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MANAGEMENT'S DISCUSSION AND ANALYSIS (FY12)

FINANCIAL STATEMENTS



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 177 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.

Since its inception, MIGA has issued \$27.2 billion of guarantees (including amounts issued under the Cooperative Underwriting Program), in support of 701 projects in 105 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.

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.

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

TABLE 1 – CUMULATIVE GUARANTEES ISSUED IN MEMBER COUNTRIES

	FY12	FY11	FY10	FY09	FY08
Cumulative Guarantees Issued (\$B)*	27.2	24.5	22.4	20.9	19.5
Host Countries	105	104	100	99	99

* Includes amounts from Cooperative Underwriting Program.

The total gross and net exposures at June 30, 2012 amounted to \$10.3 billion and \$6.3 billion compared to \$9.1 billion and \$5.2 billion respectively at the end of FY11. During FY12, MIGA supported 50 projects² of which 29 projects were in one or more priority areas identified in the Agency's business strategy. This includes guarantees issued for \$1,090.5 million in support of 24 projects in IDA-eligible countries, \$1,581.7 million in support of 12 complex projects, \$340.7 million in support of 9 projects in conflict affected countries and \$589.4 million in support of 11 projects with South-South investments.

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 Africa and Middle East & North Africa regions increased by 3.2 percent and 3.0 percent, respectively, from the previous fiscal year while the Europe and Central Asia region decreased by 6.1 percent in FY12. The increase in Africa and MENA's percentage of net exposure can be attributed to several projects supporting financial, infrastructure and manufacturing clients in these regions.

TABLE 2 – REGIONAL DISTRIBUTION OF GROSS AND NET EXPOSURE (\$M)

	Gross			Net			% of Total Net Exposure		
	FY12	FY11	FY10	FY12	FY11	FY10	FY12	FY11	FY10
Africa	1,574	1,102	1,103	1,258	886	888	20.1	16.9	20.7
Asia	1,392	1,296	706	861	759	505	13.7	14.5	11.7
Europe and Central Asia	5,543	5,432	4,419	3,018	2,844	2,021	48.2	54.3	47.0
Latin America and the Caribbean	1,069	1,006	1,130	642	569	638	10.3	10.8	14.9
Middle East and North Africa	768	416	494	483	246	310	7.7	4.7	7.2
Adjustment for Dual Country and Master Agreements*	-	-130	-130	-	-65	-65	-	-1.2	-1.5
Total	10,346	9,122	7,723	6,262	5,239	4,296	100.0	100.0	100.0

Note: numbers may not add up due to rounding.

* 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.

Table 3 shows the sector distribution of MIGA's gross and net guarantee exposures over the past three years. The percentage of net exposure in the Infrastructure and Tourism, Construction and Services sectors increased by 6.6 percent and 4.1 percent respectively from the previous fiscal year while the Financial sector decreased by 8.4 percent in FY12.

TABLE 3 – SECTOR DISTRIBUTION OF GROSS AND NET EXPOSURE (\$M)

	Gross			Net			% of Total Net Exposure		
	FY12	FY11	FY10	FY12	FY11	FY10	FY12	FY11	FY10
Agribusiness	224	246	80	197	187	73	3.1	3.6	1.7
Financial	4,297	4,456	4,022	2,270	2,341	1,855	36.3	44.7	43.2
Infrastructure	3,920	2,961	2,302	2,436	1,694	1,475	38.9	32.3	34.3
Manufacturing	774	790	587	457	472	341	7.3	9.0	7.9
Mining	241	243	105	171	172	40	2.7	3.3	0.9
Oil & Gas	336	234	468	261	195	369	4.2	3.7	8.6
Tourism, Const and Services	554	193	159	469	177	145	7.5	3.4	3.4
Total	10,346	9,122	7,723	6,262	5,239	4,296	100.0	100.0	100.0

Note: numbers may not add up due to rounding.

MIGA is able to provide investors with a higher level of investment insurance coverage through the use of reinsurance arrangements with public and private insurers. MIGA cedes exposure to its reinsurance partners, thereby enhancing its capacity and allowing it to better manage its risk profile, project and country exposure levels. 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.

² In addition MIGA is supporting two projects executed through the West Bank and Gaza Trust Fund during FY12.

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* provided an in-depth analysis on the risk of expropriation—perceived risk, actual dimensions, and preferred containment strategies. It found that the probability of disputes between governments and foreign investors is materially increased by an economic shock and/or significant political shift. It also addressed FDI in the Middle East and North Africa in light of the Arab Spring, as well as the reaction of multinational enterprises to those developments.

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 FY12, MIGA engaged with investors or governments in relation to projects located in Argentina, Guinea, Senegal, Rwanda, Sierra Leone, and Uganda.

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

The contraction and low-growth in developed countries, especially in the euro zone, has prompted a shift in global investment patterns, with more investors and lenders seeking opportunities in riskier markets. More generally, the ongoing global volatility has prompted many investors to reevaluate their risk-mitigation strategies. MIGA's guarantee holders continue to show a certain level of caution and risk aversion by maintaining their political risk coverage for existing projects for longer periods than in years prior.

Operational Priorities

In FY11, 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 countries³* (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, 2012 the total authorized shares increased to 186,259, equivalent to \$2,015.3 million subscribed by 177 member countries. South Sudan and Niger completed their membership requirement during FY12.

As of June 30, 2012, the initial subscribed shares increased to 107,700, equivalent to \$1,165.3 million. Of the initial membership shares subscribed, 20 percent or \$233.1 million had been paid-in and the remaining 80 percent or \$932.2 million was subject to call when needed by MIGA to meet its obligations. At June 30, 2012, \$113.8 million is in the form of nonnegotiable, non-interest bearing demand obligations (promissory notes). The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. Since inception, MIGA has not encashed any of the promissory notes.

