Management's Discussion and Analysis (FY11)

Financial Statements

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Overview

Established in 1988, the Multilateral Investment Guarantee Agency (MIGA or "the Agency") is a member of the World Bank Group. The World 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 175 countries, 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 people's 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 (PRI). In addition, as part of its mandate, the Agency carries out complementary activities such as providing dispute resolution, technical assistance, and research 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 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.

This year, MIGA's Council of Governors approved amendments to MIGA's Convention. These amendments have expanded MIGA's eligibility criteria, allowing the Agency to support a broader range of developmentally beneficial investments.

In August 2010, MIGA launched a hub in Asia and started operations in Hong Kong SAR, China and Singapore. The hub is geared toward providing better and more efficient access for MIGA's clients and other stakeholders in Asia. The regionally based team has developed a strong pipeline of viable business leads and underwriting has commenced on several projects.

Since its inception, MIGA has issued $24.5 billion of guarantees (including amounts issued under the Cooperative Underwriting Program), in support of 651 projects in 104 member countries. The Agency has also supported numerous 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 strong 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) as well as International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 research and knowledge services.

Political Risk Insurance

MIGA provides investment guarantees against certain non-commercial and sovereign risks 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, 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 more than one year). 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

	FY11	FY10	FY09	FY08	FY07
Cumulative Guarantees Issued ($B)*	24.5	22.4	20.9	19.5	17.4
Host Countries	104	100	99	99	96

* *Includes amounts from Cooperative Underwriting Program.*

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

The total gross and net exposures at June 30, 2011 amounted to $9.1 billion and $5.2 billion compared to $7.7 billion and $4.3 billion respectively at the end of FY10. During FY11, MIGA supported 27 projects in the priority areas identified in the Agency's business strategy. This includes guarantees issued for $421 million in support of 21 projects in IDA-eligible countries. In terms of exposure, IDA-eligible countries accounted for 27 percent of the total net portfolio as of June 30, 2011.

Table 2 details the regional distribution of MIGA's gross and net guarantee exposures over the past three years. The percentage of net exposure in the Europe and Central Asia region increased by 7.3 percent in FY11, as a result of supporting financial, infrastructure, and services sector clients in the region.

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

	Gross			Net			% of Total Net Exposure		
	FY11	FY10	FY09	FY11	FY10	FY09	FY11	FY10	FY09
Africa	**1,102**	1,103	939	**886**	888	752	**16.9**	20.7	19.0
Asia	**1,296**	706	754	**759**	505	541	**14.5**	11.7	13.6
Europe and Central Asia	**5,432**	4,419	3,802	**2,844**	2,021	1,658	**54.3**	47.0	41.8
Latin America and the Caribbean	**1,006**	1,130	1,256	**569**	638	711	**10.8**	14.9	17.9
Middle East and North Africa	**416**	494	677	**246**	310	369	**4.7**	7.2	9.3
Adjustment for Dual Country and Master Agreements[1]	**-130**	-130	-130	**-65**	-65	-65	**-1.2**	-1.5	-1.6
Total	**9,122**	**7,723**	**7,297**	**5,239**	**4,296**	**3,966**	**100.0**	**100.0**	**100.0**

Note: numbers may not add up due to rounding.

[1] *Master agreements are guarantee contracts that cover projects in more than two host countries, up to a single maximum exposure amount. The adjustment compensates for counting the same exposure more than once.*

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. 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.

BOX 1

Risks Covered by MIGA Guarantees

MIGA provides PRI 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.

Technical Assistance (TA)
MIGA supports the multi-donor Investment Climate Advisory Services of the World Bank Group, which helps governments design and implement reforms to improve their business environment and attract domestic and foreign investment. Investment Climate Advisory Services remains focused on IDA and conflict-affected countries.

MIGA's financial contribution has supported projects that reduce policy impediments and provide support to governments in attracting new investors as well as retaining and expanding existing investments.

Research and Knowledge Services
MIGA carries out research and disseminates information to promote investment in its developing member countries. This year MIGA's flagship report *World Investment and Political Risk* looked at general trends in the global economy and FDI, corporate perceptions of political risk and risk-mitigation strategies, as well as the latest developments in the PRI industry's public and private investment insurance providers. This year's report also focused on political risk perceptions and management in conflict-affected and fragile economies.

Effective June 30, 2011, MIGA warehoused its online service "FDI.net" and redeployed its resources to research on political risk issues. In addition to producing *World Investment and Political Risk*, MIGA will continue to maintain and update the PRI Center (www.pri-center.com).

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 FY11, MIGA engaged with investors or governments in relation to projects located in Argentina, Guinea, Guinea-Bissau, Senegal, and Sierra Leone.

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.

Outlook and Challenges

Market Trends
FY11 was characterized by gradual economic recovery led by the developing world. As credit constraints eased and FDI flows to developing countries began to recover, the demand for PRI products increased. In addition, events in the Middle East and North Africa contributed to a resurging awareness of political risk. MIGA's guarantee holders continue to show a certain level of caution and risk aversion by maintaining their political risk coverage for existing projects at longer periods than in the years prior to the global financial crisis.

Operational Priorities
This year MIGA's Board of Directors, endorsed an updated Operational Directions paper, *FY12-14 Strategy: Achieving Value-Driven Volume*. This strategy reaffirmed MIGA's commitments to the operational priorities that have guided the Agency since FY05:

- *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.
- *Investments 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*[1] *(South-South investments)*, given the growing proportion of FDI coming from developing countries and the need to provide underserved corporations with PRI.

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, 2011, the initial authorized shares are 107,483, equivalent to $1,163.0 million, and authorized capital increase shares are 78,559, equivalent to $850 million. The total authorized shares are 186,042,

[1] *MIGA's categorization for developing countries; see MIGA Member Countries list in the Appendices section of the Annual Report*

equivalent to $2,013 million subscribed by 175 member countries. Of the initial membership shares subscribed, 20 percent or $232.6 million had been paid-in and the remaining 80 percent or $930.4 million was subject to call when needed by MIGA to meet its obligations. At June 30, 2011, $115.1 million is in the form of non-negotiable, 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.

As of June 30, 2011, cumulative subscriptions to the General Capital Increase (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.

As of June 30, 2011, MIGA's total subscribed capital amounted to $1,912.8 million, of which $364.9 million was paid-in and $1,547.9 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, 2011 was $924 million compared with $875 million as of June 30, 2010. This amount consists of subscribed capital, less uncalled portions of subscriptions, plus retained earnings and accumulated other comprehensive income (loss). The increase of $49 million in FY11 primarily reflects increased retained earnings of $43 million and the decrease in accumulated other comprehensive loss of $6 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, 2011, MIGA's underwriting capacity was $12,817 million, as follows:

Table 3
Current Underwriting Capacity ($M) – June 30, 2011

Subscribed Capital	1,913
Retained Earnings	566
Accumulated Other Comprehensive Income	(7)
Insurance Portfolio Reserve (net)	175
Total	**2,647**
350% of Subscribed Capital, Retained Earnings, Other Comprehensive Income and Reserve	9,265
90% of Reinsurance Ceded with Private Insurers	2,977
100% of Reinsurance Ceded with Public Insurers	575
Statutory Underwriting Capacity - June 30, 2011	**12,817**

As of June 30, 2011, MIGA's gross exposure was $9,121.7 million and represented 71.2 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, 2011, the economic capital consumed by the guarantee portfolio amounted to $374 million, compared to $323 million as of June 30, 2010.

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 potentially utilized in the future under various scenarios of growth and development of the guarantee portfolio. These are stress-test 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 4 shows the ratio of EC to operating capital over the past three years. This ratio has increased to 34.0 percent in FY11 compared with 31.3 percent in FY10. Table 4 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-FY11, this ratio stood at 7.1, percent compared to 7.5 percent at end-FY10. Together, the two ratios indicate a strong and stable capital position at the end of FY11.

Table 4
Capital Adequacy Summary (FY09-11, $M)

	FY11	FY10	FY09
Guarantee Portfolio Economic Capital (EC)	**374**	**323**	**310**
Insurance Portfolio Reserve (net)	175	157	145
Retained Earnings and Accumulated Other Comprehensive Income	559	510	536
Paid-in Capital	365	365	362
Operating Capital	**1,099**	**1,033**	**1,044**
Net Exposure	**5,239**	**4,296**	**3,966**
EC / Operating Capital	**34.0%**	**31.3%**	**29.7%**
EC / Net Exposure	**7.1%**	**7.5%**	**7.8%**

Note: numbers may not add up due to rounding

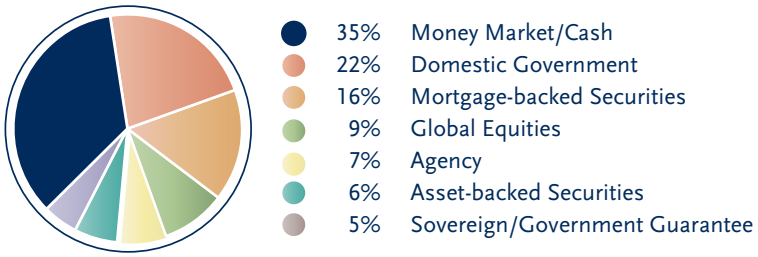
Investment Management

MIGA's investment policy sets the objectives and constraints for managing MIGA's investment account assets, in consideration of the guarantees it issues. As claims arise, MIGA's invested assets will be liquidated to pay claims on a pre-recovery basis.

The portfolio consists of two tranches. Tranche 1 is managed with a target duration between 2 to 3 years to support potential claims, and consists of investments in cash, treasury securities, agency securities, mortgage-backed securities (MBS), asset-backed securities (ABS), and sovereign securities. Tranche 2 supports long-term capital growth, by investing in long-term fixed income assets and passively managed broad-based global equity indexes. Portfolio management activities for MIGA's fixed income assets, as well as trading, risk analytics and reporting, are provided by IBRD's Treasury Department.

At the end of FY11, the portfolio held cash, treasury securities, agency securities, MBS, ABS, sovereign and government guaranteed securities, global equities, and derivatives. Also, the portfolio held cash and government securities denominated in currencies other than USD. The portfolio yield was 1.4 percent in FY11 versus 2.5 percent in FY10. The market value of MIGA's asset portfolio was $1,036 million as of June 30, 2011, of which $950 million resided in US dollar-denominated investments.

Figure 1
Portfolio Composition of MIGA's Total Holdings as of June 30, 2011



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 US GAAP and IFRS. 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 that 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[1]. 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.

