIGA as of June 30, 2009, and the results of its operations and its cash flows for the fiscal year then ended in conformity with U.S. generally accepted accounting principles and International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that MIGA maintained effective internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 5, 2009 expressed an unqualified opinion.

KPMG LLP

August 5, 2009

BALANCE SHEET

June 30, 2009 and June 30, 2008, expressed in thousands of US dollars

	FY09	FY08
Assets		
CASH	$16,965	$6,301
INVESTMENTS—Note B	970,244	966,047
NONNEGOTIABLE, NONINTEREST-BEARING DEMAND OBLIGATIONS	112,242	113,203
OTHER ASSETS		
Receivable for investment securities sold	24,355	29,284
Estimated reinsurance recoverables	12,600	33,600
Prepaid premiums ceded to reinsurers	17,443	13,695
Net assets under retirement benefits plans—Note F	26,684	47,015
Miscellaneous	8,931	10,740
	90,013	134,334
TOTAL ASSETS	$1,189,464	$1,219,885
Liabilities and Shareholders' Equity		
LIABILITIES		
Payable for investment securities purchased	$56,524	$85,434
Accounts payable and accrued expenses	21,962	18,918
Unearned premiums and commitments fees	39,908	33,274
Reserve for claims—Note E		
Specific reserve for claims	24,500	55,200
Insurance portfolio reserve	146,900	135,800
Reserve for claims—gross	171,400	191,000
Total liabilities	289,794	328,626
CONTINGENT LIABILITIES—Note D		
SHAREHOLDERS' EQUITY		
Capital stock—Note C		
Authorized capital (184,850 shares- June 30, 2009; 184,404 shares-June 30, 2008)		
Subscribed capital (175,594 shares- June 30, 2009; 174,779 shares-June 30, 2008)	1,899,927	1,891,109
Less uncalled portion of subscriptions	1,537,563	1,530,415
	362,364	360,694
Payments on account of pending subscriptions	1,357	67
	363,721	360,761
Retained earnings	539,717	508,545
Accumulated other comprehensive income (loss)	(3,768)	21,953
Total shareholders' equity	899,670	891,259
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,189,464	$1,219,885

STATEMENT OF INCOME

For the fiscal years ended June 30, 2009 and June 30, 2008, expressed in thousands of US dollars

	FY09	FY08
INCOME		
Income from guarantees		
Premium income	$64,107	$54,371
Premium ceded	(27,011)	(21,062)
Fees and commissions	6,505	4,864
Total	43,601	38,173
Income from investments	36,869	45,335
Translation gains (losses)	(17,603)	19,697
TOTAL INCOME	62,867	103,205
EXPENSES		
Provision for claims—Note E	1,853	9,000
Administrative expenses—Note F and G	29,784	28,449
Other expenses	58	35
TOTAL EXPENSES	31,695	37,484
NET INCOME	$31,172	$65,721

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2009 and June 30, 2008, expressed in thousands of US dollars

	FY09	FY08
NET INCOME	$31,172	$65,721
OTHER COMPREHENSIVE LOSS		
Change in unrecognized net actuarial losses on benefit plans	(25,791)	(7,006)
Change in unrecognized prior service credits on benefit plans	70	116
Total other comprehensive loss	(25,721)	(6,890)
COMPREHENSIVE INCOME	$5,451	$58,831

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal years ended June 30, 2009 and June 30, 2008, expressed in thousands of US dollars

	FY09	FY08
CAPITAL STOCK		
Balance at beginning of the fiscal year	$360,761	$359,651
New subscriptions	1,670	1,110
Receipts on account of pending subscriptions	1,290	-
Ending Balance	363,721	360,761
RETAINED EARNINGS		
Balance at beginning of the fiscal year	508,545	442,824
Net income	31,172	65,721
Ending Balance	539,717	508,545
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance at beginning of the fiscal year	21,953	28,843
Other comprehensive loss	(25,721)	(6,890)
Ending Balance	(3,768)	21,953
TOTAL SHAREHOLDERS' EQUITY	$899,670	$891,259

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2009 and June 30, 2008, expressed in thousands of US dollars

	FY09	FY08
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$31,172	$65,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Net claims paid	(453)	-
Provision for claims	1,853	9,000
Translation losses (gains)	17,603	(19,697)
Net changes in:		
Investments - Trading	(43,853)	(32,646)
Other assets, excluding investment receivables	19,178	(4,145)
Accounts payable and accrued expenses	(23,557)	(7,002)
Unearned premiums and commitment fees	7,077	12,230
Net cash provided by operating activities	9,020	23,461
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in overdraft	-	(24,272)
Capital subscription receipts	2,477	550
Net cash provided by (used in) financing activities	2,477	(23,722)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(833)	457
Net increase in cash	10,664	196
Cash at beginning of the fiscal year	6,301	6,105
CASH AT END OF THE FISCAL YEAR	$16,965	$6,301

See accompanying notes to the financial statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

As of June 30, 2009, expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	**Shares**[1]	**Total Subscribed**	**Amount Paid-in**	**Amount Subject to Call**	**Number of Votes**	**% of Total**
Afghanistan	118	$1,277	$255	$1,022	371	0.17
Albania	102	1,104	210	894	355	0.16
Algeria	1,144	12,378	2,350	10,028	1,397	0.64
Angola	187	2,023	405	1,618	440	0.20
Antigua and Barbuda	50	541	108	433	303	0.14
Argentina	2,210	23,912	4,539	19,373	2,463	1.12
Armenia	80	866	173	693	333	0.15
Australia	3,019	32,666	6,201	26,465	3,272	1.48
Austria	1,366	14,780	2,806	11,974	1,619	0.73
Azerbaijan	115	1,244	249	995	368	0.17
Bahamas, The	176	1,904	362	1,542	429	0.20
Bahrain	136	1,472	279	1,193	389	0.18
Bangladesh	599	6,481	1,230	5,251	852	0.39
Barbados	120	1,298	246	1,052	373	0.17
Belarus	233	2,521	504	2,017	486	0.22
Belgium	3,577	38,703	7,347	31,356	3,830	1.73
Belize	88	952	181	771	341	0.16
Benin	108	1,169	222	947	361	0.16
Bolivia	220	2,380	452	1,928	473	0.22
Bosnia and Herzegovina	80	866	173	693	333	0.15
Botswana	88	952	181	771	341	0.16
Brazil	2,606	28,197	5,353	22,844	2,859	1.30
Bulgaria	643	6,957	1,321	5,636	896	0.41
Burkina Faso	61	660	132	528	314	0.14
Burundi	74	801	160	641	327	0.15
Cambodia	164	1,774	337	1,437	417	0.19
Cameroon	107	1,158	232	926	360	0.16
Canada	5,225	56,535	10,732	45,803	5,478	2.48
Cape Verde	50	541	108	433	303	0.14
Central African Republic	60	649	130	519	313	0.14
Chad	60	649	130	519	313	0.14
Chile	855	9,251	1,756	7,495	1,108	0.50
China	5,530	59,835	11,359	48,476	5,783	2.63
Colombia	770	8,331	1,582	6,749	1,023	0.47
Congo, Democratic Rep. of	596	6,449	1,224	5,225	849	0.39
Congo, Republic of	115	1,244	236	1,008	368	0.17
Costa Rica	206	2,229	423	1,806	459	0.21
Côte d'Ivoire	310	3,354	637	2,717	563	0.26
Croatia	330	3,571	678	2,893	583	0.27
Cyprus	183	1,980	376	1,604	436	0.20
Czech Republic	784	8,483	1,610	6,873	1,037	0.46
Denmark	1,265	13,687	2,598	11,089	1,518	0.69
Djibouti	50	541	108	433	303	0.14
Dominica	50	541	108	433	303	0.14
Dominican Republic	147	1,591	318	1,273	400	0.18
Ecuador	321	3,473	659	2,814	574	0.26
Egypt, Arab Republic of	809	8,753	1,662	7,091	1,062	0.48
El Salvador	122	1,320	264	1,056	375	0.17
Equatorial Guinea	50	541	108	433	303	0.14
Eritrea	50	541	108	433	303	0.14
Estonia	115	1,244	236	1,008	368	0.17
Ethiopia	123	1,331	253	1,078	376	0.17

See accompanying notes to the financial statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