³ MIGA's categorization for developing countries; see MIGA Member Countries list in the Appendices section of the Annual Report

As of June 30, 2012, cumulative subscriptions to the General Capital Increase (GCI) totaled 69,303 shares, equivalent to \$749.8 million, and General Capital Increase (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, 2012, MIGA's total subscribed capital amounted to \$1,915.1 million, of which \$365.4 million was paid-in and \$1,549.7 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, 2012 was \$905.2 million compared with \$924.0 million as of June 30, 2011. This amount consists of subscribed capital, less uncalled portions of subscriptions, plus retained earnings and accumulated other comprehensive income (loss). The decrease of \$18.8 million in FY12 reflects increased retained earnings of \$5.9 million, an increase in accumulated other comprehensive loss of \$25.1 million and an increase in subscribed capital \$0.4 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, 2012, MIGA's underwriting capacity was \$13,093 million, as follows:

Subscribed Capital	1,915
Retained Earnings	572
Accumulated Other Comprehensive Income (loss)	(32)
Insurance Portfolio Reserve (net)	220
Total	2,675
350% of Subscribed Capital, Retained Earnings, Other Comprehensive Income and Reserve	9,361
90% of Reinsurance Ceded with Private Insurers	3,176
100% of Reinsurance Ceded with Public Insurers	555
Statutory Underwriting Capacity - June 30, 2012	13,093

As of June 30, 2012, MIGA's gross exposure was \$10,345.9 million and represented 79 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. It provides an analytically rigorous measure for assessing the consumption of risk capital by the core guarantee business, and incorporates the effects from portfolio diversification and concentration. In addition, MIGA estimates the minimum amount of capital that should be held against operational risk in the Agency. Total economic capital defined as capital consumption from both the guarantee portfolio and operational risk represents a broader measure of MIGA's capital adequacy. As of June 30, 2012, the economic capital consumed by the guarantee portfolio amounted to \$459 million and the total economic capital for the Agency amounted to \$562 million. This compared to \$374 million and \$465 million, respectively, as of June 30, 2011.

Through an annual exercise of gauging the capital adequacy position, the current amount of economic capital 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 economic capital 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 economic capital 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 measures of the current utilization of this capital, by the guarantee portfolio and by the Agency as a whole, Table 5 shows the ratios of guarantee portfolio and total economic capital to operating capital over the past three years. These ratios have increased to 40.8 percent and 50.0 percent, respectively, in FY12 compared with 34.0 percent and 42.3 percent in FY11. Table 5 also shows the ratio of guarantee portfolio economic capital to portfolio net exposure, to gauge year-on-year changes to the relative risk-level of the guarantee portfolio. As of end-FY12, this ratio stood at 7.3 percent compared to 7.1 percent at end-FY11. The ratios indicate a strong and stable capital position for the Agency at the end of FY12.

TABLE 5 – CAPITAL ADEQUACY SUMMARY (FY10-12, \$M)

	FY12	FY11	FY10
Guarantee Portfolio Economic Capital	459	374	323
Total Economic Capital	562	465	400
Insurance Portfolio Reserve (net)	220	175	157
Retained Earnings and Accumulated Other Comp. Income	540	559	510
Paid-in Capital	365	365	365
Operating Capital	1,125	1,099	1,033
Net Exposure	6,262	5,239	4,296
Guarantee Portfolio Economic Capital/Operating Capital	40.8%	34.0%	31.3%
Total Economic Capital/Operating Capital	50.0%	42.3%	38.8%
Guarantee Portfolio Economic Capital/Net Exposure	7.3%	7.1%	7.5%

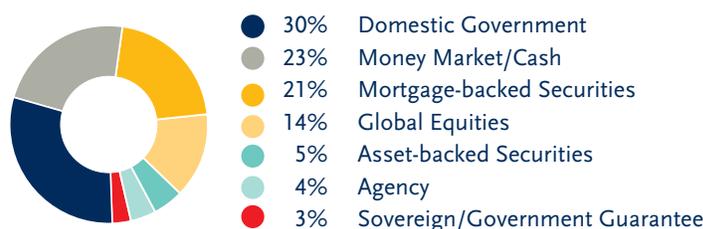
Note: numbers may not add up due to rounding

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 target duration between 1 to 2 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 FY12, 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 annual portfolio yield was 3.6 percent in FY12 versus 1.4 percent in FY11. And the market value of MIGA's asset portfolio was \$1,090 million as of June 30, 2012, of which \$94 million resided in non-US dollar denominated investments.

FIGURE 1 – PORTFOLIO COMPOSITION OF MIGA'S TOTAL HOLDINGS AS OF JUNE 30, 2012

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.⁴

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.

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

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

FY12 operating income was \$17.8 million, an increase of \$8.1 million versus FY11 primarily due to higher net premium income of \$10.9 million, offset by higher administrative expenses of \$2.8 million. FY12 net income of \$5.9 million represented a decrease of \$37.2 million compared to net income of \$43.1 million in FY11, due to higher provisioning for FY12 issued guarantees. Table 6 below shows the breakdown of MIGA's operating income and net income over the past three years.

TABLE 6 – ANALYSIS OF OPERATING INCOME AND NET INCOME (\$M)

	FY12	FY11	FY10
Total Guarantees Issued ¹	2,657	2,099	1,464
Gross Exposure	10,346	9,122	7,723
Net Exposure	6,262	5,239	4,296
Premium Income	89.2	75.2	71.8
Premium Ceded	(33.7)	(30.6)	(30.6)
Fees and Commissions	6.2	6.3	4.8
Net Premium Income	61.7	50.8	46.0
Income from Investments	36.9	13.9	24.1
Administrative and Other Expenses	(43.9)	(41.1)	(36.2)
Operating Income²	17.8	9.7	9.8
Translation Gain (Loss)	(11.5)	17.8	(19.5)
Release of (Provision for) Claims ³	(37.3)	1.7	(30.9)
Net Income (Loss)	5.9	43.1	(16.5)
Operating Capital	1,125	1,099	1,033
Guarantee Portfolio Economic Capital (EC)	459	374	323
ROOC⁴ (before provisions)	3.8%	3.8%	1.4%
ROOC (after provisions)	0.5%	3.9%	-1.6%
ROCU⁵	3.9%	2.6%	3.0%

Note: numbers may not add up due to rounding

¹ Including Cooperative Underwriting Program contracts.

² Operating Income = Net Premium Income less Administrative and Other Expenses; Prior FY calculations were adjusted to reflect this definition, and now exclude Investment Income

³ Provisions are net of currency translation effect

⁴ Return on Operating Capital = Net Income/Operating Capital

⁵ Return on Capital Utilized = (Net Premium Income less Administrative and Other Expenses)/Economic Capital Utilized by the Guarantee Portfolio

FY12 versus FY11

MIGA issued \$2.657 billion in guarantees during FY12, \$558 million higher than in FY11. New issues when combined with lower policy cancellations resulted in overall growth of MIGA's guarantee portfolio and premium income. In FY12, gross exposure and gross premium income increased by \$1,224 million and \$14 million, respectively. Premium amounts ceded to reinsurers increased by \$3.1 million.