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

FY11 operating income was $23.6 million, a decrease of $10.3 million versus FY10 primarily due to lower investment income and higher administrative expenses offset by an increase in net premium income. FY11 net income of $43.1 million, an increase of $59.6 million compared to the loss of $16.5 million in FY10, is mainly on account of the release of provisions for claims. Table 5 below shows the breakdown of MIGA's operating income and net income.

Table 5
Analysis of Operating Income and Net Income ($M)

	FY11	FY10	FY09
Total Guarantees Issued[1]	2,099	1,464	1,377
Gross Exposure	9,122	7,723	7,297
Net Exposure	5,239	4,296	3,966
Premium Income	75.2	71.8	64.1
Premium Ceded	(30.6)	(30.6)	(27.0)
Fees and Commissions	6.3	4.8	6.5
Net Premium Income	**50.8**	**46.0**	**43.6**
Income from Investments	13.9	24.1	36.9
Administrative and Other Expenses	(41.1)	(36.2)	(29.8)
Operating Income	**23.6**	**33.9**	**50.6**
Translation Gain (Loss)	17.8	(19.5)	(17.6)
Release of (Provision for) Claims	1.7	(30.9)	(1.9)
Net Income (Loss)	**43.1**	**(16.5)**	**31.2**
Operating Capital	**1,099**	**1,033**	**1,044**
Economic Capital (EC)	374	323	310
ROOC[2] (before provisions)	**3.8%**	**1.4%**	**3.2%**
ROOC (after provisions)	**3.9%**	**(1.6)%**	**3.0%**
ROCU[3]	**2.6%**	**3.0%**	**4.5%**

Note: numbers may not add up due to rounding

[1] *Including Cooperative Underwriting Program contracts*

[2] *Return on Operating Capital = Net Income/Operating Capital*

[3] *Return on Capital Utilized = (Net Premium Income-Administrative and Other Expenses)/Economic Capital Utilized*

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

FY11 versus FY10
MIGA issued $2,099 billion in guarantees during FY11, $635 million higher than in FY10. New issues when combined with lower policy cancellations resulted in overall growth of MIGA's guarantee portfolio and premium income. In FY11, gross exposure and gross premium income increased by $1,399 million and $3.4 million, respectively. Premium amounts ceded to reinsurers remained stable at $30.6 million.

MIGA's investment portfolio generated $13.9 million of investment income in FY11, compared with $24.1 million in FY10. The yield was 1.4 percent in FY11, compared with 2.5 percent in FY10. Investment income was lower this fiscal year due to a lower overall interest rate environment.

Administrative and other expenses increased to $41.1 million in FY11, compared with $36.2 million in FY10.

Corporate Governance

General Governance

Board Membership
MIGA's Board of Directors consists of 25 members. In accordance with the Convention establishing MIGA, all members of the Board are elected. Directors are neither officers, nor staff of MIGA. The President serves as the presiding officer, is the only management member of the Board of Directors, and ordinarily has no vote except a deciding vote in the case of an equal division. The Board has established five standing committees which are each chaired by a Director: (i) Committee on Development Effectiveness or CODE, (ii) Audit Committee, (iii) Budget Committee, (iv) Human Resources Committee or HRC, and (v) Committee on Governance and Administrative Matters or COGAM. The Directors maintain an Ethics Committee to consider matters relating to the interpretation or application of the Code of Conduct for Board Officials, which took effect in November 1, 2007.

The Directors and their committees operate in continuous session at the principal offices of the World Bank Group, and meet in accordance with the Agency's business needs. Each committee's terms of reference establishes its respective roles and responsibilities. Their role is primarily to help the full Board of Directors discharge its oversight responsibilities through in-depth examination of policies and practices.

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 at the Audit Committee.

Key Responsibilities
The Audit Committee has a mandate to assist the Board of Directors in overseeing MIGA's finances, accounting, risk management, and internal controls. This mandate includes oversight of the integrity of MIGA financial statements and financial reporting related to trust funds. 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, annual internal audit plan, and effectiveness of internal audit. In the execution of its role, the Committee discusses with management, the external auditors, and internal auditors financial issues and policies that have an impact on the Agency's financial position and risk-bearing capacity. The Audit Committee monitors the evolution of developments in corporate governance and encourages continuous improvement of, and adherence to MIGA's policies, procedures, and practices at all levels.

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 periodically in separate executive or, where specifically required, closed sessions with management, the Auditor General, the External Auditor, and the Vice President for Institutional Integrity, to discuss any matters that the Committee or any of the foregoing believes should be discussed privately.

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 finance, accounting, risk management, and internal controls 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 Conduct and Business Conduct Framework

Staff members' ethical obligations to the institution are embodied in its Core Values and Principles of Staff Employment. As a member organization, MIGA has adopted the updated World Bank Group Code of Conduct, *Living our Values*, which is a practical guide to assist staff in making the Bank Group's Core Values a part of what staff do every day. The Code applies to all staff worldwide and is available on IBRD's website, www.worldbank.org. All MIGA staff have completed the mandatory training course, which includes an acknowledgement from staff to abide by the tenets of the Code.

In addition to the Code, the business conduct obligations of staff are articulated in the Staff Manual (Principles of Staff Employment, Staff Rules), Administrative Manual, and other guidelines. The Principles and Staff Rules require that all staff avoid or properly manage conflicts of interest. To protect individual staff in MIGA from apparent and real (actual or potential) conflicts of interest, senior managers are required to file an annual confidential financial disclosure statement 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 business conduct framework. The following World Bank Group units assist in communicating business conduct expectations to staff:

- 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/resolution system, financial disclosure, ongoing training to both internal and external audiences, and communication resources. This office has the mandate to review and assist in the resolution of allegations of staff misconduct.
- The Integrity Vice Presidency (INT) is charged with investigating allegations of fraud and corruption in projects benefiting from World Bank Group funding or guarantees. It also trains and educates staff and clients in detecting and reporting fraud and corruption.

Both EBC and INT report directly to the President and are 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. These units maintain comprehensive websites to provide guidance on how to handle concerns.

Auditor Independence

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
- All audit-related services must be pre-approved on a case-by-case basis by the Board of Directors, upon recommendation 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 FY08, IBRD's Executive Directors approved the appointment of KPMG as the World Bank Group's auditors for a five-year term commencing FY09.

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 external 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 Internal Control over Financial Reporting (ICFR) 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.

MIGA **Multilateral Investment Guarantee Agency**
World Bank Group

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

August 4, 2011

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 as issued by the International Accounting Standards Board, and 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 their Committees. Management believes that all representations made to the independent auditors during their audit of MIGA's financial statements and attestation of its internal control over financial reporting were valid and appropriate. The independent auditors' reports accompany 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 control over external financial reporting, which is subject to scrutiny by management and the internal auditors, and is revised as considered necessary, supports 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 presentation in conformity with both accounting principles generally accepted

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in the United States of America and International Financial Reporting Standards as of June 30, 2011. 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 issued by the International Accounting Standards Board as of June 30, 2011. The independent audit firm that audited the financial statements has issued an attestation report on management's assertion on 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 financial 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

Lakshmi Shyam-Sunder
Director and Chief Financial Officer

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Report of Independent Auditors on Management Assertion Regarding Effectiveness of Internal Controls Over External Financial Reporting

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the Multilateral Investment Guarantee Agency (MIGA) maintained effective internal control over financial reporting as of June 30, 2011, 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 *Management's Report Regarding Effectiveness of Internal Control 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.

KPMG

Multilateral Investment Guarantee Agency
August 4, 2011
Page 2 of 2

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, 2011 is fairly stated, in all material respects, based on criteria established in *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 sheets of MIGA as of June 30, 2011 and 2010, including the statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2011, and the related statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the fiscal years in the two-year period ended June 30, 2011, and our report dated August 4, 2011 expressed an unqualified opinion on those financial statements.

KPMG LLP

August 4, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

We have audited the accompanying balance sheets of the Multilateral Investment Guarantee Agency (MIGA) as of June 30, 2011 and 2010, including the statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2011, and the related statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the fiscal years in the two-year period ended June 30, 2011. 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 audits.

We conducted our audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIGA as of June 30, 2011 and 2010, and the results of its operations and its cash flows for each of the fiscal years in the two-year period ended June 30, 2011, 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, in accordance with attestation standards established by the American Institute of Certified Public Accountants, 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, 2011, 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 4, 2011 expressed an unqualified opinion on management's assertion.

KPMG LLP

August 4, 2011

Balance Sheet

June 30, 2011 and June 30, 2010, expressed in thousands of US dollars

	FY11	FY10
ASSETS		
CASH	$11,049	$8,922
INVESTMENTS – Trading (including securities transferred under repurchase agreements) - Note B	1,105,559	958,012
Derivative Assets - Note B	115,120	585
NONNEGOTIABLE, NONINTEREST-BEARING DEMAND OBLIGATIONS - Note C	115,088	112,203
OTHER ASSETS		
Receivable for investment securities sold - Note B	12,646	18,280
Estimated reinsurance recoverables - Note E	40,300	18,100
Prepaid premiums ceded to reinsurers	33,327	16,484
Net assets under retirement benefits plans - Note F	27,546	20,684
Miscellaneous	2,017	12,743
	115,836	86,291
TOTAL ASSETS	**$1,462,652**	**$1,166,013**
Liabilities and Shareholders' Equity		
LIABILITIES		
Payable for investment securities purchased - Note B	$57,185	$15,250
Securities sold under repurchase agreements - Note B	26,674	-
Derivative liabilities - Note B	115,342	23
Accounts payable and accrued expenses	43,294	27,131
Unearned premiums and commitment fees	67,811	40,469
Reserve for claims - Note E		
Specific reserve for claims	17,100	39,100
Insurance portfolio reserve	211,200	168,700
Reserve for claims - gross	228,300	207,800
Total liabilities	538,606	290,673
CONTINGENT LIABILITIES – Note D		
SHAREHOLDERS' EQUITY		
Capital stock – Note C		
Authorized capital (186,042 shares- June 30, 2011; 186,042 shares-June 30, 2010)		
Subscribed capital (176,786 shares- June 30, 2011; 176,786 shares-June 30, 2010)	1,912,825	1,912,825
Less uncalled portion of subscriptions	1,547,882	1,547,882
	364,943	364,943
Payments on account of pending subscriptions	67	67
	365,010	365,010
Retained earnings	566,376	523,237
Accumulated other comprehensive loss	(7,340)	(12,907)
Total shareholders' equity	924,046	875,340
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,462,652**	**$1,166,013**

See accompanying notes to the financial statements

Statement of Operations

For the fiscal years ended June 30, 2011 and June 30, 2010, expressed in thousands of US dollars