As of June 30, 2009, expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	**Shares**[7]	**Total Subscribed**	**Amount Paid-in**	**Amount Subject to Call**	**Number of Votes**	**% of Total**
Fiji	71	768	154	614	324	0.15
Finland	1,057	11,437	2,171	9,266	1,310	0.60
France	8,565	92,673	17,593	75,080	8,818	4.02
Gabon	169	1,829	347	1,482	422	0.19
Gambia, The	50	541	108	433	303	0.14
Georgia	111	1,201	240	961	364	0.17
Germany	8,936	96,688	18,355	78,333	9,189	4.18
Ghana	432	4,674	887	3,787	685	0.31
Greece	493	5,334	1,013	4,321	746	0.34
Grenada	50	541	108	433	303	0.14
Guatemala	140	1,515	303	1,212	393	0.18
Guinea	91	985	197	788	344	0.16
Guinea-Bissau	50	541	108	433	303	0.14
Guyana	84	909	182	727	337	0.15
Haiti	75	812	162	650	328	0.15
Honduras	178	1,926	366	1,560	431	0.20
Hungary	994	10,755	2,042	8,713	1,247	0.57
Iceland	90	974	195	779	343	0.16
India	5,371	58,114	11,032	47,082	5,624	2.56
Indonesia	1,849	20,006	3,798	16,208	2,102	0.96
Iran, Islamic Republic of	1,659	17,950	3,590	14,360	1,912	0.87
Iraq	350	3,787	757	3,030	603	0.27
Ireland	650	7,033	1,335	5,698	903	0.41
Israel	835	9,035	1,715	7,320	1,088	0.50
Italy	4,970	53,775	10,208	43,567	5,223	2.38
Jamaica	319	3,452	655	2,797	572	0.26
Japan	8,979	97,153	18,443	78,710	9,232	4.20
Jordan	171	1,850	351	1,499	424	0.19
Kazakhstan	368	3,982	756	3,226	621	0.28
Kenya	303	3,278	622	2,656	556	0.25
Korea, Republic of	791	8,559	1,625	6,934	1,044	0.48
Kosovo	96	1,039	208	831	349	0.16
Kuwait	1,639	17,734	3,367	14,367	1,892	0.86
Kyrgyz Republic	77	833	167	666	330	0.15
Lao People's Democratic Rep.	60	649	130	519	313	0.14
Latvia	171	1,850	351	1,499	424	0.19
Lebanon	250	2,705	514	2,191	503	0.23
Lesotho	88	952	181	771	341	0.16
Liberia	84	909	182	727	337	0.15
Libya	549	5,940	1,188	4,752	802	0.37
Lithuania	187	2,023	384	1,639	440	0.20
Luxembourg	204	2,207	419	1,788	457	0.21
Macedonia, FYR of	88	952	181	771	341	0.16
Madagascar	176	1,904	362	1,542	429	0.20
Malawi	77	833	167	666	330	0.15
Malaysia	1,020	11,036	2,095	8,941	1,273	0.58
Maldives	50	541	108	433	303	0.14
Mali	143	1,547	294	1,253	396	0.18
Malta	132	1,428	271	1,157	385	0.18
Mauritania	111	1,201	228	973	364	0.17
Mauritius	153	1,655	314	1,341	406	0.18

See accompanying notes to the financial statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

As of June 30, 2009, expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	**Shares**[1]	**Total Subscribed**	**Amount Paid-in**	**Amount Subject to Call**	**Number of Votes**	**% of Total**
Micronesia, Fed. States of	50	541	108	433	303	0.14
Moldova	96	1,039	208	831	349	0.16
Mongolia	58	628	126	502	311	0.14
Montenegro	61	660	132	528	314	0.14
Morocco	613	6,633	1,259	5,374	866	0.39
Mozambique	171	1,850	351	1,499	424	0.19
Namibia	107	1,158	232	926	360	0.16
Nepal	122	1,320	251	1,069	375	0.17
Netherlands	3,822	41,354	7,850	33,504	4,075	1.86
New Zealand	513	5,551	1,110	4,441	766	0.35
Nicaragua	180	1,948	370	1,578	433	0.20
Nigeria	1,487	16,089	3,054	13,035	1,740	0.79
Norway	1,232	13,330	2,531	10,799	1,485	0.68
Oman	166	1,796	341	1,455	419	0.19
Pakistan	1,163	12,584	2,389	10,195	1,416	0.64
Palau	50	541	108	433	303	0.14
Panama	231	2,499	474	2,025	484	0.22
Papua New Guinea	96	1,039	208	831	349	0.16
Paraguay	141	1,526	290	1,236	394	0.18
Peru	657	7,109	1,350	5,759	910	0.41
Philippines	853	9,229	1,752	7,477	1,106	0.50
Poland	764	8,266	1,653	6,613	1,017	0.46
Portugal	673	7,282	1,382	5,900	926	0.42
Qatar	241	2,608	495	2,113	494	0.22
Romania	978	10,582	2,009	8,573	1,231	0.56
Russian Federation	5,528	59,813	11,355	48,458	5,781	2.63
Rwanda	132	1,428	271	1,157	385	0.18
St. Kitts and Nevis	50	541	108	433	303	0.14
St. Lucia	88	952	181	771	341	0.16
St. Vincent and the Grenadines	88	952	181	771	341	0.16
Samoa	50	541	108	433	303	0.14
Saudi Arabia	5,528	59,813	11,355	48,458	5,781	2.63
Senegal	256	2,770	526	2,244	509	0.23
Serbia	407	4,404	836	3,568	660	0.30
Seychelles	50	541	108	433	303	0.14
Sierra Leone	132	1,428	271	1,157	385	0.18
Singapore	272	2,943	559	2,384	525	0.24
Slovak Republic	391	4,231	803	3,428	644	0.29
Slovenia	180	1,948	370	1,578	433	0.20
Solomon Islands	50	541	108	433	303	0.14
South Africa	1,662	17,983	3,414	14,569	1,915	0.87
Spain	2,265	24,507	4,652	19,855	2,518	1.15
Sri Lanka	478	5,172	982	4,190	731	0.33
Sudan	206	2,229	446	1,783	459	0.21
Suriname	82	887	177	710	335	0.15
Swaziland	58	628	126	502	311	0.14
Sweden	1,849	20,006	3,798	16,208	2,102	0.96
Switzerland	2,643	28,597	5,429	23,168	2,896	1.32
Syrian Arab Republic	296	3,203	608	2,595	549	0.25
Tajikistan	130	1,407	267	1,140	383	0.17
Tanzania	248	2,683	509	2,174	501	0.23

See accompanying notes to the financial statements.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

As of June 30, 2009, expressed in thousands of US dollars

	Subscriptions—Note C				Voting power	
Members	**Shares**[1]	**Total Subscribed**	**Amount Paid-in**	**Amount Subject to Call**	**Number of Votes**	**% of Total**
Thailand	742	8,028	1,524	6,504	995	0.45
Timor-Leste	50	541	108	433	303	0.14
Togo	77	833	167	666	330	0.15
Trinidad and Tobago	358	3,874	735	3,139	611	0.28
Tunisia	275	2,976	565	2,411	528	0.24
Turkey	814	8,807	1,672	7,135	1,067	0.49
Turkmenistan	66	714	143	571	319	0.15
Uganda	233	2,521	479	2,042	486	0.22
Ukraine	1,346	14,564	2,765	11,799	1,599	0.73
United Arab Emirates	656	7,098	1,347	5,751	909	0.41
United Kingdom	8,565	92,673	17,593	75,080	8,818	4.02
United States	32,564	352,342	67,406	284,936	32,817	14.94
Uruguay	202	2,186	437	1,749	455	0.21
Uzbekistan	175	1,894	379	1,515	428	0.19
Vanuatu	50	541	108	433	303	0.14
Venezuela, R.B. de	1,427	15,440	3,088	12,352	1,680	0.76
Vietnam	388	4,198	797	3,401	641	0.29
Yemen, Republic of	155	1,677	335	1,342	408	0.19
Zambia	318	3,441	688	2,753	571	0.26
Zimbabwe	236	2,554	511	2,043	489	0.22
Total—June 30, 2009[2]	**175,594**	**$1,899,927**	**$362,364**	**$1,537,563**	**219,616**	**100.00**
Total—June 30, 2008	**174,779**	**$1,891,109**	**$360,694**	**$1,530,415**	**220,187**	**100.00**

Note: Amounts of $1,290,000 and $67,000 were received from Mexico and Niger, respectively. Mexico completed MIGA membership requirements on July 1, 2009 and was consequently declared a member of MIGA, while Niger is in the process of completing its membership requirements.