MIGA's investment portfolio generated \$36.9 million of investment income in FY12, compared with \$13.9 million in FY11. The yield was 3.6 percent in FY12, compared with 1.4 percent in FY11. Interest income and dividend income contributed \$19.0 million to investment income. This was supplemented by valuation gains of \$13.4 million on MIGA's Long Term Fixed Income holdings and gains on MBS holdings of \$4.0 million plus gains on all other asset holdings of \$0.5 million.

Administrative and other expenses increased to \$43.9 million in FY12, compared with \$41.1 million in FY11.

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 the review and oversight of MIGA's 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 which 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.

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 Directors, World Bank Group Senior Management, and MIGA Senior Management.
- "Statement(s) of the Chairman" and state ments 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 position, financial statement presentations, risk assessment, and risk management, as well as matters regarding governance and controls. The Audit Committee meets both formally and informally throughout the year to discuss finance, accounting, risk management, and internal controls matters. The Directors have unrestricted 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 does every day. The Code applies to all staff worldwide and is available on IBRD's website, www.worldbank.org. All MIGA staff has 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 (potential or actual) conflicts of interest, senior managers are required to complete an annual 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 is composed of professionals from a range of disciplines including financial analysts, researchers, investigators, lawyers, prosecutors, forensic accountants, and staff with operational experience across the World Bank Group. 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
- 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

The external auditor is 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. The Board of 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 invited as an observer to attend 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.



**Multilateral Investment
Guarantee Agency**
World Bank Group

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

August 9, 2012

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 in the United States of America and International Financial Reporting Standards as of June 30, 2012. 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

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

MANAGEMENT'S REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING
(cont'd)

- 2 -

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, 2012. 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.



Jim Yong Kim
President



Lakshmi Shyam-Sunder
Acting Executive Vice President



Thomas Ho Quen Hum
Controller

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



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

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, 2012, 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 LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.



Multilateral Investment Guarantee Agency
August 9, 2012
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, 2012 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 sheet of MIGA as of June 30, 2012 and 2011, including the statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2012, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the fiscal years in the two-year period ended June 30, 2012, and our report dated August 9, 2012 expressed an unqualified opinion on those financial statements.

KPMG LLP

August 9, 2012



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

We have audited the accompanying balance sheet of the Multilateral Investment Guarantee Agency (MIGA) as of June 30, 2012 and 2011, including the statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2012, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the fiscal years in the two-year period ended June 30, 2012. These financial statements are the responsibility of 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, 2012 and 2011, and the results of its operations and its cash flows for each of the fiscal years in the two-year period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America 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, 2012, 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 9, 2012 expressed an unqualified opinion on management's assertion.

KPMG LLP

August 9, 2012

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of Swiss International Cooperative ("KPMG International"), a Swiss entity.

BALANCE SHEET

June 30, 2012 and June 30, 2011, expressed in thousands of US dollars

	FY12	FY11
ASSETS		
CASH	\$10,485	\$11,049
INVESTMENTS - Trading (including securities transferred under repurchase agreements) - Note B	1,091,326	1,105,559
Securities purchased under resale agreements - Note B	13,000	-
Derivative Assets - Note B	282,918	115,120
NONNEGOTIABLE, NONINTEREST-BEARING DEMAND OBLIGATIONS - Note C	113,794	115,088
OTHER ASSETS		
Receivable for investment securities sold - Note B	1,475	12,646
Estimated reinsurance recoverables - Note E	52,900	40,300
Prepaid premiums ceded to reinsurers	34,384	33,327
Net assets under retirement benefits plans - Note F	9,248	27,546
Miscellaneous	12,908	2,017
	110,915	115,836
TOTAL ASSETS	\$1,622,438	\$1,462,652
Liabilities and Shareholders' Equity		
LIABILITIES		
Payable for investment securities purchased - Note B	\$4,641	\$57,185
Securities sold under repurchase agreements - Note B	15,190	26,674
Derivative liabilities - Note B	282,050	115,342
Accounts payable and accrued expenses	43,695	43,294
Unearned premiums and commitment fees	93,432	67,811
Reserve for claims - Note E		
Specific reserve for claims	7,700	17,100
Insurance portfolio reserve	270,500	211,200
Reserve for claims - gross	278,200	228,300
Total liabilities	717,208	538,606
CONTINGENT LIABILITIES – Note D		
SHAREHOLDERS' EQUITY		
Capital stock – Note C		
Authorized capital (186,259 shares - June 30, 2012; 186,042 shares-June 30, 2011)		
Subscribed capital (177,003 shares- June 30, 2012; 176,786 shares-June 30, 2011)	1,915,172	1,912,825
Less uncalled portion of subscriptions	1,549,759	1,547,882
	365,413	364,943
Payments on account of pending subscriptions	-	67
	365,413	365,010
Retained earnings	572,271	566,376
Accumulated other comprehensive loss	(32,454)	(7,340)
Total shareholders' equity	905,230	924,046
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,622,438	\$1,462,652

See accompanying notes to the financial statements

STATEMENT OF INCOME

For the fiscal years ended June 30, 2012 and June 30, 2011, expressed in thousands of US dollars

	FY12	FY11
INCOME		
Income from guarantees		
Premium income - Note D	\$89,179	\$75,195
Premium ceded - Note D	(33,681)	(30,630)
Fees and commissions	6,206	6,260
Total	61,704	50,825
Income from investments - Note B	36,898	13,850
Translation (losses) gains	(11,523)	17,843
Total income	87,079	82,518
EXPENSES		
Provision for (release of) claims - Note E	37,300	(1,700)
Administrative expenses	43,884	41,079
Total expenses	81,184	39,379
NET INCOME	\$5,895	\$43,139

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2012 and June 30, 2011, expressed in thousands of US dollars

	FY12	FY11
NET INCOME	\$5,895	\$43,139
OTHER COMPREHENSIVE (LOSS) INCOME		
Change in unrecognized net actuarial (losses) gains on benefit plans	(23,758)	5,449
Change in unrecognized prior service (costs) credits on benefit plans	(1,356)	118
Total other comprehensive (loss) income	(25,114)	5,567
COMPREHENSIVE (LOSS) INCOME	\$(19,219)	\$48,706