	FY11	FY10
INCOME		
Income from guarantees		
Premium income - Note D	$75,195	$71,814
Premium ceded - Note D	(30,630)	(30,574)
Fees and commissions	6,260	4,749
Total	50,825	45,989
Income from investments - Note B	13,850	24,058
Translation gains (losses)	17,843	(19,464)
TOTAL INCOME	82,518	50,583
EXPENSES		
Provision for (release of) claims - Note E	(1,700)	30,900
Administrative expenses	41,079	36,163
TOTAL EXPENSES	39,379	67,063
NET INCOME (LOSS)	**$43,139**	**$(16,480)**

Statement of Comprehensive Income

For the fiscal years ended June 30, 2011 and June 30, 2010, expressed in thousands of US dollars

	FY11	FY10
NET INCOME (LOSS)	$43,139	$(16,480)
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrecognized net actuarial gains (losses) on benefit plans	5,449	(9,331)
Change in unrecognized prior service credits on benefit plans	118	192
Total other comprehensive income (loss)	5,567	(9,139)
COMPREHENSIVE INCOME (LOSS)	**$48,706**	**$(25,619)**

See accompanying notes to the financial statements

Statement of Changes in Shareholders' Equity

For the fiscal years ended June 30, 2011 and June 30, 2010, expressed in thousands of US dollars

	FY11	FY10
CAPITAL STOCK		
Balance at beginning of the fiscal year	$365,010	$363,721
New subscriptions		1,289
Ending Balance	365,010	365,010
RETAINED EARNINGS		
Balance at beginning of the fiscal year	523,237	539,717
Net income (loss)	43,139	(16,480)
Ending Balance	566,376	523,237
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of the fiscal year	(12,907)	(3,768)
Other comprehensive income (loss)	5,567	(9,139)
Ending Balance	(7,340)	(12,907)
TOTAL SHAREHOLDERS' EQUITY	**$924,046**	**$875,340**

Statement of Cash Flows

For the fiscal years ended June 30, 2011 and June 30, 2010, expressed in thousands of US dollars

	FY11	FY10
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$43,139	$(16,480)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Provision for (release of) claims - Note E	(1,700)	30,900
Translation (gains)/losses	(17,843)	19,464
Net changes in:		
Investments - Trading	(56,197)	(41,062)
Other assets, excluding investment receivables	(13,882)	2,630
Accounts payable and accrued expenses	21,462	(5,094)
Unearned premiums and commitment fees	26,400	1,333
Net cash provided by (used in) operating activities	1,379	(8,309)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	748	266
Net increase (decrease) in cash	2,127	(8,043)
Cash at beginning of the fiscal year	8,922	16,965
CASH AT END OF THE FISCAL YEAR	**$11,049**	**$8,922**

See accompanying notes to the financial statements

Statement of Subscriptions to Capital Stock and Voting Power

As of June 30, 2011, expressed in thousands of US dollars

Members	Shares[1]	Subscriptions – Note C			Voting power	
		Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Afghanistan	118	$1,277	$255	$1,022	359	0.16
Albania	102	1,104	210	894	343	0.16
Algeria	1,144	12,378	2,350	10,028	1,385	0.63
Angola	187	2,023	405	1,618	428	0.20
Antigua and Barbuda	50	541	108	433	291	0.13
Argentina	2,210	23,912	4,539	19,373	2,451	1.12
Armenia	80	866	173	693	321	0.15
Australia	3,019	32,666	6,201	26,465	3,260	1.50
Austria	1,366	14,780	2,806	11,974	1,607	0.74
Azerbaijan	115	1,244	249	995	356	0.16
Bahamas, The	176	1,904	362	1,542	417	0.19
Bahrain	136	1,472	279	1,193	377	0.17
Bangladesh	599	6,481	1,230	5,251	840	0.38
Barbados	120	1,298	246	1,052	361	0.16
Belarus	233	2,521	504	2,017	474	0.22
Belgium	3,577	38,703	7,347	31,356	3,818	1.75
Belize	88	952	181	771	329	0.15
Benin	108	1,169	222	947	349	0.16
Bolivia	220	2,380	452	1,928	461	0.21
Bosnia and Herzegovina	80	866	173	693	321	0.15
Botswana	88	952	181	771	329	0.15
Brazil	2,606	28,197	5,353	22,844	2,847	1.30
Bulgaria	643	6,957	1,321	5,636	884	0.40
Burkina Faso	61	660	132	528	302	0.14
Burundi	74	801	160	641	315	0.14
Cambodia	164	1,774	337	1,437	405	0.18
Cameroon	107	1,158	232	926	348	0.16
Canada	5,225	56,535	10,732	45,803	5,466	2.51
Cape Verde	50	541	108	433	291	0.13
Central African Rep.	60	649	130	519	301	0.14
Chad	60	649	130	519	301	0.14
Chile	855	9,251	1,756	7,495	1,096	0.50
China	5,530	59,835	11,359	48,476	5,771	2.64
Colombia	770	8,331	1,582	6,749	1,011	0.46
Congo, Dem. Rep. of	596	6,449	1,224	5,225	837	0.38
Congo, Republic of	115	1,244	236	1,008	356	0.16
Costa Rica	206	2,229	423	1,806	447	0.20
Cote d'Ivoire	310	3,354	637	2,717	551	0.25
Croatia	330	3,571	678	2,893	571	0.26
Cyprus	183	1,980	376	1,604	424	0.19
Czech Republic	784	8,483	1,610	6,873	1,025	0.48
Denmark	1,265	13,687	2,598	11,089	1,506	0.69
Djibouti	50	541	108	433	291	0.13
Dominica	50	541	108	433	291	0.13
Dominican Republic	147	1,591	318	1,273	388	0.18
Ecuador	321	3,473	659	2,814	562	0.26
Egypt, Arab Republic of	809	8,753	1,662	7,091	1,050	0.48
El Salvador	122	1,320	264	1,056	363	0.17
Equatorial Guinea	50	541	108	433	291	0.13
Eritrea	50	541	108	433	291	0.13
Estonia	115	1,244	236	1,008	356	0.16
Ethiopia	123	1,331	253	1,078	364	0.17

See accompanying notes to the financial statements

Statement of Subscriptions to Capital Stock and Voting Power *(cont'd)*

As of June 30, 2011, expressed in thousands of US dollars

Members	Shares[1]	Subscriptions – Note C			Voting power	
		Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Fiji	71	768	154	614	312	0.14
Finland	1,057	11,437	2,171	9,266	1,298	0.59
France	8,565	92,673	17,593	75,080	8,806	4.02
Gabon	169	1,829	347	1,482	410	0.19
Gambia, The	50	541	108	433	291	0.13
Georgia	111	1,201	240	961	352	0.16
Germany	8,936	96,688	18,355	78,333	9,177	4.19
Ghana	432	4,674	887	3,787	673	0.31
Greece	493	5,334	1,013	4,321	734	0.34
Grenada	50	541	108	433	291	0.13
Guatemala	140	1,515	303	1,212	381	0.17
Guinea	91	985	197	788	332	0.15
Guinea-Bissau	50	541	108	433	291	0.13
Guyana	84	909	182	727	325	0.15
Haiti	75	812	162	650	316	0.14
Honduras	178	1,926	366	1,560	419	0.19
Hungary	994	10,755	2,042	8,713	1,235	0.56
Iceland	90	974	195	779	331	0.15
India	5,371	58,114	11,032	47,082	5,612	2.56
Indonesia	1,849	20,006	3,798	16,208	2,090	0.95
Iran, Islamic Republic of	1,659	17,950	3,590	14,360	1,900	0.87
Iraq	350	3,787	757	3,030	591	0.27
Ireland	650	7,033	1,335	5,698	891	0.41
Israel	835	9,035	1,715	7,320	1,076	0.49
Italy	4,970	53,775	10,208	43,567	5,211	2.38
Jamaica	319	3,452	655	2,797	560	0.26
Japan	8,979	97,153	18,443	78,710	9,220	4.21
Jordan	171	1,850	351	1,499	412	0.19
Kazakhstan	368	3,982	756	3,226	609	0.28
Kenya	303	3,278	622	2,656	544	0.25
Korea, Republic of	791	8,559	1,625	6,934	1,032	0.47
Kosovo	96	1,039	208	831	337	0.15
Kuwait	1,639	17,734	3,367	14,367	1,880	0.86
Kyrgyz Republic	77	833	167	666	318	0.15
Lao People's Dem. Rep.	60	649	130	519	301	0.14
Latvia	171	1,850	351	1,499	412	0.19
Lebanon	250	2,705	514	2,191	491	0.22
Lesotho	88	952	181	771	329	0.15
Liberia	84	909	182	727	325	0.15
Libya	549	5,940	1,188	4,752	790	0.36
Lithuania	187	2,023	384	1,639	428	0.20
Luxembourg	204	2,207	419	1,788	445	0.20
Macedonia, FYR of	88	952	181	771	329	0.15
Madagascar	176	1,904	362	1,542	417	0.19
Malawi	77	833	167	666	318	0.15
Malaysia	1,020	11,036	2,095	8,941	1,261	0.58
Maldives	50	541	108	433	291	0.13
Mali	143	1,547	294	1,253	384	0.18
Malta	132	1,428	271	1,157	373	0.17
Mauritania	111	1,201	228	973	352	0.16
Mauritius	153	1,655	314	1,341	394	0.18