[1] *Subscribed shares pertaining to the General Capital Increase include only those shares for which the subscription process has been completed, i.e., for which required payment has been received.*

[2] *May differ from the sum of individual figures shown because of rounding*

See accompanying notes to the financial statements.

STATEMENT OF GUARANTEES OUTSTANDING

As of June 30, 2009, expressed in thousands of US dollars, unless otherwise noted

	Gross Exposure—Note D					
Host Country	**US Dollars**	**Euro**	**Japanese Yen**	**Total**	**Reinsurance—Note D**	**Net Exposure[3]**
Afghanistan	76,203	1,059		77,262	41,231	36,031
Albania	1,565			1,565		1,565
Algeria		3,645		3,645		3,645
Angola	14,700			14,700	1,470	13,230
Argentina	34,540			34,540	16,062	18,478
Bangladesh	78,265			78,265	7,826	70,438
Belarus	6,706			6,706	671	6,035
Benin	1,026	1,335		2,361	103	2,258
Bolivia	11,875			11,875	1,188	10,688
Bosnia and Herzegovina		155,790		155,790	31,121	124,669
Brazil	54,185	190,048		244,233	81,711	162,522
Bulgaria		139,615		139,615	69,808	69,808
Burkina Faso		1,764		1,764	176	1,588
Central African Republic		33,901		33,901		33,901
Chile	9,614			9,614		9,614
China	164,688	83,504		248,192	27,617	220,575
Congo, Democratic Republic of	29,470			29,470		29,470
Costa Rica	158,525			158,525	87,540	70,985
Côte d'Ivoire		10,051		10,051		10,051
Croatia		5,218		5,218	3,653	1,565
Djibouti	407,437			407,437	286,477	120,960
Dominican Republic	115,618			115,618	14,945	100,673
Ecuador	102,053			102,053	34,719	67,334
Ghana	131,282			131,282	16,513	114,769
Guatemala	100,379			100,379	49,849	50,530
Guinea	2,462	62,282		64,744	6,228	58,516
Guinea-Bissau		24,100		24,100	2,410	21,690
Indonesia	50,000			50,000		50,000
Iran, Islamic Republic of	122,686			122,686	12,269	110,417
Hungary		134,168		134,168		134,168
Jamaica	72,191			72,191	14,438	57,753
Jordan	4,095			4,095	410	3,686
Kazakhstan	224,715			224,715	141,949	82,767
Kenya	46,722			46,722	6,446	40,276
Kuwait	50,000			50,000		50,000
Kyrgyz Republic	6,676			6,676	579	6,097
Lao People's Democratic Rep.	88,825			88,825	44,413	44,413
Latvia	4,104	100,626		104,731	410	104,320
Madagascar	280	35,120		35,400	1,273	34,127
Mali	16,200			16,200	1,620	14,580
Mauritania	5,400			5,400	540	4,860
Moldova	61,092	13,417		74,509	30,546	43,963
Mozambique	192,216		4,180	196,396	57,755	138,641
Nepal	30,001			30,001	15,941	14,061
Nicaragua	91,732			91,732	45,866	45,866
Nigeria	115,959	2,554		118,513	14,803	103,710
Pakistan	11,468	69,933	417	81,818	12,668	69,149
Peru	7,349			7,349	1,470	5,879
Romania		118,643		118,643	57,424	61,219
Russian Federation	970,206	73,753		1,043,959	622,696	421,263
Rwanda	17,344			17,344		17,344

See accompanying notes to the financial statements.

STATEMENT OF GUARANTEES OUTSTANDING

As of June 30, 2009, expressed in thousands of US dollars, unless otherwise noted

	Gross Exposure—Note D					
Host Country	**US Dollars**	**Euro**	**Japanese Yen**	**Total**	**Reinsurance—Note D**	**Net Exposure[3]**
Senegal		9,787		9,787		9,787
Serbia		158,319		158,319	85,575	72,744
Sierra Leone	10,715			10,715	500	10,215
South Africa	12,620			12,620		12,620
Swaziland	25,016		4,180	29,196	14,598	14,598
Syrian Arab Republic	88,871			88,871	8,887	79,984
Thailand	83,825			83,825	41,913	41,913
Turkey	611,750			611,750	424,250	187,500
Turkmenistan	2,826			2,826		2,826
Uganda	157,570			157,570	77,597	79,973
Ukraine	1,012,864			1,012,864	674,976	337,887
Uruguay	301,200			301,200	192,025	109,175
Venezuela, R.B. de	15,840			15,840	4,752	11,088
Vietnam	99,280			99,280	62,855	36,425
	6,112,233	1,428,634	8,777	7,549,643	3,452,760	4,096,884
Adjustment for Dual-Country Contracts [1]						
Argentina/Chile	-9,614			-9,614		-9,614
Lao PDR/Thailand	-83,825			-83,825	-41,913	-41,913
Mozambique/Swaziland	-25,016		-4,180	-29,196	-14,598	-14,598
	-118,455		-4,180	-122,636	-56,511	-66,125
Adjustment for Master Agreement[2]						
	-129,895			-129,895	-64,948	-64,948
Total—June 30, 2009[3]	**5,863,882**	**1,428,634**	**4,597**	**7,297,113**	**3,331,301**	**3,965,811**
Total—June 30, 2008	**5,324,232**	**1,143,088**	**7,816**	**6,475,136**	**2,897,318**	**3,577,818**

[1] *For contracts where there are two host countries, MIGA is at risk for losses in both countries up to the maximum amount of liability under the contract. As such, the aggregate exposure is reported in both host countries and adjustment is made to correct for double-counting.*

[2] *Adjustment for master agreement accounts for MIGA's maximum exposure to loss with a single investor being less than the sum of the maximum aggregate liabilities under the individual contracts.*

[3] *May differ from the sum of individual figures shown because of rounding*

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

PURPOSE

The Multilateral Investment Guarantee Agency (MIGA), established on April 12, 1988 and located in Washington D.C., is a member of the World Bank Group which also includes the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the International Development Association (IDA). MIGA's activities are closely coordinated with and complement the overall development objectives of the other World Bank institutions. MIGA is designed to help developing countries attract productive foreign investment by both private investors and commercially operated public sector companies. Its facilities include guarantees or insurance against noncommercial risks and a program of advisory services and technical assistance to support member countries' efforts to attract and retain foreign direct investment.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

Basis of Preparation

MIGA's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with accounting principles generally accepted in the United States of America (U.S. GAAP). The policy adopted is that considered most appropriate to the circumstances of MIGA having regard to its legal requirements and to the practices of other international insurance entities. On August 5, 2009, MIGA's Board of Directors approved the financial statements for issue.

Accounting and Reporting Developments

The IASB issued IFRS 4, *Insurance Contracts* in March 2004 to achieve convergence of widely varying insurance industry accounting practices around the world. IASB has divided the insurance project into two phases. In line with the requirements of Phase 1, MIGA included additional disclosures beginning the quarter ended September 30, 2005 that identify and explain the amounts in the financial statements arising from insurance contracts. The IASB exposure draft on Phase 2 of the project is expected to come into effect in 2011. This will address issues relating to insurance accounting.

In March 2008, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standard No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161). FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to better understand their effects on an entity's financial position, financial performance, and cash flows. FAS 161 was adopted by MIGA during the quarter ended March 31, 2009.

In May 2008, the FASB issued the Statement of Financial Accounting Standards No. 163, *Accounting for Financial Guarantee Insurance Contracts, an Interpretation of FASB Statement No. 60* (FAS 163). For certain financial insurance guarantee contracts, this statement addresses premium revenue recognition, claim liability recognition and disclosures related to each. Except for certain disclosures that are applicable for quarter ending September 30, 2008 onwards, this statement is effective for fiscal years beginning after December 15, 2008. FAS 163 will not impact MIGA's financial statements.

In April 2009, the FASB issued FSP FAS 115-2, *Recognition and Presentation of Other Than Temporary Impairments* (FSP FAS 115-2). FSP FAS 115-2 requires a company to recognize the credit component of an other-than-temporary impairment of a debt security classified as available–for-sale or held-to-maturity in income and the non-credit component in accumulated other comprehensive income when the company does not intend to sell the security and it is more likely than not the company will not be required to sell the security prior to recovery. FSP FAS 115-2 also changes the threshold for determining when an other-than-temporary impairment has occurred with respect to intent and ability to hold until recovery and requires additional disclosures. FSP FAS 115-2 will not impact MIGA's financial statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides guidance for estimating fair value in accordance with FAS No. 157, *Fair Value Measurement* (FAS 157), when the volume and level of activity for an asset or liability have significantly decreased and for identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 will not have a material impact on MIGA's financial statements.