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal years ended June 30, 2012 and June 30, 2011, expressed in thousands of US dollars

	FY12	FY11
CAPITAL STOCK		
Balance at beginning of the fiscal year	\$365,010	\$365,010
Paid-In subscriptions	403	-
Ending Balance	\$365,413	365,010
RETAINED EARNINGS		
Balance at beginning of the fiscal year	566,376	523,237
Net income	5,895	43,139
Ending Balance	572,271	566,376
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of the fiscal year	(7,340)	(12,907)
Other comprehensive (loss) income	(25,114)	5,567
Ending Balance	(32,454)	(7,340)
TOTAL SHAREHOLDERS' EQUITY	\$905,230	\$924,046

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2012 and June 30, 2011, expressed in thousands of US dollars

	FY12	FY11
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$5,895	\$43,139
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for (release of) claims - Note E	37,300	(1,700)
Translation losses/(gains)	11,523	(17,843)
Net changes in:		
Investments - Trading	(52,951)	(56,197)
Other assets, excluding investment receivables	(2,424)	(13,882)
Accounts payable and accrued expenses	(29,371)	21,462
Unearned premiums and commitment fees	30,254	26,400
Net cash provided by operating activities	226	1,379
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital subscription payments	168	-
Net cash provided by financing activities	168	-
EFFECT OF EXCHANGE RATE CHANGES ON CASH		
Net (decrease) increase in cash	(564)	2,127
Cash at beginning of the fiscal year	11,049	8,922
CASH AT END OF THE FISCAL YEAR	\$10,485	\$11,049

See accompanying notes to the financial statements

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

As of June 30, 2012, 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	354	0.16
Albania	102	1,104	210	894	338	0.15
Algeria	1,144	12,378	2,350	10,028	1,380	0.63
Angola	187	2,023	405	1,618	423	0.19
Antigua and Barbuda	50	541	108	433	286	0.13
Argentina	2,210	23,912	4,539	19,373	2,446	1.12
Armenia	80	866	173	693	316	0.14
Australia	3,019	32,666	6,201	26,465	3,255	1.49
Austria	1,366	14,780	2,806	11,974	1,602	0.73
Azerbaijan	115	1,244	249	995	351	0.16
Bahamas, The	176	1,904	362	1,542	412	0.19
Bahrain	136	1,472	279	1,193	372	0.17
Bangladesh	599	6,481	1,230	5,251	835	0.38
Barbados	120	1,298	246	1,052	356	0.16
Belarus	233	2,521	504	2,017	469	0.21
Belgium	3,577	38,703	7,347	31,356	3,813	1.74
Belize	88	952	181	771	324	0.15
Benin	108	1,169	222	947	344	0.16
Bolivia	220	2,380	452	1,928	456	0.21
Bosnia and Herzegovina	80	866	173	693	316	0.14
Botswana	88	952	181	771	324	0.15
Brazil	2,606	28,197	5,353	22,844	2,842	1.30
Bulgaria	643	6,957	1,321	5,636	879	0.40
Burkina Faso	61	660	132	528	297	0.14
Burundi	74	801	160	641	310	0.14
Cambodia	164	1,774	337	1,437	400	0.18
Cameroon	107	1,158	232	926	343	0.16
Canada	5,225	56,535	10,732	45,803	5,461	2.50
Cape Verde	50	541	108	433	286	0.13
Central African Rep.	60	649	130	519	296	0.14
Chad	60	649	130	519	296	0.14
Chile	855	9,251	1,756	7,495	1,091	0.50
China	5,530	59,835	11,359	48,476	5,766	2.64
Colombia	770	8,331	1,582	6,749	1,006	0.46
Congo, Dem. Rep. of	596	6,449	1,224	5,225	832	0.38
Congo, Republic of	115	1,244	236	1,008	351	0.16
Costa Rica	206	2,229	423	1,806	442	0.20
Côte d'Ivoire	310	3,354	637	2,717	546	0.25
Croatia	330	3,571	678	2,893	566	0.26
Cyprus	183	1,980	376	1,604	419	0.19
Czech Republic	784	8,483	1,610	6,873	1,020	0.47
Denmark	1,265	13,687	2,598	11,089	1,501	0.69
Djibouti	50	541	108	433	286	0.13
Dominica	50	541	108	433	286	0.13
Dominican Republic	147	1,591	318	1,273	383	0.18
Ecuador	321	3,473	659	2,814	557	0.25
Egypt, Arab Republic of	809	8,753	1,662	7,091	1,045	0.48
El Salvador	122	1,320	264	1,056	358	0.16
Equatorial Guinea	50	541	108	433	286	0.13
Eritrea	50	541	108	433	286	0.13
Estonia	115	1,244	236	1,008	351	0.16
Ethiopia	123	1,331	253	1,078	359	0.16

See accompanying notes to the financial statements

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER (cont'd)

As of June 30, 2012, 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	307	0.14
Finland	1,057	11,437	2,171	9,266	1,293	0.59
France	8,565	92,673	17,593	75,080	8,801	4.02
Gabon	169	1,829	347	1,482	405	0.19
Gambia, The	50	541	108	433	286	0.13
Georgia	111	1,201	240	961	347	0.16
Germany	8,936	96,688	18,355	78,333	9,172	4.19
Ghana	432	4,674	887	3,787	668	0.31
Greece	493	5,334	1,013	4,321	729	0.33
Grenada	50	541	108	433	286	0.13
Guatemala	140	1,515	303	1,212	376	0.17
Guinea	91	985	197	788	327	0.15
Guinea-Bissau	50	541	108	433	286	0.13
Guyana	84	909	182	727	320	0.15
Haiti	75	812	162	650	311	0.14
Honduras	178	1,926	366	1,560	414	0.19
Hungary	994	10,755	2,042	8,713	1,230	0.56
Iceland	90	974	195	779	326	0.15
India	5,371	58,114	11,032	47,082	5,607	2.56
Indonesia	1,849	20,006	3,798	16,208	2,085	0.95
Iran, Islamic Rep	1,659	17,950	3,590	14,360	1,895	0.87
Iraq	350	3,787	757	3,030	586	0.27
Ireland	650	7,033	1,335	5,698	886	0.40
Israel	835	9,035	1,715	7,320	1,071	0.49
Italy	4,970	53,775	10,208	43,567	5,206	2.38
Jamaica	319	3,452	655	2,797	555	0.25
Japan	8,979	97,153	18,443	78,710	9,215	4.21
Jordan	171	1,850	351	1,499	407	0.19
Kazakhstan	368	3,982	756	3,226	604	0.28
Kenya	303	3,278	622	2,656	539	0.25
Korea, Republic of	791	8,559	1,625	6,934	1,027	0.47
Kosovo	96	1,039	208	831	332	0.15
Kuwait	1,639	17,734	3,367	14,367	1,875	0.86
Kyrgyz Republic	77	833	167	666	313	0.14
Lao People's Dem	60	649	130	519	296	0.14
Latvia	171	1,850	351	1,499	407	0.19
Lebanon	250	2,705	514	2,191	486	0.22
Lesotho	88	952	181	771	324	0.15
Liberia	84	909	182	727	320	0.15
Libya	549	5,940	1,188	4,752	785	0.36
Lithuania	187	2,023	384	1,639	423	0.19
Luxembourg	204	2,207	419	1,788	440	0.20
Macedonia, FYR of	88	952	181	771	324	0.15
Madagascar	176	1,904	362	1,542	412	0.19
Malawi	77	833	167	666	313	0.14
Malaysia	1,020	11,036	2,095	8,941	1,256	0.57
Maldives	50	541	108	433	286	0.13
Mali	143	1,547	294	1,253	379	0.17
Malta	132	1,428	271	1,157	368	0.17
Mauritania	111	1,201	228	973	347	0.16
Mauritius	153	1,655	314	1,341	389	0.18