See accompanying notes to the financial statements

Statement of Subscriptions to Capital Stock and Voting Power *(cont'd)*

As of June 30, 2011, expressed in thousands of US dollars

Members	Shares[1]	Subscriptions – Note C			Voting power	
		Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Mexico	1,192	12,897	2,579	10,318	1,433	0.65
Micronesia, Fed. States of	50	541	108	433	291	0.13
Moldova	96	1,039	208	831	337	0.15
Mongolia	58	628	126	502	299	0.14
Montenegro	61	660	132	528	302	0.14
Morocco	613	6,633	1,259	5,374	854	0.39
Mozambique	171	1,850	351	1,499	412	0.19
Namibia	107	1,158	232	926	348	0.16
Nepal	122	1,320	251	1,069	363	0.17
Netherlands	3,822	41,354	7,850	33,504	4,063	1.86
New Zealand	513	5,551	1,110	4,441	754	0.34
Nicaragua	180	1,948	370	1,578	421	0.19
Nigeria	1,487	16,089	3,054	13,035	1,728	0.79
Norway	1,232	13,330	2,531	10,799	1,473	0.67
Oman	166	1,796	341	1,455	407	0.19
Pakistan	1,163	12,584	2,389	10,195	1,404	0.64
Palau	50	541	108	433	291	0.13
Panama	231	2,499	474	2,025	472	0.22
Papua New Guinea	96	1,039	208	831	337	0.15
Paraguay	141	1,526	290	1,236	382	0.17
Peru	657	7,109	1,350	5,759	898	0.41
Philippines	853	9,229	1,752	7,477	1,094	0.50
Poland	764	8,266	1,653	6,613	1,005	0.46
Portugal	673	7,282	1,382	5,900	914	0.42
Qatar	241	2,608	495	2,113	482	0.22
Romania	978	10,582	2,009	8,573	1,219	0.56
Russian Federation	5,528	59,813	11,355	48,458	5,769	2.63
Rwanda	132	1,428	271	1,157	373	0.17
St. Kitts & Nevis	50	541	108	433	291	0.13
St. Lucia	88	952	181	771	329	0.15
St. Vincent and the Grenadines	88	952	181	771	329	0.15
Samoa	50	541	108	433	291	0.13
Saudi Arabia	5,528	59,813	11,355	48,458	5,769	2.63
Senegal	256	2,770	526	2,244	497	0.23
Serbia	407	4,404	836	3,568	648	0.30
Seychelles	50	541	108	433	291	0.13
Sierra Leone	132	1,428	271	1,157	373	0.17
Singapore	272	2,943	559	2,384	513	0.23
Slovak Republic	391	4,231	803	3,428	632	0.29
Slovenia	180	1,948	370	1,578	421	0.19
Solomon Islands	50	541	108	433	291	0.13
South Africa	1,662	17,983	3,414	14,569	1,903	0.87
Spain	2,265	24,507	4,652	19,855	2,506	1.14
Sri Lanka	478	5,172	982	4,190	719	0.33
Sudan	206	2,229	446	1,783	447	0.20
Suriname	82	887	177	710	323	0.15
Swaziland	58	628	126	502	299	0.14
Sweden	1,849	20,006	3,798	16,208	2,090	0.95
Switzerland	2,643	28,597	5,429	23,168	2,884	1.32
Syrian Arab Republic	296	3,203	608	2,595	537	0.25

See accompanying notes to the financial statements

Statement of Subscriptions to Capital Stock and Voting Power *(cont'd)*

As of June 30, 2011, expressed in thousands of US dollars

Members	Shares[1]	Subscriptions – Note C			Voting power	
		Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Tajikistan	130	1,407	267	1,140	371	0.17
Tanzania	248	2,683	509	2,174	489	0.22
Thailand	742	8,028	1,524	6,504	983	0.45
Timor-Leste	50	541	108	433	291	0.13
Togo	77	833	167	666	318	0.15
Trinidad and Tobago	358	3,874	735	3,139	599	0.27
Tunisia	275	2,976	565	2,411	516	0.24
Turkey	814	8,807	1,672	7,135	1,055	0.48
Turkmenistan	66	714	143	571	307	0.14
Uganda	233	2,521	479	2,042	474	0.22
Ukraine	1,346	14,564	2,765	11,799	1,587	0.72
United Arab Emirates	656	7,098	1,347	5,751	897	0.41
United Kingdom	8,565	92,673	17,593	75,080	8,806	4.02
United States	32,564	352,342	67,406	284,936	32,805	14.98
Uruguay	202	2,186	437	1,749	443	0.20
Uzbekistan	175	1,894	379	1,515	416	0.19
Vanuatu	50	541	108	433	291	0.13
Venezuela, R. B. de	1,427	15,440	3,088	12,352	1,668	0.76
Vietnam	388	4,198	797	3,401	629	0.29
Yemen, Republic of	155	1,677	335	1,342	396	0.18
Zambia	318	3,441	688	2,753	559	0.26
Zimbabwe	236	2,554	511	2,043	477	0.22
Total – June 30, 2011[2]	**176,786**	**$1,912,825**	**$364,943**	**$1,547,882**	**218,961**	**100.00**
Total – June 30, 2010	**176,786**	**$1,912,825**	**$364,943**	**$1,547,882**	**218,961**	**100.00**

Note: An amount of $67,000 was received from Niger, which 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, 2011, expressed in thousands of US dollars

Host Country	Gross Exposure – Note D					Reinsurance – Note D	Net Exposure
	US Dollars	Euro	Japanese Yen	Swiss Franc	Total		
Afghanistan	76,203	-	-	-	76,203	41,125	35,078
Albania	1,565	27,503	-	-	29,068	-	29,068
Algeria	-	3,736	-	-	3,736	-	3,736
Angola	12,900	-	-	-	12,900	1,290	11,610
Argentina	24,119	-	-	-	24,119	12,059	12,059
Armenia	-	4,126	-	-	4,126	-	4,126
Bangladesh	78,265	-	-	-	78,265	7,826	70,438
Benin	1,026	1,368	-	-	2,394	103	2,292
Bosnia and Herzegovina	-	45,044	-	-	45,044	3,324	41,720
Brazil	50,000	35,705	-	-	85,705	17,852	67,852
Bulgaria	-	143,100	-	-	143,100	71,550	71,550
Burkina Faso	-	1,808	-	-	1,808	181	1,627
Central African Republic	-	34,747	-	-	34,747	-	34,747
China	134,698	95,346	-	-	230,044	19,321	210,723
Colombia	-	2,888	-	-	2,888	-	2,888
Congo, Democratic Republic of	25,150	5,501	-	-	30,651	-	30,651
Congo, Republic of	-	5,586	-	-	5,586	-	5,586
Costa Rica	149,525	-	-	-	149,525	87,540	61,985
Côte d'Ivoire	-	1,765	-	-	1,765	-	1,765
Croatia	-	660,083	-	-	660,083	350,622	309,461
Djibouti	224,876	-	-	-	224,876	151,806	73,070
Dominican Republic	99,635	-	-	-	99,635	14,945	84,690
Ecuador	31,937	-	-	-	31,937	1,135	30,802
Ethiopia	13,960	-	-	-	13,960	-	13,960
Georgia	9,025	-	-	-	9,025	-	9,025
Ghana	65,250	-	-	-	65,250	6,975	58,275
Guatemala	96,570	-	-	-	96,570	48,285	48,285
Guinea	2,462	57,453	-	-	59,915	5,745	54,170
Guinea-Bissau	-	20,094	-	-	20,094	2,009	18,084
Honduras	-	6,876	-	-	6,876	-	6,876
Hungary	-	412,552	-	-	412,552	63,117	349,435
Indonesia	657,000	-	-	-	657,000	330,000	327,000
Iran, Islamic Republic of	99,769	-	-	-	99,769	9,977	89,792
Iraq	4,842	-	-	-	4,842	-	4,842
Jamaica	72,191	-	-	-	72,191	14,438	57,753
Jordan	4,095	-	-	-	4,095	410	3,686
Kazakhstan	401,520	-	-	-	401,520	239,530	161,990
Kenya	50,194	-	-	-	50,194	6,588	43,606
Kosovo	-	55,007	-	-	55,007	-	55,007
Kyrgyz Republic	8,913	-	-	-	8,913	315	8,598
Lao People's Dem. Rep.	77,878	-	-	-	77,878	38,939	38,939
Latvia	4,104	171,897	-	-	176,001	410	175,591
Liberia	70,600	78,168	-	-	148,768	51,972	96,796
Macedonia, FYR	-	13,752	-	-	13,752	-	13,752
Madagascar	-	22,018	-	-	22,018	-	22,018
Mali	16,200	-	-	-	16,200	1,620	14,580
Mauritania	5,400	-	-	-	5,400	540	4,860
Moldova	61,092	11,652	-	-	72,744	30,546	42,198
Mozambique	163,076	2,750	-	-	165,826	38,639	127,187
Nepal	29,394	-	-	-	29,394	17,671	11,722
Nicaragua	99,799	-	-	-	99,799	43, 440	56,360

See accompanying notes to the financial statements

Statement of Guarantees Outstanding *(cont'd)*

As of June 30, 2010, expressed in thousands of US dollars

Host Country	Gross Exposure – Note D US Dollars	Euro	Japanese Yen	Swiss Franc	Total	Reinsurance – Note D	Net Exposure
Nigeria	107,364	1,527	-	-	108,892	14,323	94,569
Pakistan	8,768	881	497	95,906	106,053	51,056	54,997
Peru	24,464	-	-	-	24,464	1,293	23,171
Poland	-	3,895	-	-	3,895	-	3,895
Romania	-	79,564	-	-	79,564	22,798	56,765
Russian Federation	836,000	80,810	-	-	916,810	461,529	455,281
Rwanda	39,920	-	-	-	39,920	-	39,920
Senegal	-	83,834	-	-	83,834	9,889	73,945
Serbia	-	446,741	-	-	446,741	156,388	290,353
Sierra Leone	17,172	-	-	-	17,172	500	16,672
South Africa	15,320	-	-	-	15,320	-	15,320
Swaziland	22,956	-	-	-	22,956	11,478	11,478
Syrian Arab Republic	78,434	-	-	-	78,434	7,843	70,591
Thailand	72,878	-	-	-	72,878	36,439	36,439
Togo	-	4,612	-	-	4,612	-	4,612
Turkey	547,363	405,326	-	-	952,690	573,595	379,094
Turkmenistan	2,826	-	-	-	2,826	-	2,826
Uganda	155,470	550	-	-	156,020	75,797	80,223
Ukraine	992,914	6,188	-	-	999,102	614,976	384,126
Uruguay	300,095	-	-	-	300,095	192,000	108,095
Venezuela, R. B. de	11,880	-	-	-	11,880	3,564	8,316
Vietnam	40,890	-	-	-	40,890	30,623	10,267
Zambia	18,640	-	-	-	18,640	-	18,640
	6,216,584	3,034,453	497	95,906	9,347,441	3,995,939	5,351,502
Adjustment for Dual-Country Contracts:[1]							
Lao PDR/Thailand	(72,878)	-	-	-	(72,878)	(36,439)	(36,439)
Mozambique/Swaziland	(22,956)	-	-	-	(22,956)	(11,478)	(11,478)
	(95,834)	-	-	-	(95,834)	(47,917)	(47,917)
Adjustment for Master Agreement:[2]							
Guatemala, Moldova, Nicaragua	(129,895)	-	-	-	(129,895)	(64,948)	(64,948)
Total – June 30, 2011[3]	**5,990,855**	**3,034,453**	**497**	**95,906**	**9,121,712**	**3,883,074**	**5,238,638**
Total – June 30, 2010	**5,822,513**	**1,899,816**	**451**	**-**	**7,722,780**	**3,426,406**	**4,296,374**

[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 an 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), the International Development Association (IDA), and the International Center for Settlement of Investment Disputes (ICSID). 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 4, 2011, the Executive Vice President and the Chief Financial Officer authorized the financial statements for issue. MIGA has evaluated subsequent events through August 4, 2011, the date of 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. The 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. In July 2010, the IASB released an exposure draft on Phase 2 of the project addressing issues on insurance accounting and is expecting to issue a standard in 2011. The Financial Accounting Standard Board (FASB) is deliberating the accounting for insurance contracts in a joint effort with the IASB and is expected to issue an exposure draft and a standard in 2012.