In June 2009, the FASB issued the Statement of Financial Accounting Standard No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140.* The FASB's objective is to address (1) practices that have developed since the issuance of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, that are not consistent with the original intent and key requirements of that statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This statement must be applied to transfers occurring on or after the effective date. FAS 166 will not impact MIGA's financial statements.

In June 2009, the FASB issued the Statement of Financial Accounting Standard No. 167, *Amendments to FASB Interpretation No. 46(R)*. The FASB's objective is to improve financial reporting by enterprises involved with variable interest entities. The Board undertook this project to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, as a result of the elimination of the qualifying special-purpose entity concept in FASB Statement No. 166, *Accounting for Transfers of Financial Assets*, and (2) constituent

See accompanying notes to the financial statements.

concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. FAS 167 will not impact MIGA's financial statements.

Differences between US GAAP and IFRS

On September 29, 2006, the FASB issued the Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires employers to recognize on their balance sheets the funded status of their defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. Gains or losses and prior service costs or credits that arise during the period are recognized as part of Other Comprehensive Income, to the extent they are not recognized as components of the net periodic benefit cost. Additionally, upon adoption, FAS 158 requires unrecognized net actuarial gains or losses and unrecognized prior service costs to be recognized in the ending balance of Accumulated Other Comprehensive Income. These amounts will be adjusted as they are subsequently recognized as components of net periodic benefit cost, based upon the current amortization and recognition requirements of Statement of Financial Accounting Standard No. 87, *Employers' Accounting for Pensions* (FAS 87) and Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106). FAS 158 was adopted by MIGA effective June 30, 2007.

MIGA's accounting policy under International Accounting Standards (IAS) 19, *Employee Benefits* is to recognize all actuarial gains and losses in the period in which they occur—but outside profit or loss—"in a statement of changes in shareholder's equity." This is a permitted alternative available under IAS 19 and MIGA considers that this will allow it to show the over/under funded position on the balance sheet thereby making its financial statements more relevant and complete. SFAS 158 requires prospective application of the standard, while the change in approach under IAS 19 requires retrospective application. In addition, SFAS 158 and IAS 19 differ in the treatment of amortization of unrecognized actuarial gains or losses. SFAS 158 requires the unrecognized actuarial gains or losses to be amortized to the Statement of Income, and IAS 19 requires the unrecognized actuarial gains or losses to remain in Accumulated Other Comprehensive Income. MIGA does not believe the differences are material.

Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards and accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Significant judgments have been made in areas which management views as most critical with respect to the establishment of its loss reserves, the determination of net periodic income from pension and other post retirement benefits plans, and the present value of benefit obligations.

The significant accounting policies employed by MIGA are summarized below.

Cash
Cash includes cash and cash equivalents which consist primarily of highly liquid investments with insignificant interest rate risk and remaining maturities of three months or less at the date of purchase.

Investments
MIGA manages its investment portfolio both for the purpose of providing liquidity for potential claims and for capital growth. MIGA invests in time deposits, mortgage/asset-backed securities and government and agency obligations based on its investment policy approved by the Board. Government and agency obligations include highly rated fixed rate bonds, notes, bills and other obligations issued or unconditionally guaranteed by governments of countries or other official entities including government agencies or by multilateral organizations. MIGA makes limited use of derivatives contracts such as exchange traded futures, options and covered forward contracts to manage its investment portfolio. The purposes of these transactions are to enhance the return and manage the overall duration of the portfolio. With respect to futures and options, MIGA generally closes out most open positions prior to expiration. Futures are settled on a daily basis.

MIGA has classified all investment securities as trading. Investments classified as trading securities are reported at fair value using trade-date accounting. Securities purchased or sold may have a settlement date that is different from the trade-date. Securities purchased that could not be settled before the reporting dates are recorded as liability. Similarly, securities sold that could not be settled before the reporting dates are recorded under Other Assets.

For trading securities, unrealized net gains and losses are recognized in earnings. Income from investments includes net gains and losses and interest income.

Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital
Payments on these instruments are due to MIGA upon demand and are held in bank accounts which bear MIGA's name. Accordingly, these instruments are carried and reported at face value as assets on the balance sheet.

Impairment of Reinsurance Assets
MIGA assesses at each balance sheet date whether there is objective evidence that the reinsurance asset is impaired, and makes a provision for such impairment. Objective evidence may be in the form of observable data that comes to MIGA's attention periodically. If an impairment is determined, the carrying amount of the reinsurance asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Statement of Income.

Reserve for Claims
MIGA's reserve consists of two primary components, the Specific Reserve and the Insurance Portfolio Reserve. These components are comprehensive and mutually exclusive with respect to risk of losses that may develop from each guarantee contract, and from the contingent liability for the portfolio as a whole.

The Specific Reserve is calculated based on contract-specific parameters that are reviewed every quarter by MIGA Management for contracts that have known difficulties. The Insurance Portfolio Reserve is calculated based on the long-term historical experiences of the political risk industry.

Assumptions and parameters used in the calculations are intended to serve as the basis for an objective reserve for probable claims. Key assumptions, including frequency of claim, severity, and expected recovery have been quantitatively derived from the political risk insurance industry's historical claims data. The principal sources of data used as inputs for the assumptions include the Berne Union and the Overseas Private Investment Corporation (OPIC). The historical analysis of the data from those sources is further augmented by an internal econometric scoring analysis in order to derive risk-differentiated parameters with term structure effects over time. The historical and econometric analyses cover periods that are over 30 years, and the derived parameters are considered stable in the short term; however the analyses are reviewed every three years. Short-term risk changes are captured by changes in internal risk ratings for countries and contracts on a quarterly basis. For the purpose of claims provisioning, MIGA discounts its reserves based on the 10-year U.S. Treasury rate.

For the purpose of the presentation of the financial statements, insurance liabilities (or reserves) are presented on a gross basis and not net of reinsurance. Therefore, MIGA's reserve is shown on a gross basis on the liability side of the balance sheet, while establishing reinsurance assets on the asset side. Reinsurance does not relieve MIGA of its primary liability to the insured.

Currency Translation
Assets and liabilities denominated in foreign currencies are translated at market exchange rates in effect at the end of the period. Income and expenses are translated at either the market exchange rates in effect on the dates on which they are recognized or at an average of the market exchange rates in effect during each month. Translation adjustments are reflected in the Statement of Income.

Valuation of Capital Stock
Under the MIGA Convention, all payments from members subscribing to the capital stock of MIGA shall be settled on the basis of the average value of the Special Drawing Rights (SDR) introduced by the International Monetary Fund, as valued in terms of United States dollars for the period January 1, 1981 to June 30, 1985, such value being equal to $1.082 for one SDR.

Revenue Recognition
Premium amounts received on direct insurance contracts and reinsurance contracts assumed can be annual, semi-annual or quarterly and are recorded as unearned premium. Premiums are recognized as earned on a pro rata basis over the contract period. A receivable for premium is recorded when the contract has been renewed and coverage amounts have been identified.

MIGA cedes reinsurance in the normal course of business by obtaining treaty and facultative reinsurance to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio. Premiums ceded (net of commission) follow the same approach as for direct insurance contracts and are recognized as expenses on a pro rata basis over the contract period.

Fees and commissions income for MIGA primarily consists of administrative fees, arrangement fees, annual fees, renewal fees, commitment (offer) fees, and ceding commissions.

NOTE B—INVESTMENTS

MIGA classifies all investment securities as trading. Investments classified as trading securities are reported at fair value with unrealized gains or losses included in earnings. The unrealized net gains included in Income from investments for the fiscal year ended June 30, 2009 and June 30, 2008 are $6,240,000 and $394,000 respectively.

Income from derivatives instruments amounted to $2,831,000 for the fiscal year ended June 30, 2009. Income from derivative instruments mainly relate to interest rate futures, options and covered forwards and are recorded under Income from investments in the Statement of Income.

Fair Value Measurements (FAS 157)
FAS 157 defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and expands disclosure requirements about fair value measurements.

MIGA has an established process for determining fair values. Fair value is based upon quoted market prices, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models. These models primarily use market-based or independently sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. To ensure that the valuations are appropriate where internally-developed models are used, MIGA has various controls in place, which include both internal and periodic external verification and review.