See accompanying notes to the financial statements

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER (cont'd)

As of June 30, 2012, 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	1,428	0.65
Micronesia, Fed. States of	50	541	108	433	286	0.13
Moldova	96	1,039	208	831	332	0.15
Mongolia	58	628	126	502	294	0.13
Montenegro	61	660	132	528	297	0.14
Morocco	613	6,633	1,259	5,374	849	0.39
Mozambique	171	1,850	351	1,499	407	0.19
Namibia	107	1,158	232	926	343	0.16
Nepal	122	1,320	251	1,069	358	0.16
Netherlands	3,822	41,354	7,850	33,504	4,058	1.85
New Zealand	513	5,551	1,110	4,441	749	0.34
Nicaragua	180	1,948	370	1,578	416	0.19
Niger	62	671	134	537	298	0.14
Nigeria	1,487	16,089	3,054	13,035	1,723	0.79
Norway	1,232	13,330	2,531	10,799	1,468	0.67
Oman	166	1,796	341	1,455	402	0.18
Pakistan	1,163	12,584	2,389	10,195	1,399	0.64
Palau	50	541	108	433	286	0.13
Panama	231	2,499	474	2,025	467	0.21
Papua New Guinea	96	1,039	208	831	332	0.15
Paraguay	141	1,526	290	1,236	377	0.17
Peru	657	7,109	1,350	5,759	893	0.41
Philippines	853	9,229	1,752	7,477	1,089	0.50
Poland	764	8,266	1,653	6,613	1,000	0.46
Portugal	673	7,282	1,382	5,900	909	0.42
Qatar	241	2,608	495	2,113	477	0.22
Romania	978	10,582	2,009	8,573	1,214	0.55
Russian Federation	5,528	59,813	11,355	48,458	5,764	2.63
Rwanda	132	1,428	271	1,157	368	0.17
St. Kitts & Nevis	50	541	108	433	286	0.13
St. Lucia	88	952	181	771	324	0.15
St. Vincent & the Grenadines	88	952	181	771	324	0.15
Samoa	50	541	108	433	286	0.13
Saudi Arabia	5,528	59,813	11,355	48,458	5,764	2.63
Senegal	256	2,770	526	2,244	492	0.22
Serbia	407	4,404	836	3,568	643	0.29
Seychelles	50	541	108	433	286	0.13
Sierra Leone	132	1,428	271	1,157	368	0.17
Singapore	272	2,943	559	2,384	508	0.23
Slovak Republic	391	4,231	803	3,428	627	0.29
Slovenia	180	1,948	370	1,578	416	0.19
Solomon Islands	50	541	108	433	286	0.13
South Africa	1,662	17,983	3,414	14,569	1,898	0.87
South Sudan	155	1,677	335	1,342	391	0.18
Spain	2,265	24,507	4,652	19,855	2,501	1.14
Sri Lanka	478	5,172	982	4,190	714	0.33
Sudan	206	2,229	446	1,783	442	0.20
Suriname	82	887	177	710	318	0.15
Swaziland	58	628	126	502	294	0.13
Sweden	1,849	20,006	3,798	16,208	2,085	0.95

See accompanying notes to the financial statements

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER (cont'd)

As of June 30, 2012, 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
Switzerland	2,643	28,597	5,429	23,168	2,879	1.32
Syrian Arab Republic	296	3,203	608	2,595	532	0.24
Tajikistan	130	1,407	267	1,140	366	0.17
Tanzania	248	2,683	509	2,174	484	0.22
Thailand	742	8,028	1,524	6,504	978	0.45
Timor-Leste	50	541	108	433	286	0.13
Togo	77	833	167	666	313	0.14
Trinidad and Tobago	358	3,874	735	3,139	594	0.27
Tunisia	275	2,976	565	2,411	511	0.23
Turkey	814	8,807	1,672	7,135	1,050	0.48
Turkmenistan	66	714	143	571	302	0.14
Uganda	233	2,521	479	2,042	469	0.21
Ukraine	1,346	14,564	2,765	11,799	1,582	0.72
United Arab Emirates	656	7,098	1,347	5,751	892	0.41
United Kingdom	8,565	92,673	17,593	75,080	8,801	4.02
United States	32,564	352,342	67,406	284,936	32,800	14.99
Uruguay	202	2,186	437	1,749	438	0.20
Uzbekistan	175	1,894	379	1,515	411	0.19
Vanuatu	50	541	108	433	286	0.13
Venezuela, R.B. de	1,427	15,440	3,088	12,352	1,663	0.76
Vietnam	388	4,198	797	3,401	624	0.29
Yemen, Republic of	155	1,677	335	1,342	391	0.18
Zambia	318	3,441	688	2,753	554	0.25
Zimbabwe	236	2,554	511	2,043	472	0.22
Total – June 30, 2012²	177,003	\$1,915,172	\$365,413	\$1,549,759	218,775	100.00
Total – June 30, 2011	176,786	\$1,912,825	\$364,943	\$1,547,882	218,961	100.00