In November 2009, IASB issued IFRS 9, *Financial Instruments* as a first step as part of a wider project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The November 2009 issuance of IFRS 9 focuses on the classification and measurement of financial assets where it retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Requirements for financial liabilities were added to IFRS 9 in October 2010, most of which were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The standard is effective for annual periods beginning on or after January 1, 2015, but may be applied earlier. MIGA is currently assessing the impact of this standard on its financial statements.

In May 2011, the FASB issued ASU 2011-04, F*air Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*.The amendments result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. While many of the amendments are changes in wording that are not expected to significantly impact current practice, some of the amendments change the existing fair value measurement and disclosure requirements. This ASU is effective for interim and annual periods beginning after December 15, 2011. MIGA is currently evaluating the impact on its financial statements.

In June 2011, the IASB issued an amended employee benefits standard *IAS 19 Employee Benefits*, which has an effective date of annual periods beginning on or after January 1, 2013. The amended standard is expected to impact accounting around the funded defined benefit plans primarily driven by a new approach to calculating and presenting the net interest income or expense on the net defined benefit liability or asset. The standard will require entities to present the net interest income or expense on the net defined benefit liability or asset as a single net interest figure, based on the discount rate that is used to measure the defined benefit obligations. MIGA will be assessing the impact of this standard on its financial statements.

Differences between US GAAP and IFRS

The *Compensation Retirement Benefits Topic* of the FASB ASC 715-30 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, ASC 715-30 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.

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. ASC 715-30 and IAS 19 differ in the treatment of amortization of unrecognized actuarial gains or losses. ASC 715-30 requires that the unrecognized actuarial gains or losses to be amortized to the Statement of Operations, and IAS 19 requires the unrecognized actuarial gains or losses to be recognized in Other Comprehensive Income and immediately recognized in Retained Earnings. MIGA does not believe the differences are material.

Use of Estimates

The preparation of financial statements in conformity with IFRS and U.S. GAAP 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 cost/income from pension and other postretirement benefits plans, and the present value of benefit obligations.

The significant accounting policies employed by MIGA are summarized below.

Investments

MIGA manages its investment portfolio both for the purpose of providing liquidity for potential claims and for capital growth. MIGA invests in equity securities, 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 Operations.

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 insurance 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 parameters are reviewed periodically. 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 factors in time value of money of potential cash flows, using representative risk-free interest rates as the discount rates.

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 recoverable 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 Operations.

Changes to MIGA's Investment Policy approved by the Board of Directors in June 2010 included the establishment of a system for active management of MIGA's exposures to foreign currencies, whereby the amounts of non-dollar assets would be matched to non-dollar reserve components. The objective is to align the currency compositions of MIGA's assets and liabilities, and to thereby minimize the sensitivity of MIGA's net income to movements in foreign currency exchange rates.

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 follow the same approach as for direct insurance contracts and are recognized as expenses on a pro rata basis over the contract period.

Fee and commissions income for MIGA primarily consists of administrative fees, arrangement fees, facility fees, renewal fees, commitment (offer) fees and ceding commissions. Fees and commissions received upon renewal are recognized as income on a pro rata basis over the contract period.

Note B: Investments

A summary of MIGA's trading portfolio at June 30, 2011 and June 30, 2010 is as follows:

	Fair Value	
In thousands of US dollars	**June 30, 2011**	**June 30, 2010**
Equity Securities	$93,287	$ -
Comingled Funds	6,600	-
Government Obligations	352,483	322,544
Time Deposits	418,038	446,516
Asset-backed Securities	235,151	188,952
Total Investments - Trading	$1,105,559	$958,012

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2011 and June 30, 2010:

	Fair Value	
In thousands of US dollars	**June 30, 2011**	**June 30, 2010**
Investments – trading	$1,105,559	$958,012
Cash held in investment portfolio[a]	1,406	2,514
Receivable from investment securities sold	12,646	18,280
Derivative assets		
Currency forward contracts	115,086	-
Others[b]	34	585
Derivative liabilities		
Currency forward contracts	(115,093)	-
Others[b]	(249)	(23)
Payable for investment securities purchased	(57,185)	(15,250)
Securities sold under repurchase agreements	(26,674)	-
Net Investment Portfolio	$1,035,530	$964,118

a. *This amount is included under Cash in the Balance Sheet*
b. *These relate to To-Be-Announced (TBA) securities*

Investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 8.3 percent (14.9 percent – June 30, 2010) of the portfolio.

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 losses/gains included in the Income from investments for the fiscal years ended June 30, 2011 and June 30, 2010 amounted to ($838,000) and $3,230,000 respectively.

The following table summarizes MIGA's Income from investments in the Statement of Operations.

	Year ended	
In thousands of US dollars	**June 30, 2011**	**June 30, 2010**
Interest Income	$15,551	$14,151
Dividend Income	480	-
Gains - Realized / Unrealized	13,924	14,360
Losses - Realized / Unrealized	(16,105)	(4,453)
	$13,850	$24,058

Losses/Income from derivatives instruments related to interest income, realized and unrealized gains and losses and included in the table above, for the fiscal years ended June 30, 2011 and June 30, 2010 amounted to ($776,000) and $1,285,000, respectively. Losses/Income from derivative instruments mainly relates to interest rate futures, options and covered forwards.

Securities sold under repurchase agreements:
MIGA may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales). Transfers of securities by MIGA to counterparties are not accounted for as sales as the accounting criteria for the treatment as sale have not been met. Counterparties are permitted to repledge these securities until the repurchase date.

The following is a summary of the carrying amount of the securities transferred under repurchase agreements, and the related liabilities:

	Year ended	
In thousands of US dollars	**June 30, 2011**	**June 30, 2010**
Securities transferred under repurchase agreements	$26,674	-
Liabilities relating to securities transferred under repurchase agreements	$26,674	-

Fair Value Measurements

The *Fair Value Measurements and Disclosure Topic* of the FASB Accounting Standards Codification (ASC 820-10) and *IFRS 7 Financial Instruments: Disclosures* define fair value, establish a consistent framework for measuring fair value, establish a fair value hierarchy based on the quality of inputs used to measure fair value and expand 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

ASC 820-10 and IFRS 7 establish 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, ASC 820-10 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 tables present MIGA's summary of the trading portfolio measured at fair value on a recurring basis as of June 30, 2011 and June 30, 2010:

	Fair Value Measurements on a Recurring Basis, as of June 30, 2011			
In thousands of US dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Equity Securities	$93,287	-	-	$93,287
Commingled Funds	-	6,600	-	6,600
Government Obligations	230,381	122,102	-	352,483
Time Deposits	206,052	211,986	-	418,038
Asset-backed Securities	-	231,146	4,005	235,151
Total Investments - Trading	**529,720**	**571,834**	**4,005**	**1,105,559**
Derivative assets				
Currency forward contracts	-	115,086	-	115,086
Others[a]	-	34	-	34
Total Derivative assets	-	115,120	-	115,120
Total	**$529,720**	**$686,954**	**$4,005**	**$1,220,679**
Liabilities:				
Securities sold under repurchase agreements	-	$26,674	-	$26,674
Derivative liabilities				
Currency forward contracts	-	115,093	-	115,093
Others[a]	-	249	-	249
Total Derivative liabilities	-	115,342	-	115,342
Total	**-**	**$142,016**	**-**	**$142,016**

[a.] *These relate to To-Be-Announced (TBA) securities*

	Fair Value Measurements on a Recurring Basis, as of June 30, 2010			
In thousands of US dollars	Level 1	Level 2	Level 3	Total
Assets:				
Government Obligations	$46,986	$275,558	$ -	$322,544
Time Deposits	138,493	308,023	-	446,516
Asset-backed Securities	-	185,400	3,552	188,952
	$185,479	$768,981	$3,552	$958,012
Derivative assets				
Others[a]	-	585	-	585
Total Derivative assets	-	585	-	585
Total	**$185,479**	**$769,566**	**$3,552**	**$958,597**
Liabilities:				
Derivative liabilities				
Others[a]	-	23	-	23
Total Derivative liabilities	-	23	-	23
Total	**$ -**	**$23**	**$ -**	**$23**

[a.] *These relate to To-Be- Announced (TBA) securities*

MIGA's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur. The table below provides the details of inter-level transfers for the fiscal year ended June 30, 2011 and June 30, 2010.

	Year ended June 30, 2011		
In thousands of US dollars	Level 1	Level 2	Level 3
Asset-backed Securities			
Transfers (out of) into	-	$(47)	$47

	Year ended June 30, 2010		
In thousands of US dollars	Level 1	Level 2	Level 3
Government Obligations			
Transfers (out of) into	$13,018	$(13,018)	-
Asset-backed Securities			
Transfers (out of) into	-	(2,201)	2,201

The following table provides a summary of changes in the fair value of MIGA's Level 3 financial assets and liabilities during the years ended June 30, 2011 and June 30, 2010.

	Year ended June 30, 2011	
In thousands of US dollars	2011	2010
Asset-backed Securities		
Beginning of the period	$3,552	$1,121
Total realized/unrealized income in Income from investments	87	230
Purchases	1,019	-
Transfers in	47	2,201
Settlements/Maturity	(700)	-
End of the period	**$4,005**	**$3,552**

The entire amount of $87,000 for the year ended June 30, 2011 ($230,000 for the year ended June 30, 2010) included in the above table is attributable to unrealized gains on Level 3 asset-backed securities.

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

The following table provides information on the credit exposure and notional amounts of the derivative instruments.