Fair Value Hierarchy
FAS 157 establishes a three-level fair value hierarchy under which financial instruments are categorized based on the priority of the inputs to the

valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable and unobservable. Additionally, FAS 157 requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets and liabilities at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1: Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents MIGA's summary of the trading portfolio and the fair value hierarchy:

	Fair Value	
In thousands of US Dollars	**June 30, 2009**	**June 30, 2008**
Government Obligations	$305,149	$82,701
Time Deposits	411,908	624,964
Asset Backed Securities	253,187	258,382
	$970,244	**$966,047**
Level 1 Assets	$104,100	$146,345
Level 2 Assets	865,023	819,702
Level 3 Assets	1,121	–
	$970,244	**$966,047**

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2009 and June 30, 2008 (in thousands of US Dollars):

	Fair Value	
	2009	**2008**
Investments—trading	$970,244	$966,047
Cash held in investment portfolio[1]	10,370	123
Receivable from investment securities sold	24,355	29,284
Accrued Interest[2]	2,484	4,470
Payable for investment securities purchased	(56,524)	(85,434)
Net Investment Portfolio	**$950,929**	**$914,490**

[1] *This amount is included under Cash in the Balance Sheet*
[2] *This amount is included under Miscellaneous assets in the Balance Sheet*

Investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 15.88 percent (16.94 percentJune 30, 2008) of the portfolio.

The maximum credit exposure of investments closely approximates the fair values of the financial instruments.

Asset-backed securities (ABS) are diversified among credit cards, student loans, home equity loans, and mortgage backed securities. Since these holdings are primarily investment grade, neither concentration risk nor credit risk represents a significant risk to MIGA as of June 30, 2009. However, market deterioration could cause this to change in future periods.

NOTE C—CAPITAL STOCK

The MIGA Convention established MIGA's authorized capital stock at 100,000 shares with a provision that the authorized capital stock shall automatically increase on the admission of a new member to the extent that the then authorized shares are insufficient to provide the shares to be subscribed by such member. At June 30, 2009, the initial authorized capital stock increased to 184,850 (184,404 – June 30, 2008) shares. The Convention further states that 10 percent of the members' initial subscription be paid in cash, in freely convertible currencies, except that developing member countries may pay up to a quarter of the 10 percent in their own currencies. An additional 10 percent of the initial subscription shall be paid in the form of non negotiable, non interest bearing promissory notes. The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. The remaining 80 percent is subject to call when required by MIGA to meet its obligations.

On March 29, 1999, the Council of Governors approved a General Capital Increase (GCI) resolution increasing the authorized capital stock of MIGA by 78,559 shares to be subscribed by members during the subscription period ending March 28, 2002. Of the additional capital, 17.65 percent is to be paid in cash, in freely usable currency. The remaining 82.35 percent is subject to call when required by MIGA to meet its obligations. On May 6, 2002, the Council of Governors adopted a resolution to extend the GCI subscription period to March 28, 2003. On March 17, 2003, the Council of Governors approved an amendment to the GCI resolution allowing eligible countries to subscribe to the GCI shares allocated to them by submitting an Instrument of Contribution before the GCI deadline of March 28, 2003, and requesting such countries to pay for their GCI shares as soon as possible. The reserved shares will be issued and corresponding voting power will accrue when the subscription process has been completed.

During the fiscal year ended June 30, 2009, 815 shares were subscribed by member countries. At June 30, 2009, MIGA's authorized capital stock comprised 184,850 shares of which 175,594 (174,779 – June 30, 2008) shares had been subscribed. Each share has a par value of SDR10,000, valued at the rate of $1.082 per SDR. Of the subscribed capital, $362,364,000 ($360,694,000 – June 30, 2008) has been paid in; and the remaining $1,537,563,000 ($1,530,415,000—June 30, 2008) is subject to call. At June 30, 2009, $112,242,000 is in the form of nonnegotiable, non interest bearing demand obligations (promissory notes). A summary of MIGA's capital stock at June 30, 2009 and June 30, 2008 is as follows:

	Initial Capital		Capital Increase		Total	
	Shares	(US$000)	Shares	(US$000)	Shares	(US$000)
As of June 30, 2009						
Authorized	106,291	$1,150,069	78,559	$850,008	184,850	$2,000,077
Subscribed	106,291	$1,150,069	69,303	$749,858	175,594	$1,899,927
At June 30, 2008						
Authorized	105,845	$1,145,243	78,559	$850,008	184,404	$1,995,251
Subscribed	105,845	$1,145,243	68,934	$745,866	174,779	$1,891,109

NOTE D—GUARANTEES

Guarantee Program

MIGA offers guarantees or insurance against loss caused by non-commercial risks (political risk insurance) to eligible investors on qualified investments in developing member countries. MIGA insures investments for up to 20 years against four different categories of risk: currency inconvertibility and transfer restriction, expropriation, war and civil disturbance, and breach of contract. Currency inconvertibility and transfer restriction coverage protects the investor against inconvertibility of local currency into foreign exchange for transfer outside the host country. Currency depreciation is not covered. Expropriation coverage protects the investor against partial or total loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment. War and civil disturbance coverage protects the investor against losses from damage to, or the destruction or disappearance of, tangible covered assets, as well as a total loss due to business interruption extending for a period of at least 180 days, caused by politically motivated acts of war or civil disturbance in the host country including revolution, insurrection, coup d'etat, sabotage and terrorism. Breach of contract coverage protects the investor against the inability to enforce an award arising out of an arbitral or judicial decision recognizing the breach of a covered obligation by the host government. Investors may insure projects by purchasing any combination of the four coverages. MIGA guarantees cannot be terminated unilaterally by the guarantee holder within the first three years from the date of issuance without payment of a termination fee except as provided in the contract. MIGA cannot terminate the contract unless the guarantee holder defaults on its contractual obligations to MIGA.

Premium rates applicable are set forth in the contracts. Payments against all claims under a guarantee may not exceed the maximum amount of coverage issued under the guarantee. Under breach of contract coverage, payments against claims may not exceed the lesser of the amount of guarantee and the arbitration award.

MIGA also acts as administrator of some investment guarantee trust funds. MIGA, on behalf of the trust funds, issues guarantees against loss caused by non-commercial risks to eligible investors on qualified investments in the countries specified in the trust fund agreements. Under the trust fund agreements, MIGA, as administrator of the trust funds, is not liable on its own account for payment of any claims under contracts of guarantees issued by MIGA on behalf of such trust funds which at June 30, 2009 amounts to $2,714,000 ($3,517,000 – June 30, 2008).

Contingent Liability

The maximum amount of contingent liability of MIGA under guarantees issued and outstanding at June 30, 2009 totaled $7,297,113,000 ($6,475,136,000 – June 30, 2008). A contract of guarantee issued by MIGA may permit the guarantee holder, at the start of each contract period, to elect coverage and place amounts both on current and standby. MIGA is currently at risk for amounts placed on current. The maximum amount of contingent liability is MIGA's maximum exposure to insurance claims, which includes "standby" coverage for which MIGA is committed but not currently at risk. At June 30, 2009, MIGA's actual exposure to insurance claims, exclusive of standby coverage is $6,477,848,000 ($5,159,055,000 – June 30, 2008).

Reinsurance

MIGA obtains treaty and facultative reinsurance (both public and private) to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio, and not for speculative reasons. All reinsurance contracts are ceded on a proportionate basis. However, MIGA is exposed to reinsurance non-performance risk in the event that reinsurers fail to pay their proportionate share of the loss in case of a claim. MIGA manages this risk by requiring that private sector reinsurers be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that such ratings be above a minimum threshold. In addition, MIGA may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments and with multilateral agencies that represent an acceptable counterparty risk. MIGA has established limits, at both the project and portfolio levels, which restrict the amount of reinsurance that may be ceded. The project limit states that MIGA may cede no more than 90 percent of any individual project. The portfolio limit states that MIGA may not reinsure more than 50 percent of its aggregate gross exposure.

Of the $7,297,113,000 outstanding contingent liability (gross exposure) as at June 30, 2009 ($6,475,136,000 – June 30, 2008), $3,331,302,000 was ceded through contracts of reinsurance ($2,897,318,000 – June 30, 2008). Net exposure amounted to $3,965,811,000 as at June 30, 2009 ($3,577,818,000 – June 30, 2008).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2009, total insurance assumed by MIGA, primarily with official investment insurers, amounted to $120,000,000 ($0 – June 30, 2008).