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, 2012, expressed in thousands of US dollars

Host Country	Gross Exposure – Note D					Total	Reinsurance – Note D	Net Exposure
	US Dollars	Euro	Japanese Yen	Swiss Franc	British Pound			
Afghanistan	\$150,750	\$ -	\$ -	\$ -	\$ -	\$150,750	\$48,676	\$102,074
Albania	1,565	176,630	-	-	-	178,195	76,064	102,132
Algeria	-	3,247	-	-	-	3,247	-	3,247
Angola	12,900	-	-	-	-	12,900	1,290	11,610
Argentina	24,119	-	-	-	-	24,119	12,059	12,059
Armenia	-	3,585	-	-	-	3,585	-	3,585
Bangladesh	78,265	-	-	-	-	78,265	7,826	70,438
Benin	1,026	7,417	-	-	-	8,443	103	8,340
Bolivia	10,777	-	-	-	-	10,777	-	10,777
Bosnia and Herzegovina	-	115,638	-	-	-	115,638	517	115,121
Botswana	12,068	-	-	-	-	12,068	-	12,068
Brazil	-	19,598	-	-	-	19,598	9,799	9,799
Bulgaria	-	108,727	-	-	-	108,727	54,363	54,363
Burkina Faso	-	1,571	-	-	-	1,571	157	1,414
Burundi	-	641	-	-	-	641	-	641
Cameroon	-	6,468	-	-	-	6,468	-	6,468
Central African Republic	-	30,198	-	-	-	30,198	-	30,198
China	81,698	68,399	-	-	-	150,097	2,821	147,276
Colombia	-	2,510	-	-	-	2,510	-	2,510
Congo, Dem. Republic of	25,150	4,781	-	-	-	29,931	-	29,931
Congo, Republic of	-	4,855	-	-	-	4,855	-	4,855
Costa Rica	135,931	-	-	-	-	135,931	79,582	56,349
Cote d'Ivoire	80,251	67,075	-	-	-	147,326	44,225	103,101
Croatia	-	917,698	-	-	-	917,698	533,043	384,655
Djibouti	202,532	-	-	-	-	202,532	124,292	78,240
Dominican Republic	99,635	-	-	-	-	99,635	14,945	84,690
Ecuador	12,084	-	-	-	-	12,084	19	12,065
El Salvador	22,837	-	-	-	-	22,837	-	22,837
Ethiopia	13,960	-	-	-	2,809	16,769	-	16,769
Georgia	22,496	-	-	-	-	22,496	-	22,496
Ghana	161,224	1,577	-	-	-	162,801	15,325	147,476
Guinea	-	49,932	-	-	-	49,932	4,993	44,939
Guinea-Bissau	-	13,089	-	-	-	13,089	1,309	11,780
Honduras	-	5,976	-	-	-	5,976	-	5,976
Hungary	-	358,544	-	-	-	358,544	54,854	303,690
Indonesia	627,000	-	-	-	-	627,000	306,667	320,333
Iran, Islamic Republic of	90,810	-	-	-	-	90,810	9,081	81,729
Iraq	3,678	-	-	-	-	3,678	-	3,678
Jamaica	72,191	-	-	-	-	72,191	14,438	57,753
Jordan	203,895	-	-	-	-	203,895	80,210	123,686
Kazakhstan	396,992	-	-	-	-	396,992	239,530	157,462
Kenya	149,194	61,529	-	-	-	210,723	60,315	150,409
Kosovo	-	47,806	-	-	-	47,806	-	47,806
Kyrgyz Republic	7,653	-	-	-	-	7,653	189	7,464
Lao People's Dem. Republic	75,428	-	-	-	-	75,428	37,714	37,714
Latvia	4,104	149,393	-	-	-	153,498	410	153,087
Liberia	-	67,935	-	-	-	67,935	20,520	47,415
Macedonia, FYR	-	11,951	-	-	-	11,951	-	11,951
Madagascar	-	17,775	-	-	-	17,775	-	17,775
Mali	16,200	-	-	-	-	16,200	1,620	14,580

See accompanying notes to the financial statements

STATEMENT OF GUARANTEES OUTSTANDING (cont'd)

As of June 30, 2012, expressed in thousands of US dollars

Host Country	Gross Exposure – Note D					Total	Reinsurance – Note D	Net Exposure
	US Dollars	Euro	Japanese Yen	Swiss Franc	British Pound			
Mauritania	5,400	-	-	-	-	5,400	540	4,860
Moldova	-	13,825	-	-	-	13,825	-	13,825
Morocco	-	5,791	-	-	-	5,791	-	5,791
Mozambique	144,630	2,390	-	-	-	147,020	33,635	113,385
Nepal	29,394	-	-	-	-	29,394	17,671	11,722
Nicaragua	18,619	-	-	-	-	18,619	2,850	15,770
Nigeria	103,739	-	-	-	-	103,739	14,091	89,647
Pakistan	156,690	766	-	83,730	-	241,186	95,209	145,976
Panama	320,000	-	-	-	-	320,000	100,000	220,000
Peru	24,271	-	-	-	-	24,271	1,254	23,017
Poland	-	2,978	-	-	-	2,978	-	2,978
Romania	-	43,708	-	-	-	43,708	10,022	33,686
Russian Federation	747,750	69,146	-	-	-	816,896	364,879	452,017
Rwanda	119,643	-	-	-	-	119,643	15,378	104,265
Senegal	99,000	56,017	-	-	-	155,017	26,243	128,773
Serbia	-	477,299	-	-	-	477,299	135,915	341,384
Sierra Leone	17,770	-	-	-	-	17,770	500	17,270
South Africa	15,825	-	-	11,775	-	27,600	-	27,600
Swaziland	20,831	-	-	-	-	20,831	10,416	10,416
Syrian Arab Republic	75,000	-	-	-	-	75,000	7,500	67,500
Thailand	90,428	-	-	-	-	90,428	35,214	55,214
Togo	-	4,008	-	-	-	4,008	-	4,008
Tunisia	-	183,263	-	-	-	183,263	64,155	119,108
Turkey	391,872	343,474	-	-	-	735,346	436,405	298,941
Turkmenistan	11,477	-	-	-	-	11,477	-	11,477
Uganda	155,470	478	-	-	-	155,948	75,797	80,151
Ukraine	990,456	9,203	-	-	-	999,658	579,976	419,682
Uruguay	300,000	-	-	-	-	300,000	192,000	108,000
Uzbekistan	119,500	-	-	-	-	119,500	39,500	80,000
Vietnam	19,604	-	-	-	-	19,604	13,723	5,881
Zambia	28,140	-	-	-	-	28,140	-	28,140
	6,801,921	3,536,890	-	95,505	2,809	10,437,124	4,129,831	6,307,294
Adjustment for Dual-Country Contracts: ¹								
Lao PDR/Thailand	(70,428)	-	-	-	-	(70,428)	(35,214)	(35,214)
Mozambique/Swaziland	(20,831)	-	-	-	-	(20,831)	(10,416)	(10,416)
	(91,259)	-	-	-	-	(91,259)	(45,629)	(45,629)
Total – June 30, 2012²	6,710,662	3,536,890	-	95,505	2,809	10,345,866	4,084,201	6,261,664
Total – June 30, 2011	5,990,855	3,034,453	497	95,906	-	9,121,712	3,883,074	5,238,638