Type of contracts	**Year ended June 30, 2011**	
In thousands of US dollars	**2011**	**2010**
Currency Forward Contract		
Credit Exposure	$140	$ -
Exchange traded Options and Futures[a]		
Notional Long Position	121,000	190,000
Notional Short Position	464,000	624,000
Others[b]		
Notional Long Position	50,000	58,000
Notional Short Position	2,000	-
Credit Exposure	34	585

a. *Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All outstanding options and future contracts as of June 30, 2011 and June 30, 2010 are interest rate contracts*

b. *These relate to To-Be- Announced (TBA) securities*

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, 2011. 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, 2011, the initial authorized capital stock was 186,042 (186,042 – June 30, 2010) 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, 2011, no shares (June 30, 2010, 1,192 shares) were subscribed. At June 30, 2011, MIGA's authorized capital stock comprised 186,042 (186,042 – June 30, 2010) shares of which 176,786 (176,786 – June 30, 2010) 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, $364,943,000 ($364,943,000 – June 30, 2010) has been paid in and the remaining $1,547,882,000 ($1,547,882,000 - June 30, 2010) is subject to call. At June 30, 2011, $115,088,000 ($112,203,000 – June 30, 2010) is in the form of non-negotiable, non-interest bearing demand obligations (promissory notes). A summary of MIGA's capital stock at June 30, 2011 and June 30, 2010 is as follows:

	Initial Capital		Capital Increase		Total	
	Shares	(US$000)	Shares	(US$000)	Shares	(US$000)
As of June 30, 2011						
Authorized	107,483	$1,162,966	78,559	$850,008	186,042	$2,012,974
Subscribed	107,483	$1,162,966	69,303	$749,858	176,786	$1,912,825
At June 30, 2010						
Authorized	107,483	$1,162,966	78,559	$850,008	186,042	$2,012,974
Subscribed	107,483	$1,162,966	69,303	$749,858	176,786	$1,912,825

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 five different categories of risk: currency inconvertibility and transfer restriction, expropriation, war and civil disturbance, breach of contract, and non-honoring of a sovereign financial obligation. 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. Non-honoring of a sovereign financial obligation coverage protects the investor against the failure of a sovereign 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. Investors may insure projects by purchasing any combination of the five coverage types.

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, 2011 amounts to $2,503,000 ($2,503,000 – June 30, 2010).

Contingent Liability

The maximum amount of contingent liability of MIGA under guarantees issued and outstanding at June 30, 2011 totaled $9,121,712,000 ($7,722,780,000 – June 30, 2010). 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, 2011, MIGA's actual exposure to insurance claims, exclusive of standby coverage is $7,956,484,000 ($6,469,101,000 – June 30, 2010).

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 $9,121,712,000 outstanding contingent liability (gross exposure) as at June 30, 2011 ($7,722,780,000 – June 30, 2010), $3,883,074,000 was ceded through contracts of reinsurance ($3,426,406,000 – June 30, 2010). Net exposure amounted to $5,238,638,000 as at June 30, 2011 ($4,296,374,000 – June 30, 2010).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2011, total insurance assumed by MIGA, primarily with official investment insurers, amounted to $368,716,000 ($120,000,000 – June 30, 2010).

Premiums relating to direct, assumed and ceded contracts for the fiscal years ended June 30, 2011 and June 30, 2010 were as follows:

In thousands of US dollars	June 30, 2011	June 30, 2010
Premiums Written		
Direct	$103,009	$69,604
Assumed	1,660	1,080
Ceded	(47,473)	(29,615)
Premiums Earned		
Direct	74,111	70,734
Assumed	1,084	1,080
Ceded	(30,630)	(30,574)

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, capital adequacy assessment 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, 2011, the maximum level of guarantees outstanding (including reinsurance) may not exceed $12,817,000,000.

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, 2011 and June 30, 2010 are as follows:

In thousands of US dollars	June 30, 2011		June 30, 2010	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	**$4,185,685**	**$5,976,636**	**$3,606,053**	**$4,874,683**
% of Total Gross Exposure	45.9	65.5	46.7	63.1
Net Exposure	**$1,894,936**	**$3,043,052**	**$1,480,551**	**$2,254,203**
% of Total Net Exposure	36.2	58.1	34.5	52.5

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, 2011 and June 30, 2010 is as follows:

In thousands of US dollars	June 30, 2011			June 30, 2010		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Africa	$1,101,887	$885,715	16.9	$1,102,841	$887,695	20.7
Asia	1,295,724	759,163	14.5	706,421	504,618	11.7
Europe and Central Asia	5,432,561	2,843,859	54.3	4,419,058	2,021,127	47.0
Latin America and Caribbean	1,005,684	569,132	10.9	1,129,865	638,214	14.9
Middle East and North Africa	415,751	245,717	4.7	494,490	309,668	7.2
Adjustment for Master Agreement [1]	(129,895)	(64,948)	(1.3)	(129,895)	(64,948)	(1.5)
	$9,121,712	**$5,238,638**	**100.0**	**$7,722,780**	**$4,296,374**	**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, 2011 and June 30, 2010 is shown in the following table:

In thousands of US dollars	June 30, 2011			June 30, 2010		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Infrastructure	$2,960,549	$1,694,069	32.3	$2,302,120	$1,475,131	34.3
Financial	4,455,795	2,340,578	44.7	4,021,610	1,854,609	43.2
Tourism, Construction and Services	192,547	177,239	3.4	159,000	144,893	3.4
Manufacturing	790,406	471,818	9.0	587,472	340,628	7.9
Oil and Gas	233,527	195,188	3.7	468,071	368,719	8.6
Mining	243,265	172,359	3.3	105,017	39,798	0.9
Agribusiness	245,623	187,387	3.6	79,490	72,596	1.7
	$9,121,712	**$5,238,638**	**100.0**	**$7,722,780**	**$4,296,374**	**100.0**

Note E: Claims

Reserve for Claims

MIGA's gross reserve for claims at June 30, 2011 amounted to $228,300,000 ($207,800,000 - June 30, 2010) and estimated reinsurance recoverables amounted to $40,300,000 ($18,100,000 - June 30, 2010).

An analysis of the changes to the gross reserve for claims for the fiscal year ended June 30, 2011 and for the fiscal year ended June 30, 2010 appears in the tables below.

In thousands of US dollars	June 30, 2011	June 30, 2010
Gross reserve balance	$207,800	$171,400
Less: Estimated reinsurance recoverables	18,100	12,600
Net reserve balance, beginning of the period	189,700	158,800
Increase (decrease) to net reserves before translation adjustments	(14,000)	41,100
Foreign currency translation adjustments	12,300	(10,200)
(Release of) Provision for claims - net of reinsurance	(1,700)	30,900
Net reserve balance	188,000	189,700
Add: Estimated reinsurance recoverables	40,300	18,100
Gross reserve balance, end of the period	**$228,300**	**$207,800**

The release of provision for claims of $1,700,000 for the fiscal year ended June 30, 2011 (provision for claims of $30,900,000 – fiscal year ended June 30, 2010) is the result of an increase in the insurance portfolio reserve (IPR) of $17,900,000 and a decrease in the specific reserve of $19,600,000.

Estimated reinsurance recoverables increased by $22,200,000 during the fiscal year ended June 30, 2011 primarily due to refinements in the methodology to estimate the gross insurance portfolio reserve.

The foreign currency translation adjustment reflects the impact on MIGA's reserves arising from the revaluation of guarantee contracts denominated in currencies other than US dollar. The translation loss of $12,300,000 for the fiscal year ended June 30, 2011 is mainly the result of the Euro appreciating against the US dollar. The foreign currency translation impact on reserve is effectively managed through MIGA's system for managing exposures to foreign currencies. The amount by which the reserve increased as a result of translation adjustment is offset by the translation gains on MIGA's investment portfolio assets, reported on the Statement of Operations.

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, 2011, the specific reserves amounted to $17,100,000 ($39,100,000 – June 30, 2010) on a gross basis and $12,800,000 ($32,400,000 – June 30, 2010) net of reinsurance.

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

In thousands of US dollars

Specific Reserve development over past nine fiscal years

Reporting Period	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Estimate of Cumulative Claims:										
At end of reporting period	$121,800	$9,900	$37,800	$27,610	$1,062	$-	$2,800	$13	$30,300	$5,000
One year later	68,600	4,600	23,550	40,380	-	-	1,491	13	2,900	
Two years later	3,000	4,530	8,343	45,900	-	-	2,291	-		
Three years later	5,650	3,279	6,800	45,600	-	-	2,500			
Four years later	5,775	700	1,300	15,100	-	-				
Five years later	5,700	700	1,200	-	-					
Six years later	5,500	700	-	-						
Seven years later	7,200	700	-							
Eight years later	7,000	-								
Nine years later	6,700									

Specific Reserve at June 30, 2011

Fiscal Year	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	Total
Estimate of cumulative claims at June 30, 2011	6,700	700	-	-	-	-	2,991	13	2,900	5,000	18,304
Cumulative payments	-	(700)	-	-	-	-	(491)	(13)	-	-	(1,204)
Specific reserves at June 30, 2011	**6,700**	**-**	**-**	**-**	**-**	**-**	**2,500**	**-**	**2,900**	**5,000**	**17,100**

Pending Claims

In December, 2010, MIGA received a claim for $5 million under its expropriation cover in connection with a contract supporting a project in Sierra Leone. The claim is for the maximum aggregate liability under this contract. This claim arises from the failure of the government to make payments for services provided and other breaches of the contract. The claimant asserts that the government's defaults constitute expropriation. MIGA is evaluating the claim.

In December 2009, MIGA received an initial claim for $1.8 million under contracts supporting loans to a project in Kenya. Subsequently, in August 2010 a second claim was made for an additional amount of $3.2 million. The maximum aggregate liability under the contracts is $13.1 million.

This claim asserts that debt service payments were missed due to war and civil disturbance, which occurred in 2007 and 2008. MIGA's liability for the claim has not yet been determined.

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 a 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 among 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, 2011 and June 30, 2010:

	SRP		RSBP		PEBP	
In thousands of US dollars	2011	2010	2011	2010	2011	2010
Benefit Cost						
Service cost	$3,143	$2,166	$702	$457	$324	$230
Interest cost	5,506	5,431	831	758	316	343
Expected return on plan assets	(7,954)	(8,172)	(813)	(757)	-	-
Amortization of prior service cost	99	99	12	85	7	8
Amortization of net loss	1,009	562	202	114	187	180
Net periodic pension cost	**$1,803**	**$86**	**$934**	**$657**	**$834**	**$761**

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, 2011 and June 30, 2010. The assets for the PEBP are included in IBRD's investment portfolio.