Premiums relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2009 and June 30, 2008 were as follows:

In thousands of US dollars		
	2009	**2008**
Premiums Written		
Direct	$69,750	$65,995
Assumed	272	-
Ceded	(30,759)	(26,640)
Premiums Earned		
Direct	64,083	54,260
Assumed	24	111
Ceded	(27,011)	(21,062)

Portfolio Risk Management

Controlled acceptance of political risk in developing countries is MIGA's core business. The underwriting of such risk requires a comprehensive risk management framework to analyze, measure, mitigate and control risk exposures.

Claims risk, the largest risk for MIGA, is the risk of incurring a financial loss as a result of a claimable political risk event in developing countries. Political risk assessment forms an integral part of MIGA's underwriting process and includes the analysis of both country-related and project-related risks.

Country risk assessment is a combination of quantitative and qualitative analysis. Ratings are assigned individually to each risk for which MIGA provides insurance coverage in a country. Country ratings are reviewed and updated every quarter. Country risk assessment forms the basis of the underwriting of insurance contracts, setting of premium levels, and provisioning for claims.

Project-specific risk assessment is performed by a cross-functional team. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings of a specific coverage. The decision to issue an insurance contract is subject to approval by MIGA's Senior Management and concurrence by the Board of Directors. In order to avoid excessive risk concentration, MIGA sets exposure limits per country and per project. The maximum net exposure which may be assumed by MIGA is $600 million in each host country and $180 million for each project.

As approved by the Board of Directors and the Council of Governors, the maximum aggregate amount of contingent liabilities that may be assumed by MIGA is 350 percent of the sum of MIGA's unimpaired subscribed capital and its retained earnings, and insurance portfolio reserve plus such portion of the insurance ceded by MIGA through contracts of reinsurance as the Board of Directors may determine. Accordingly, at June 30, 2009, the maximum level of guarantees outstanding (including reinsurance) may not exceed $12,096,000,000.

Portfolio Diversification

MIGA aims to diversify its guarantee portfolio so as to limit the concentration of exposure to loss in a host country, region, or sector. The portfolio shares of the top five and top ten largest exposure countries provide an indicator of concentration risk. The gross and net exposures of the top five and top ten countries at June 30, 2009 and June 30, 2008 are as follows:

In thousands of US dollars	June 30, 2009		June 30, 2008	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	**$3,377,210**	**$4,449,272**	**$2,883,310**	**$3,906,457**
% of Total Gross Exposure	46.3	61.0	44.5	60.3
Net Exposure	**$1,329,748**	**$1,962,955**	**$1,131,058**	**$1,757,518**
% of Total Net Exposure	33.5	49.5	31.6	49.1

A regionally diversified portfolio is desirable for MIGA as an insurer, because correlations of claims occurrences are typically higher within a region than between regions. When a correlation is higher, the probability of simultaneous occurrences of claims will be higher.

The regional distribution of MIGA's portfolio at June 30, 2009 and June 30, 2008 is as follows:

In thousands of US dollars	June 30, 2009			June 30, 2008		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Africa	$939,039	$751,606	19.0	$1,015,491	$798,182	22.3
Asia	753,643	541,091	13.6	688,516	470,012	13.1
Europe and Central Asia	3,802,055	1,658,398	41.8	2,898,430	1,254,045	35.1
Latin America and Caribbean	1,255,536	710,971	17.9	1,320,969	747,393	20.9
Middle East and North Africa	676,735	368,692	9.3	681,625	373,134	10.4
Adjustment for Master Agreement *	(129,895)	(64,948)	(1.6)	(129,895)	(64,948)	(1.8)
	$7,297,113	**$3,965,811**	**100.0**	**$6,475,136**	**$3,577,818**	**100.0**

[1] *Adjustment for master agreement accounts for MIGA's maximum exposure to loss with a single investor being less than the sum of the maximum aggregate liabilities under the individual contracts.*

The sectoral distribution of MIGA's portfolio at June 30, 2009 and June 30, 2008 is shown in the following table:

In thousands of US dollars	June 30, 2009			June 30, 2008		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Infrastructure	$2,545,648	$1,518,096	38.3	$2,648,422	$1,543,358	43.1
Financial	3,419,203	1,572,355	39.7	2,411,171	1,117,441	31.2
Tourism, Construction and Services	205,897	186,956	4.7	239,206	213,137	6.0
Manufacturing	507,547	296,014	7.5	495,385	282,560	7.9
Oil and Gas	300,946	243,363	6.1	329,519	256,910	7.2
Mining	241,570	80,675	2.0	269,069	90,885	2.5
Agribusiness	76,302	68,352	1.7	82,364	73,527	2.1
	$7,297,113	**$3,965,811**	**100.0**	**$6,475,136**	**$3,577,818**	**100.0**

NOTE E—CLAIMS

Reserve for Claims

MIGA's gross reserve for claims at June 30, 2009 amounted to $171,400,000 ($191,000,000-June 30, 2008) and estimated reinsurance recoverables amounted to $12,600,000 ($33,600,000-June 30, 2008).

An analysis of the changes to the gross reserve for claims for the fiscal year ended June 30, 2009 and for the fiscal year ended June 30, 2008 appears below.

In thousands of US dollars	June 30, 2009	June 30, 2008
Gross reserve balance	$191,000	$184,200
Less: Estimated reinsurance recoverables	33,600	35,800
Net reserve balance, beginning of the period	**157,400**	**148,400**
Provision for claims—net of reinsurance	1,853	9,000
Claims paid—net	(453)	-
Net reserve balance	**158,800**	**157,400**
Add: Estimated reinsurance recoverables	12,600	33,600
Gross reserve balance, end of the period	**$171,400**	**$191,000**

The charge of $1,853,000 for provision for claims, net of reinsurance for the fiscal year ended June 30, 2009 ($9,000,000- fiscal year ended June 30, 2008) has primarily resulted from an increase in the level of guarantee exposure and ratings downgrades for a number of countries which were partially offset by reduced estimated claims probability for one contract.

Specific Reserve for Claims

The specific reserve for claims is composed of reserves for pending claims and reserves for contracts where a claimable event, or events that may give rise to a claimable event, may have occurred, but in relation to which no claim has been filed, but where a loss is probable. The parameters used in calculating the specific reserves, i.e. claims probability, severity and expected recovery, are assessed for each contract placed in the specific reserves on a quarterly basis. At June 30, 2009, the specific reserves amounted to $24,500,000 ($55,200,000 – June 30, 2008).

The following table shows how the estimates of the specific reserves for each reporting period have developed over the past eight years:

In thousands of US dollars									
Reporting Period	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**	**Total**
Estimate of Cumulative Claims:									
At end of reporting period	121,800	9,900	37,800	27,610	1,062		2,800		
One year later	68,600	4,600	23,550	40,380					
Two years later	3,000	4,530	8,343	45,900					
Three years later	5,650	3,279	6,800	45,600					
Four years later	5,775	700	1,300						
Five years later	5,700	700							
Six years later	5,500								
Estimate of cumulative claims at June 30, 2009	**7,200**	**700**	**1,200**	**15,100**			**1,491**	**13**	**25,704**
Cumulative payments		(700)					(491)	(13)	(1,204)
Specific reserves at June 30, 2009	**7,200**		**1,200**	**15,100**			**1,000**	**–**	**24,500**

Pending Claims

On October 6, 2004, MIGA received claims for expropriation of projects in Kyrgyz Republic. The maximum aggregate liability under the contracts is $0.9 million. A Settlement Agreement has been negotiated, but is not yet effective. Negotiations between the Guarantee Holders and the Government of Kyrgyz Republic are on-going. MIGA is maintaining the provision for this matter until the agreement is implemented. MIGA's ultimate liability for this claim has not yet been determined as the claim has not been settled.

Claims Paid

For the year ended June 30, 2009, MIGA paid two claims. MIGA paid $491,000 for a war and civil disturbance claim received on January 24, 2008 for losses related to a project in Kenya. MIGA paid $13,000 for a war and civil disturbance claim received on March 25, 2009 for losses related to a project in Madagascar. Reinsurance recovered on the claims paid amounted to $51,000.

NOTE F—PENSION AND OTHER POST RETIREMENT BENEFITS

MIGA, IBRD and IFC participate in a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members.

The SRP provides regular pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

MIGA uses June 30 measurement date for its pension and other postretirement benefit plans. The amounts presented below reflect MIGA's respective share of the costs, assets, and liabilities of the plans.