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 adjust for double-counting.

² 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 9, 2012, the acting Executive Vice President and the Chief Financial Officer authorized the financial statements for issue. MIGA has evaluated subsequent events through August 9, 2012, 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. 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 in 2012.

In November 2009, IASB issued IFRS 9, *Financial Instruments* as a first step as part of a wider project to replace International Accounting Standards (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 assets. 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. MIGA is currently assessing the impact of this standard 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 is currently assessing the impact of this standard on its financial statements.

In May 2011, the FASB issued Accounting Standard Update (ASU) 2011-04, Fair 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 IFRS and U.S. GAAP. While many of the amendments are changes in wording that do not 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 has adopted this ASU in the quarter ended March 31, 2012. For the related additional fair value disclosures, see Note B – Investments.

Differences between US GAAP and IFRS

The Compensation Retirement Benefits Topic of the FASB Accounting Standards Codification (ASC) 715-30 requires employers to recognize on their balance sheets the funded status of their defined benefit post retirement 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 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 through the Statement of Income, 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 post retirement benefits plans, and the present value of benefit obligations.

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, asset backed securities (ABS) 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 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, dividend income and interest income.

Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital

Payments on these instruments are due to MIGA upon demand and are held in bank accounts which bear MIGA's name. Accordingly, these instruments are carried and reported at face value as assets on the Balance Sheet.

Impairment of Reinsurance Assets

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

Reserve for Claims

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

The Specific Reserve is calculated based on contract-specific parameters that are reviewed every quarter by MIGA's 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. 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 the 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 reserves are 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 Income.

MIGA's Investment Policy approved by the Board of Directors includes 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 to reinsurers 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 investment portfolio at June 30, 2012 and June 30, 2011 are as follows:

In thousands of US dollars	Fair Value	
	June 30, 2012	June 30, 2011
Equity securities	\$145,605	\$93,287
Comingled funds	9,062	6,600
Government obligations	399,730	352,483
Time deposits	306,418	418,038
Asset backed securities	230,511	235,151
Total Investments - Trading	\$1,091,326	\$1,105,559

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2012 and June 30, 2011:

In thousands of US dollars	Fair Value	
	June 30, 2012	June 30, 2011
Investments – trading	\$1,091,326	\$1,105,559
Cash held in investment portfolio ^a	2,868	1,406
Securities purchased under resale agreements	13,000	-
Receivable for investment securities sold	1,475	12,646
Derivative assets		
Currency forward contracts	282,732	115,086
Others ^b	186	34
Derivative liabilities		
Currency forward contracts	(282,031)	(115,093)
Others ^b	(19)	(249)
Payable for investment securities purchased	(4,641)	(57,185)
Securities sold under repurchase agreements	(15,190)	(26,674)
Net investment portfolio	\$1,089,706	\$1,035,530

^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 8.6 percent (8.3 percent – June 30, 2011) 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 gains/(losses) included in the Income from investments for the fiscal years ended June 30, 2012 and June 30, 2011 amounted to \$7,420,000 and (\$838,000) respectively.

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

In thousands of US dollars	Year ended	
	June 30, 2012	June 30, 2011
Interest income	\$15,074	\$15,551
Dividend income	4,050	480
Gains - realized/unrealized	28,233	13,924
Losses - realized/unrealized	(10,459)	(16,105)
	\$36,898	\$13,850

Income/(losses) 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, 2012 and June 30, 2011 amounted to \$409,000 and (\$776,000), respectively. Income/(losses) 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:

In thousands of US dollars	Year ended	
	June 30, 2012	June 30, 2011
Securities transferred under repurchase agreements	\$15,190	\$26,674
Liabilities relating to securities transferred under repurchase agreements	\$15,190	\$26,674

In the case of resale agreements, MIGA receives collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded as Investments on MIGA's Balance Sheet as the accounting criteria for treatment as a sale have not been met. As of June 30, 2012, MIGA had received securities with a fair value of \$13,000,000 (Nil - June 30, 2011).

Fair Value Measurements

The *Fair Value Measurements and Disclosure Topic* of the FASB 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, 2012 and June 30, 2011:

Fair Value Measurements on a Recurring Basis, as of June 30, 2012

In thousands of US dollars	Level 1	Level 2	Level 3	Total
Assets:				
Equity securities	\$145,605	\$-	\$-	\$145,605
Commingled funds	-	9,062	-	9,062
Government obligations	323,741	75,989	-	399,730
Time deposits	122,300	184,118	-	306,418
Asset backed securities	-	228,397	2,114	230,511
Total investments - trading	591,646	497,566	2,114	1,091,326
Securities purchased under resale agreements	13,000	-	-	13,000
Derivative assets				
Currency forward contracts	-	282,732	\$-	282,732
Others ^a	-	186	-	186
Total Derivative assets	-	282,918	-	282,918
Total	\$604,646	\$780,484	\$2,114	\$1,387,244
Liabilities:				
Securities sold under repurchase agreements	\$3,544	\$11,646	\$-	\$15,190
Derivative liabilities				
Currency forward contracts	-	282,031	-	282,031
Others ^a	-	19	-	19
Total Derivative liabilities	-	282,050	-	282,050
Total	\$3,544	\$293,696	\$-	\$297,240

^a These relate to To-Be-Announced (TBA) securities

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

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, 2012 and June 30, 2011.