	SRP		RSBP		PEBP	
In thousands of US dollars	2011	2010	2011	2010	2011	2010
Projected Benefit Obligation						
Beginning of year	$97,829	$79,501	$13,968	$10,941	$5,662	$5,070
Service cost	3,143	2,166	702	457	324	230
Interest cost	5,506	5,431	831	758	316	343
Participant contributions	964	915	77	105	9	14
Retiree drug subsidy received	n/a	n/a	29	24	n/a	n/a
Early Retiree Reinsurance Program received	n/a	n/a	22	-	n/a	n/a
Benefits paid	(4,407)	(3,957)	(344)	(305)	(197)	(155)
Actuarial loss (gain)	4,749	13,773	1,233	1,988	1,304	160
End of year	**$107,784**	**$97,829**	**$16,518**	**$13,968**	**$7,418**	**$5,662**

	SRP		RSBP		PEBP	
In thousands of US dollars	2011	2010	2011	2010	2011	2010
Fair value of plan assets						
Beginning of year	$118,513	$106,185	$11,252	$9,567		
Participant contributions	964	915	77	105		
Actual return on assets	18,344	13,494	1,760	1,169		
Employer contributions	1,916	1,876	955	716		
Benefits paid	(4,407)	(3,957)	(344)	(305)		
End of year	**$135,330**	**$118,513**	**$13,700**	**$11,252**	**$ -**	**$ -**
Funded status [1]	**$27,546**	**$20,684**	**$(2,818)**	**$(2,716)**	**$(7,418)**	**$(5,662)**
Accumulated Benefit Obligation	**$84,614**	**$77,883**	**$16,518**	**$13,968**	**$6,459**	**$5,169**

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

The $27,546,000 relating to SRP at June 30, 2011 ($20,684,000 – June 30, 2010) 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 Pension and Other Post Retirement Benefits.

In thousands of US dollars	SRP	RSBP	PEBP	Total
Amounts included in Accumulated Other Comprehensive Loss in fiscal year ended June 30, 2011				
Net actuarial loss	$3,054	$3,460	$3,973	$10,487
Prior service cost	264	-	24	288
Net amount recognised in Accumulated Other Comprehensive Loss	**$3,318**	**$3,460**	**$3,997**	**$10,775**
Amounts included in Accumulated Other Comprehensive Loss in fiscal year ended June 30, 2010				
Net actuarial loss	$9,704	$3,376	$2,856	$15,936
Prior service cost	363	12	31	406
Net amount recognised in Accumulated Other Comprehensive Loss	**$10,067**	**$3,388**	**$2,887**	**$16,342**

The estimated amounts that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost in the fiscal year ending June 30, 2012 are as follows:

In thousands of US dollars	SRP	RSBP	PEBP	Total
Net actuarial loss	$309	$178	$290	$777
Prior service cost	99	-	7	106
Net amount recognised in Accumulated Other Comprehensive Loss	**$408**	**$178**	**$297**	**$883**

Assumptions

The actuarial assumptions used are based on financial market interest rates, inflation expectations, 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 yields of 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, 2011 and June 30, 2010:

	SRP		RSBP		PEBP	
In percent	2011	2010	2011	2010	2011	2010
Weighted average assumptions used to determine projected benefit obligations						
Discount rate	5.30	5.75	5.50	6.00	5.20	5.75
Rate of compensation increase	5.90	6.20			5.90	6.20
Health care growth rates - at end of fiscal year			6.90	7.00		
Ultimate health care growth rate			4.00	4.25		
Year in which ultimate rate is reached			2022	2022		
Weighted average assumptions used to determine net periodic pension cost						
Discount rate	5.75	7.00	6.00	7.00	5.75	7.00
Expected return on plan assets	6.75	7.75	7.75	7.75		
Rate of compensation increase	6.20	6.70			6.20	6.70
Health care growth rates - at end of fiscal year			7.00	7.00		
Ultimate health care growth rate			4.25	4.75		
Year in which ultimate rate is reached			2022	2017		

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:

In thousands of US dollars	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	$400	$(300)
Effect on postretirement benefit obligation	3,200	(2,500)

Investment Strategy

The investment policies establish the framework for investment of the plan assets based on long-term investment objectives and the trade-offs inherent in seeking adequate investment returns within acceptable risk parameters. A key component of the investment policy is to establish a strategic asset allocation (SAA) representing the policy portfolio (i.e., neutral mix of assets) around which the plans are invested. The SAA for the plans are reviewed in detail and reset about every three to five years, with an annual review of key assumptions.

The key long-term objective is to target and secure asset performance that is reasonable in relation to the growth rate of the underlying liabilities and the assumed sponsor contribution rates. This is particularly so in the case of the SRP, which has liabilities that can be projected with a reasonable level of confidence based on the actuarial assumptions. Given the relatively long investment horizons of the SRP and RSBP of approximately 10 years, and the relatively modest liquidity needs over the short-term to pay benefits and meet other cash requirements, the focus of the investment strategy is on generating sustainable long-term investment returns through various assets classes and strategies including equity, quasi-equity, private equity and real estate.

The SAA is derived using a mix of quantitative analysis that incorporates expected returns and volatilities by asset class as well as correlations across the asset classes, and qualitative considerations such as the desired liquidity needs of the plans. The strategic asset allocation is comprised of a diversified portfolio drawn from among fixed income, equity, real assets and absolute return strategies.

The revised target asset allocations for the SRP and RSBP were approved in December 2010 and April 2011, respectively, and the portfolio is currently in transition to the new SAA. The following table presents the actual and target asset allocation at June 30, 2011 and June 30, 2010 by asset category for the SRP and RSRP.

In percent	SRP			RSBP		
	Target Allocation Effective January 2011	% of Plan Assets		Target Allocation Effective May 2011	% of Plan Assets	
Asset Class	**(%)**	**2011**	**2010**	**(%)**	**2011**	**2010**
Fixed Income & Cash	31	32.6	40.6	24	33.2	35.7
Public Equity	27	23.9	15.5	29	26.6	22.6
Private Equity	15	20.2	19.8	20	24.9	25.6
Hedge Funds	15	10.8	13.3	15	8.1	10.4
Real Assets	12	12.5	10.8	12	7.2	5.7
Total	**100**	**100**	**100**	**100**	**100**	**100**

Significant Concentrations of Risk in Plan Assets

The assets of the SRP and RSBP are diversified across a variety of asset classes. Investments in these asset classes are further diversified across funds, managers, strategies, geographies and sectors to limit the impact of any individual investment. In spite of such level of diversification, equity market risk remains the primary source of the plans' overall return volatility.

Risk Management Practices

Risk management is an integral part of managing the assets of the plans. Liability-driven management and asset diversification are central to the overall investment strategy and risk management approach for the SRP. The surplus volatility risk (defined as the annualized standard deviation of asset returns relative to that of liabilities) is considered the primary indicator of the SRP overall investment risk in the asset allocation process. The investment risk is regularly monitored at the absolute level, as well as at the relative levels with respect to policy benchmarks, and in the case of the SRP, to the liabilities. To assess the impact of extreme market events, stress tests are performed periodically using relevant market scenarios. Credit risk is controlled through the application of the eligibility criteria and concentration limits for transactions with individual issues. Counterparty risk exposure on over-the-counter derivatives is mitigated through the use of master netting arrangements and collateral. The Plan manages its liquidity risk primarily by investing a portion of the asset base in securities that are either very liquid or can be liquidated at a fairly short notice at a reasonable price and by maintaining an adequate cash cushion. The level of illiquid asset classes appropriate in the portfolio also takes into account projected liquidity requirements.

Risk management for different asset classes is tailored to their specific characteristics and is an integral part of external manager due diligence. In addition, monitoring of performance (both manager and asset class) against benchmarks and compliance with investment guidelines are carried out as part of the risk monitoring process.

Fair Value Measurements

All plan assets are measured at fair value on recurring basis. The following table presents the fair value hierarchy of major categories of plans assets as of June 30, 2011 and June 30, 2010.

Fair Value Measurements on a Recurring Basis as of June 30, 2011

In thousands of US dollars	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt Securities								
Time deposits	$ -	$2,465	$ -	$2,465	$ -	$203	$ -	$203
Securities purchased under resale agreements	3,099	-	-	3,099	179	-	-	179
Government and agency securities	27,105	10,262	-	37,367	558	2,460	-	3,018
Corporate and convertible bonds	-	2,705	25	2,730	-	1,081	-	1,081
Asset-backed securities	-	1,253	268	1,521	-	57	17	74
Mortgage-backed securities	-	4,458	154	4,612	-	72	7	79
Total Debt Securities	**30,204**	**21,143**	**447**	**51,794**	**737**	**3,873**	**24**	**4,634**
Equities								
US common stocks	3,575	-	-	3,575	327	-	-	327
Non-US common stocks	12,640	-	-	12,640	1,330	-	-	1,330
Mutual funds	2,723	-	-	2,723	332	-	-	332
Real estate investment trusts (REITS)	2,731	-	-	2,731	22	-	-	22
Total Equity Securities	**21,669**	**-**	**-**	**21,669**	**2,011**	**-**	**-**	**2,011**
Commingled funds	-	7,941	-	7,941	-	1,593	-	1,593
Real estate (including infrastructure and timber)	-	3,384	8,024	11,408	-	92	889	981
Private equity	-	-	27,394	27,394	-	-	3,413	3,413
Hedge funds	-	12,578	3,518	16,096	-	807	298	1,105
Derivative assets/ liabilities	188	(257)	-	(69)	3	(57)	-	(54)
Other assets/liabilities	-	-	-	(903)	-	-	-	17
Total Assets	**$52,061**	**$44,789**	**$39,383**	**$135,330**	**$2,751**	**$6,308**	**$4,624**	**$13,700**

In thousands of US dollars	Fair Value Measurements on a Recurring Basis as of June 30, 2010							
	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt Securities								
Time deposits	$ -	$1,864	$ -	$1,864	$ -	$149	$ -	$149
Securities purchased under resale agreements	2,452	-	-	2,452	291	-	-	291
Government and agency securities	29,491	2,267	-	31,759	1,016.7	1,549	-	2,566
Corporate and convertible bonds	-	4,962	42	5,004	-	853	3	856
Asset-backed securities	-	1,288	545	1,832	-	53	18	70
Mortgage-backed securities	-	7,384	248	7,632	-	140	6	145
Total Debt Securities	**31,943**	**17,765**	**834**	**50,542**	**1,308**	**2,743**	**26**	**4,077**
Equities								
US common stocks	2,969	-	-	2,969	253	-	-	253
Non-US common stocks	9,435	-	-	9,435	1,009	-	-	1,009
Mutual funds	532	-	-	532	48	-	-	48
Real estate investment trusts (REITS)	1,890	-	-	1,890	12	-	-	12
Total Equity Securities	**14,826**	**-**	**-**	**14,826**	**1,323**	**-**	**-**	**1,323**
Commingled funds	-	6,001	-	6,001	-	1,179	-	1,179
Real estate (including infrastructure and timber)	-	-	7,892	7,892	-	-	632	632
Private equity	-	-	23,557	23,557	-	-	2,888	2,888
Hedge funds	-	12,378	4,499	16,877	-	800	367	1,167
Derivative assets/ liabilities	48	(146)	-	(98)	1	61	-	62
Other assets/liabilities	-	-	-	(1,083)	-	-	-	(76)
Total Assets	**$46,816**	**$35,997**	**$36,782**	**$118,513**	**$2,632**	**$4,783**	**$3,913**	**$11,252**

Valuation Methods and Assumptions

The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of Plan assets. It is important to note that the investment amounts in the asset categories shown in the table above may be different from the asset category allocation shown in the Investment Strategy section of the note. Asset classes in the table above are grouped by the characteristics of the investments held. The asset class break-down in the Investment Strategy section is based on management's view of the economic exposures after considering the impact of derivatives and certain trading strategies.