All costs, assets and liabilities associated with these pension plans are allocated between MIGA, IBRD, and IFC based upon their employees' respective participation in the plans. In addition, MIGA and IFC reimburse IBRD for their proportionate share of any contributions made to these plans by IBRD. Contributions to these plans are calculated as a percentage of salary.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for MIGA for the fiscal years ended June 30, 2009 and June 30, 2008:

In thousands of US dollars	SRP		RSBP		PEBP	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Benefit Cost						
Service cost	$2,646	$2,777	$521	$464	$245	$210
Interest cost	5,577	4,879	770	644	182	144
Expected return on plan assets	(10,095)	(9,962)	(935)	(878)		
Amortization of prior service cost	90	85	85	85	6	5
Amortization of unrecognized net loss (gain)			39	(3)	110	39
Net periodic pension cost (income)	**$(1,782)**	**$(2,221)**	**$480**	**$312**	**$543**	**$398**

The expenses for the SRP, RSBP and PEBP are included in Administrative Expenses.

The following table summarizes the projected benefit obligations, fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for MIGA for the fiscal years ended June 30, 2009 and June 30, 2008. The assets for the PEBP are included in IBRD's investment portfolio.

In thousands of US dollars	SRP		RSBP		PEBP	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Projected Benefit Obligation						
Beginning of year	84,414	79,632	11,516	10,397	2,795	2,352
Service cost	2,646	2,777	521	464	245	210
Interest cost	5,577	4,879	770	644	182	144
Participant contributions	824	740	98	89	(8)	8
Retiree drug subsidy received	n.a	n.a	13	13	n.a	n.a
Plan amendment	99	52			12	7
Benefits paid	(3,669)	(3,392)	(312)	(265)	(161)	(213)
Actuarial (gain) loss	(10,390)	(274)	(1,665)	174	2,005	287
End of year	**79,501**	**84,414**	**10,941**	**11,516**	**5,070**	**2,795**

In thousands of US dollars	SRP		RSBP		PEBP	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Fair value of plan assets						
Beginning of year	131,429	129,147	11,119	10,500		
Participant contributions	824	740	98	89		
Actual return on assets	(22,990)	3,798	(1,970)	187		
Employer contributions	591	1,136	632	608		
Benefits paid	(3,669)	(3,392)	(312)	(265)		
End of year	**106,185**	**131,429**	**9,567**	**11,119**		
Funded status[1]	**26,684**	**47,015**	**(1,374)**	**(397)**	**(5,070)**	**(2,795)**
Accumulated Benefit Obligation	**64,295**	**68,149**	**10,941**	**11,516**	**4,540**	**2,462**

[1] Net amount recognized is reported as Assets under retirement benefits plans under Other Assets or Liabilities under accounts payable and accrued expenses under Total Liabilities on the Balance Sheet.

The $26,684,000 relating to SRP at June 30, 2009 ($47,015,000 – June 30, 2008) is included in Net assets under retirement benefits plans on the balance sheet.

The following tables present the amounts included in Accumulated Other Comprehensive Income relating to FAS158 application:

In thousands of US dollars				
	SRP	**RSBP**	**PEBP**	**Total**
Amounts included in Accumulated Other Comprehensive Income in fiscal year ended June 30, 2009				
Net actuarial loss	1,815	1,914	2,876	6,605
Prior service cost	462	97	39	598
Net amount recognized in Accumulated Other Comprehensive Loss	**2,277**	**2,011**	**2,915**	**7,203**
Amounts included in Accumulated Other Comprehensive Income in fiscal year ended June 30, 2008				
Net actuarial (gain) loss	(20,880)	713	981	(19,186)
Prior service cost	453	182	33	668
Net amount recognized in Accumulated Other Comprehensive (Income)/Loss	**(20,427)**	**895**	**1,014**	**(18,518)**

The estimated amounts that will be amortized from Accumulated Other Comprehensive Income into net periodic benefit cost in the fiscal year ending June 30, 2010 are as follows:

	SRP	**RSBP**	**PEBP**	**Total**
Net actuarial loss	562	114	180	856
Prior service cost	99	85	8	192
Amount to be amortized into net periodic benefit cost	**661**	**199**	**188**	**1,048**

Assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations.

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end AAA and AA corporate bonds.

Actuarial gains and losses occur when actual results are different from expected results. Amortization of these unrecognized gains and losses will be included in income if, at the beginning of the fiscal year, they exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If required, the unrecognized gains and losses are amortized over the expected average remaining service lives of the employee group.

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2009 and June 30, 2008:

In percent	SRP		RSBP		PEBP	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Weighted average assumptions used to determine projected benefit obligation						
Discount rate	7.00	6.75	7.00	6.75	7.00	6.75
Rate of compensation increase	6.70	7.00			6.70	7.00
Health care growth rates-at end of fiscal year			7.00	7.25		
Ultimate health care growth rate			4.75	5.50		
Year in which ultimate rate is reached			2017	2016		
Weighted average assumptions used to determine net periodic pension cost						
Discount rate	6.75	6.25	6.75	6.25	6.75	6.25
Expected return on plan assets	7.75	7.75	8.25	8.25		
Rate of compensation increase	7.00	6.50			7.00	6.50
Health care growth rates - at end of fiscal year			7.25	6.80		
Ultimate health care growth rate			5.50	4.75		
Year in which ultimate rate is reached			2016	2012		

The medical cost trend rate can significantly affect the reported postretirement benefit income or costs and benefit obligations for the RSBP. The following table shows the effects of a one-percentage-point change in the assumed healthcare cost trend rate:

	One percentage point increase	**One percentage point decrease**
Effect on total service and interest cost	400	(200)
Effect on postretirement benefit obligation	2,000	(1,600)

Investment Strategy

The investment policy for the SRP and the RSBP is to optimize the risk-return relationship as appropriate to the respective plan's needs and goals, using a global diversified portfolio of various asset classes. Specifically, the long-term asset allocation is based on an analysis that incorporates expected returns by asset class as well as volatilities and correlations across asset classes and the liability profile of the respective plans, especially in the case of SRP. This analysis also provides estimates of potential future contributions and future asset and liability balances. In February 2009, the Pension Finance Committee approved an interim strategic asset allocation (reflected in the table below) for the RSBP based on the asset allocation as of December 2008, pending resumption of work on a detailed strategic asset allocation review after market conditions stabilize in the wake of the recent crisis. Plan assets are managed by external investment managers and monitored by IBRD's pension investment department. The pension plan assets are invested in diversified portfolios of public equity, fixed income, and alternative investments.

The following table presents the asset allocation as of June 30, 2009 and June 30, 2008 and the respective target allocation by asset category for the SRP and RSRP:

In percent	SRP			RSBP		
	Target Allocation (%)	% of Plan Assets		Target Allocation (%)	% of Plan Assets	
	2009	2009	2008	2009	2009	2008
Asset Class						
Fixed Income	26	37	33	32	34	30
Public Equity	14	16	23	24	23	27
Alternative Investments	60	47	44	44	43	43
Total	100	100	100	100	100	100
Alternative Investments include:						
Private Equity	15%	17.3%	14.8%	22%	23%	20%
Real Estate	12.5	7.5	7.3	6	6	6.1
Hedge Funds and Active Overlay	25	18.4	18.5	16.5	14	16.9
Timber	2.5	0.4	0.2	n.a.	n.a.	n.a.
Infrastructure	2.5	0.7	0.5	n.a.	n.a.	n.a.
Commodities	2.5	2.7	2.6	n.a.	n.a.	n.a.

Estimated Future Benefits Payments

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at June 30, 2009.

In thousands of US dollars	SRP	RSBP		PEBP
		Before Medicare Part D Subsidy	Medicare Part D Subsidy	
July 1, 2009—June 30, 2010	$3,820	$235	$5	$339
July 1, 2010—June 30, 2011	4,120	269	6	354
July 1, 2011—June 30, 2012	4,397	306	7	367
July 1, 2012—June 30, 2013	4,707	347	8	390
July 1, 2013—June 30, 2014	5,021	389	8	426
July 1, 2014—June 30, 2019	28,287	2,605	55	2,514

Expected Contributions

MIGA's contribution to the SRP and RSBP varies from year to year, as determined by the Pension Finance Committee, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the SRP and RSBP. The best estimate of the amount of contributions expected to be paid to the SRP and RSBP for MIGA during the fiscal year beginning July 1, 2009 is $1,716,000 and $628,000, respectively.

NOTE G—RECEIVABLES AND PAYABLES FROM AFFILIATED ORGANIZATIONS

At June 30, 2009 and June 30, 2008, MIGA had the following receivables from (payables to) its affiliated organizations with regard to administrative services and pension and other postretirement benefits.