Debt securities include time deposits, U.S. treasuries and agencies, debt obligations of foreign governments and debt obligations in corporations of domestic and foreign issuers. Fixed income also includes investments in asset-backed securities such as collateralized mortgage obligations and mortgage-backed securities. These securities are valued by independent pricing vendors at quoted market prices for the same or similar securities, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Some debt securities are valued using

techniques that require significant unobservable inputs. The selection of these inputs may involve some judgment. Plan management believes its estimates of fair value are reasonable given its processes for obtaining securities prices from multiple independent third-party vendors, ensuring that valuation models are reviewed and validated, and applying its approach consistently from period to period. Unless quoted prices are available, money market instruments and securities purchased under resale agreements are reported at face value, which approximates fair value.

Equity securities (including REITS) are invested in companies in various industries and countries. Investments in public equity listed on securities exchanges are valued at the last reported sale price on the last business day of the fiscal year.

Commingled funds are typically common or collective trusts reported at NAV as provided by the investment manager or sponsor of the fund based on valuation of underlying investments, and reviewed by management.

Private equity includes investments primarily in leveraged buyouts, distressed investments and venture capital funds across North America, Europe and Asia in a variety of sectors. A large number of these funds are in the investment phase of their life cycle. Private Equity investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, and reviewed by management, taking into consideration the latest audited financial statements of the funds. The underlying investments are valued using inputs such as cost, operating results, discounted future cash flows and trading multiples of comparable public securities.

Real estate includes several funds that invest in core real estate as well as non-core types of real estate investments such as debt, value add, and opportunistic equity investments. Real estate investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, and reviewed by management, taking into consideration the latest audited financial statements of the funds. The valuations of underlying investments are based on income and/or cost approaches or comparable sales approach, and taking into account discount and capitalization rates, financial conditions, local market conditions among others.

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. Hedge funds include investments in equity, event driven, fixed income, multi-strategy and macro relative value strategies. These investments do not have a readily determinable fair market value and are reported at NAVs provided by external managers or fund administrators (based on the valuations of underlying investments) on a monthly basis, and reviewed by management, taking into consideration the latest audited financial statements of the funds.

Investment in derivatives such as equity or bond futures, to be announced (TBA) securities, swaps, options and currency forwards are used to achieve a variety of objectives that include hedging interest rates and currency risks, gaining desired market exposure of a security, an index or currency exposure and rebalancing the portfolio. Over-the-counter derivatives are reported using valuations based on discounted cash flow methods incorporating market observable inputs.

The following tables present a reconciliation of Level 3 assets held during the years ended June 30, 2011 and June 30, 2010. Investment in certain real estate funds that were identified as redeemable within 90 days of the period end were transferred out of Level 3 into Level 2.

In thousands of US dollars

SRP - Fair Value Measurements Using Significant Unobservable Inputs (Level 3), Year Ended June 30, 2011

	Corporate and convertible Debt	Asset-backed Securities	Mortgage-backed Securities	Private Equity	Real Estate	Hedge Funds	Total
Balance as of July 1, 2010	$42	$545	$248	$23,557	$7,892	$4,499	$36,782
Actual return on plan assets:							-
Relating to assets still held at the reporting date	3	55	11	619	1,627	491	2,805
Relating to assets sold during the period	-	(34)	(7)	2,823	181	276	3,240
Purchases, issuance and settlements, net	3	26	(20)	395	1,678	(1,815)	267
Transfers in (out)	(23)	(324)	(77)	-	(3,354)	66	(3,710)
Balance as of June 30, 2011	**25**	**268**	**154**	**27,394**	**8,024**	**3,518**	**39,384**

In thousands of US dollars

RSBP - Fair Value Measurements Using Significant Unobservable Inputs (Level 3), Year Ended June 30, 2011

	Corporate and convertible Debt	Asset-backed Securities	Mortgage-backed Securities	Private Equity	Real Estate	Hedge Funds	Total
Balance as of July 1, 2010	3	18	6	2,888	632	367	3,913
Actual return on plan assets:							
Relating to assets still held at the reporting date	0	4	2	172	111	32	321
Relating to assets sold during the period	(0)	(3)	(1)	351	25	40	413
Purchases, issuance and settlements, net	(3)	13	1	1	205	(145)	72
Transfers in (out)	-	(15)	-	-	(84)	4	(95)
Balance as of June 30, 2011	**-**	**17**	**8**	**3,412**	**889**	**298**	**4,624**

In thousands of US dollars

SRP - Fair Value Measurements Using Significant Unobservable Inputs (Level 3), Year Ended June 30, 2010

	Corporate and convertible Debt	Asset-backed Securities	Mortgage-backed Securities	Private Equity	Real Estate	Hedge Funds	Total
Balance as of July 1, 2009	49	352	1,811	18,560	6,553	18,447	45,772
Actual return on plan assets:							
Relating to assets still held at the reporting date	10	50	210	2,901	(183)	3,404	6,392
Relating to assets sold during the period	6	53	7	1,342	124	476	2,008
Purchases, issuance and settlements, net	(8)	140	(178)	754	1,398	(6,539)	(4,432)
Transfers in (out)	(15)	(50)	(1,603)	-	-	(11,289)	(12,957)
Balance as of June 30, 2010	**42**	**545**	**248**	**23,557**	**7,892**	**4,499**	**36,782**

In thousands of US dollars

RSBP - Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year Ended June 30, 2010

	Corporate and convertible Debt	Asset-backed Securities	Mortgage-backed Securities	Private Equity	Real Estate	Hedge Funds	Total
Balance as of July 1, 2009	1	35	75	2,281	518	1,348	4,258
Actual return on plan assets:							
Relating to assets still held at the reporting date	0	(1)	6	355	(32)	91	419
Relating to assets sold during the period	-	6	(0)	133	7	30	176
Purchases, issuance and settlements, net	(0)	(26)	(5)	119	139	(473)	(246)
Transfers in (out)	2	4	(70)	-	-	(629)	(693)
Balance as of June 30, 2010	**3**	**18**	**6**	**2,888**	**632**	**367**	**3,913**

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, 2011.

In thousands of US dollars	SRP	RSBP		PEBP
		Before Medicare Part D Subsidy	Medicare Part D Subsidy	
July 1, 2011 - June 30, 2012	$4,895	$313	$8	$433
July 1, 2012 - June 30, 2013	5,209	358	9	432
July 1, 2013 - June 30, 2014	5,500	404	10	456
July 1, 2014 - June 30, 2015	5,907	449	11	516
July 1, 2015 - June 30, 2016	6,273	495	13	557
July 1, 2016 - June 30, 2021	37,020	3,380	88	3,342

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, 2011 is $2,388,000 and $999,000, respectively.

Note G: Transactions with Affiliated Organizations

MIGA obtains certain administrative and support services from IBRD and IFC. These include human resources, information systems, and administrative services as well as investment management and treasury operations. MIGA also contributes its share of the World Bank Group's corporate costs. Payments for these services are made by MIGA to IBRD and IFC based on negotiated fees, charge backs and allocated charges where charge back is not feasible. Total fees paid by MIGA for the fiscal year ended June 30, 2011 and June 30, 2010 are as follows:

In thousands of US dollars	June 30, 2011	June 30, 2010
Fees charged by IBRD	$9,758	$8,046
Fees charged by IFC	3,389	514

At June 30, 2011 and June 30, 2010, 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, 2011			June 30, 2010		
	Administrative Services	Pension and Other Postretirement Benefits	Total	Administrative Services	Pension and Other Postretirement Benefits	Total
IBRD	$(3,040)	$4,541	$1,501	$(2,867)	$3,992	$1,125
IFC	(1,043)	-	(1,043)	(314)	-	(314)
	$(4,083)	**$4,541**	**$458**	**$(3,181)**	**$3,992**	**$811**

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, receivables for investment securities sold, payables for investment securities purchased, accounts payable and accrued expenses 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 the 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 addition, claims reserves for the guarantee portfolio are calculated using MIGA's Economic Capital model.

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. In order to prevent excessive risk concentration, MIGA uses the Economic Capital model to set exposure limits per country and per project, and to support decision making in terms of pricing and exposure retention for new projects. MIGA's reinsurance program, including treaty and facultative reinsurance, is linked to the portfolio risk modeling and helps manage the risk profile of the portfolio.

The Economic Capital model also serves as the cornerstone of MIGA's capital adequacy framework, and provides the analytical basis for risk-based pricing of its products as well as quantification of the need for prudent technical provisions for claims. In addition, the model-based capital adequacy assessment determines the size and duration targets for MIGA's liquidity holdings. The economic capital, pricing models and underlying parameters are reviewed periodically. EC-based risk measures are combined with nominal exposures and income information in a comprehensive portfolio exposure and risk report prepared for MIGA management on a monthly basis.

■ **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 would impact the net income in FY11 by approximately $21.3 million (FY10: $6.1 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% change

in the USD/Euro year-end exchange rate would impact net income in FY11 by approximately $8.1 million (FY10: $11.6 million) and net guarantee exposure by approximately $203.4 million (FY10: $132.2 million). The impact on the net income is mitigated by an offsetting effect due to exchange rate movement on provision for claims. This foreign exchange rate sensitivity is illustrative only and is based on simplified scenarios.

■ **Liquidity Risk** Adequate liquidity resources need to be maintained to sustain the Agency over prolonged periods of cash payouts due to claims. MIGA assesses and monitors the availability of its liquid assets on a periodic basis and analyzes the impact on its finances (capital and liquidity) under severe stress scenarios where claims situations propagate through contagion across countries and regions. As of June 30, 2011, there were claims filed with the Agency for $10 million. It is estimated that a claims payout would be made within a year, provided that the claim is valid.

■ **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 mitigates operational risks by maintaining a sound internal control system. Since 2000, MIGA has adopted the 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.

MIGA's internal controls are regularly evaluated through independent review by the Internal Audit Department (IAD) of the World Bank Group.

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. MIGA redesigned its core information and financial system for managing and reporting data on activities supporting the guarantee process and implemented a new Guarantee Database on a SAP-based platform in March 2010.

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.