In thousands of US dollars	June 30, 2009			June 30, 2008		
	Administrative Services	**Pension and Other Postretirement Benefits**	**Total**	**Administrative Services**	**Pension and Other Postretirement Benefits**	**Total**
IBRD	$(2,914)	$30,318	$27,404	$(2,217)	$27,337	$25,120
IFC	(78)	–	(78)	(2,236)	–	(2,236)
Total	**$(2,992)**	**$30,318**	**$27,326**	**$(4,453)**	**$27,337**	**$22,884**

NOTE H—FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. MIGA uses observable market data, when available, and minimizes the use of unobservable inputs when determining fair value. The fair values of MIGA's cash and non-negotiable, non interest-bearing demand obligations approximate their carrying values. The fair values of government obligations are based on quoted market prices and the fair values of asset backed securities are based on pricing models for which market observable inputs are used. The degree to which management judgment is involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. Substantially all of MIGA's financial instruments use either of the foregoing methodologies to determine fair values that are recorded on its financial statements.

NOTE I—RISK MANAGEMENT

The responsibility for approving MIGA's risk management policies lies with the Board of Directors. The Audit Committee of the Board deals with risk management issues.

While the Executive Vice President assumes the responsibility for overall risk management with the support of the senior management team, the responsibility for the design and operational implementation of the risk management framework lies with the Finance and Risk Management Group with coordination from the Legal Affairs and Claims Group, the Operations Group and the Economics and Policy Group.

Risk Categories

MIGA is exposed to a variety of risks and uses risk management programs such as an Economic Capital Framework, and reinsurance arrangements to manage its risk. Below is a description of risk management systems of the important risks for MIGA.

Insurance Risk Political risk assessment forms an integral part of MIGA's underwriting process, and includes the analysis of both country-related and project-related risks. Insurance risk arises from MIGA's core business of issuing investment guarantees. MIGA's earnings depend upon the extent to which claims experience is consistent with assumptions used in setting prices for products and establishing technical provisions and liabilities for claims. If actual claims experience of the Agency is less favorable than underlying assumptions, then income would be reduced. MIGA monitors claim activities and provisions for pending claims.

In order to prevent excessive risk concentration, MIGA sets exposure limits per country and per project. MIGA uses an Economic Capital model to evaluate concentration risk in MIGA's guarantee portfolio and to support decision making in pricing new large projects, or new projects in countries with large exposure. Its reinsurance program, including treaty and facultative reinsurance, helps manage the risk profile of the portfolio.

Credit Risk Counter-party credit risk in MIGA's portfolio is the risk that reinsurers would fail to pay their share of a claim. MIGA requires that private sector reinsurers, with which it conducts business, be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that the ratings be above a minimum threshold. Also, MIGA has established limits at both the project and portfolio levels, which restrict the amount of reinsurance.

At present MIGA's investment portfolio does not have any significant credit risk exposure. MIGA currently invests in fixed income securities with high credit quality. The Investment Authorization stipulates that government or agency sponsored debt securities be AA-rated or above, time deposits be A-rated or above, and corporate debt securities be AAA-rated.

Interest Rate Risk Interest rate changes affect the market values of MIGA's invested assets. A need to liquidate assets to pay for claims in an unfavorable interest rate environment may generate trading losses and reduce investment income. Changes in interest rates will also affect prepayment speeds of mortgage and asset backed security holdings, which may affect the duration of the asset portfolio. A 100 basis point parallel shift in the yield curve could impact the net income in FY09 by approximately $7.5 million (FY08: $9.6 million). This interest rate sensitivity is illustrative only and is based on simplified scenarios. The impact of a parallel shift in interest rates is determined using market value weighted portfolio duration applied to invested asset balance at year end.

Foreign Exchange Rate Risk The majority of MIGA's assets and contingent liabilities are denominated in USD, but some guarantee contracts are issued in other currencies such as EUR. To the extent that a claim is made in a non-USD currency and requires payment in excess of MIGA's holdings of that currency, MIGA may face a foreign exchange related loss in converting to the needed currency to pay for a claim. A 10 percent change in the USD/Euro year end exchange rate could impact the net income in FY09 by approximately $12.2 million (FY08: $12.3 million) and net guarantee exposure by approximately $105.8 million (FY08: $74.0 million). This foreign exchange rate sensitivity is illustrative only and is based on simplified scenarios.

Operational Risk Operational risk is intrinsic to financial institutions and is an important component of the agency-wide risk management framework. The most important types of operational risk involve breakdowns in internal controls and corporate governance.

MIGA attempts to mitigate operational risks by maintaining a sound internal control system. Since 2000, MIGA has adopted Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s integrated internal control framework, in line with IBRD/IDA and IFC, to regularly evaluate the effectiveness of internal control system. In addition, MIGA has introduced an operational risk management system to strengthen monitoring of the operational risks and controls in the financial reporting process, and the effectiveness of key controls in the financial reporting process are assessed through the internal quality assurance review process. In FY08, MIGA conducted COSO Risk & Opportunity workshops and actions are being taken to address the recommendations.

MIGA's internal controls are regularly evaluated through independent review by the Internal Audit Department (IAD) of the World Bank Group. Most recently, MIGA's Entity Level Controls were reviewed by IAD. MIGA Management has been following up on the recommendations for further improvement of internal controls in these areas.

With regard to information technology, all MIGA Information Systems and applications are hosted on the IBRD technology infrastructure that is configured and adherent to the information security policy and procedures of the World Bank Group. In addition, increased collaboration with the World Bank Group has allowed MIGA to gain access to a larger pool of specialized skill sets to support its information systems. MIGA's client relationship management system (MIGA CRM) is fully integrated with the Agency's core financial system (Guarantee Database). Its content is reviewed and verified against an external Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) database service. In addition, MIGA is currently undergoing a redesign of its core information system for managing and reporting data for activities supporting the guarantee process and its migration to a more robust SAP-based platform. The replacement system will allow for a more efficient and reliable database functionality to manage all key guarantee data, and enable the entire underwriting process to be done online. This is intended to be more efficient and to enhance the quality and the ability to share information internally and externally with the World Bank Group.

For business continuity, MIGA's corporate web services have now been added to MIGA's information systems already hosted at the World Bank Group's Business Continuity Center. In addition, MIGA departments have further documented their business processes required to support the Agency's effort to re-establish basic operations following a crisis. For data security, more robust reporting functions and security monitoring have been implemented to further enhance MIGA's information security

Legal Risk Legal risks arise primarily from changes in the legal parameters of MIGA's member countries as a result of legislation or court decisions that may affect MIGA's activities. There are also legal risks associated with MIGA being involved in legal disputes and arbitration proceedings, especially in the context of claim resolution or settlement.

MIGA manages these risks by monitoring current and prospective future developments by way of ongoing discussions with member countries' representatives on the Board of Directors and Council of Governors. MIGA also shares information and analyses with other members of the World Bank Group, the IMF and the United Nations. In addition, MIGA actively participates as a member of the Berne Union in discussions and analyses of the changes in the operating investment environment in its member countries.

Economic Capital and Portfolio Risk Modeling

For portfolio risk management purposes, MIGA currently utilizes an Economic Capital Model, based on the latent factor model of the Merton framework in credit risk modeling. The Economic Capital (EC) concept is a widely recognized risk management tool in the banking and insurance industries, defining the amount of capital an organization needs to hold in order to sustain larger than expected losses with a high degree of certainty, over a defined time horizon and given the risk exposure and defined risk tolerance. MIGA defines its economic capital as the 99.99th percentile of the aggregate loss distribution over a one year horizon, minus the mean of the loss distribution, which is in line with industry practice.

The model helps evaluate concentration risk in the guarantee portfolio and facilitates active, risk-based exposure management by allocating the Economic Capital to particular regions, countries, sectors, covers, or individual contracts, based on their respective risk contribution.

MIGA employs the EC model to manage its insurance portfolio risks as the cornerstone of its capital adequacy framework. In addition, it provides the analytical basis for risk-based pricing of its products as well as quantification of the need for prudent technical provisions for claims and liquidity holdings. An extensive review of MIGA's EC and pricing models was completed in the first quarter of FY08, with the objective to validate critical parameters and to fully integrate the two models. This helps ensure consistency between pricing, portfolio exposure management, and provisioning. Moreover, beginning in FY08, EC-based risk measures are combined with exposure and income information for a comprehensive portfolio overview report prepared for MIGA management on a monthly basis.