Year ended June 30, 2012			
In thousands of US dollars	Level 1	Level 2	Level 3
Asset backed securities			
Transfers (out of) into	\$-	\$(1,036)	\$1,036
Transfers into (out of)	-	2,463	(2,463)
	\$-	\$1,427	\$(1,427)

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

The following table provides a summary of changes in the fair value of MIGA's Level 3 financial assets during the fiscal years ended June 30, 2012 and June 30, 2011.

Year ended June 30, 2012		
In thousands of US dollars	2012	2011
Asset-backed Securities		
Beginning of the period	\$4,005	\$3,552
Total realized/unrealized income in Income from investments	(174)	87
Purchases	-	1,019
Transfers (out)/in	(1,427)	47
Settlements/Maturity	(290)	(700)
End of the period	\$2,114	\$4,005

Unrealized (losses)/gains on Level 3 asset backed securities was (\$174,000) for the year ended June 30, 2012 and \$87,000 for the year ended June 30, 2011.

The fair value of Level 3 instruments (ABS) in the investment portfolio are estimated using valuation models that incorporate observable market inputs and unobservable inputs. The significant unobservable inputs include constant prepayment rate, probability of default, and loss severity. The constant prepayment rate is an annualized expected rate of principal prepayment for a pool of asset-backed securities. The probability of default is an estimate of the expected likelihood of not collecting contractual amounts owed. Loss severity is the present value of lifetime losses (both interest and principal) as a percentage of the principal balance.

Significant increases (decreases) in the assumptions used for these inputs in isolation, would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for constant prepayment rates.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments and quantitative information regarding the significant unobservable inputs used:

In thousands of US dollars				
Portfolio	Fair value at June 30, 2012	Valuation technique	Unobservable input	Range (weighted average)
Investments (Asset backed securities)	2,114	Discounted Cash Flow	Constant Prepayment Rate Probability of Default Loss Severity	0.5%– 4% (2.05%) 1.0%– 10% (6.01%) 35.0% - 75.0% (57.3%)

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	
	2012	2011
In thousands of US dollars		
Currency Forward Contract		
Credit Exposure	\$2,431	\$140
Exchange traded Options and Futures ^a		
Notional Long Position	31,025	121,000
Notional Short Position	93,800	464,000
Others ^b		
Notional Long Position	53,000	50,000
Notional Short Position	3,000	2,000
Credit Exposure	186	34

^a. Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. Primarily outstanding options and future contracts as of June 30, 2012 and June 30, 2011 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, 2012. 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, 2012, the initial authorized capital stock was 186,259 (186,042 – June 30, 2011) 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, 2012, 217 shares (Nil shares - June 30, 2011) were subscribed. At June 30, 2012, MIGA's authorized capital stock comprised 186,259 (186,042 – June 30, 2011) shares of which 177,003 (176,786 – June 30, 2011) 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, \$365,413,000 (\$364,943,000 – June 30, 2011) has been paid in; and the remaining \$1,549,759,000 (\$1,547,882,000 - June 30, 2011) is subject to call. At June 30, 2012, \$113,794,000 (\$115,088,000 – June 30, 2011) is in the form of nonnegotiable, non interest bearing demand obligations (promissory notes). A summary of MIGA's authorized and subscribed capital at June 30, 2012 and June 30, 2011 is as follows:

	Initial Capital		Capital Increase		Total	
	Shares	(US\$000)	Shares	(US\$000)	Shares	(US\$000)
At June 30, 2012						
Authorized	107,700	\$1,165,314	78,559	\$850,008	186,259	\$2,015,322
Subscribed	107,700	\$1,165,314	69,303	\$749,858	177,003	\$1,915,172
At 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

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. Contract of guarantees issued by MIGA on behalf of trust funds at June 30, 2012 amounts to \$14,731,000 (\$2,503,000 – June 30, 2011).

Contingent Liability

The maximum amount of contingent liability (gross exposure) of MIGA under guarantees issued and outstanding at June 30, 2012 totaled \$10,345,866,000 (\$9,121,712,000 – June 30, 2011). 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, 2012, MIGA's actual exposure to insurance claims, exclusive of standby coverage is \$8,447,510,000 (\$7,956,484,000 – June 30, 2011).

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 \$10,345,866,000 outstanding contingent liability (gross exposure) as at June 30, 2012 (\$9,121,712,000 – June 30, 2011), \$4,084,201,000 was ceded through contracts of reinsurance (\$3,883,074,000 – June 30, 2011). Net exposure amounted to \$6,261,664,000 as at June 30, 2012 (\$5,238,638,000 – June 30, 2011).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2012, total insurance assumed by MIGA, primarily with official investment insurers, amounted to \$496,169,000 (\$368,716,000 – June 30, 2011).

Premiums relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2012 and June 30, 2011 were as follows:

In thousands of US dollars	June 30, 2012	June 30, 2011
Premiums Written		
Direct	105,308	\$103,009
Assumed	3,315	1,660
Ceded	(34,738)	(47,473)
Premiums Earned		
Direct	86,340	74,111
Assumed	2,839	1,084
Ceded	(33,681)	(30,630)

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 \$720 million (\$600 million – June 30, 2011) in each host country and \$220 million (\$180 million – June 30, 2011) 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, 2012, the maximum level of guarantees outstanding (including reinsurance) may not exceed \$13,093 million (\$12,817 million – June 30, 2011).

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, 2012 and June 30, 2011 are as follows:

In thousands of US dollars	June 30, 2012		June 30, 2011	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	\$4,096,598	\$5,949,433	\$4,185,685	\$5,976,636
% of Total Gross Exposure	39.6	57.5	45.9	65.5
Net Exposure	\$1,918,072	\$3,051,252	\$1,894,936	\$3,043,052
% of Total Net Exposure	30.6	48.7	36.2	58.1

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

The regional distribution of MIGA's portfolio at June 30, 2012 and June 30, 2011 is as follows:

In thousands of US dollars	June 30, 2012			June 30, 2011		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Africa	\$1,573,908	\$1,257,866	20.1	\$1,101,887	\$885,715	16.9
Asia	1,391,723	861,415	13.8	1,295,724	759,163	14.5
Europe and Central Asia	5,543,471	3,017,803	48.2	5,432,561	2,843,859	54.3
Latin America and Caribbean	1,068,547	641,601	10.2	1,005,684	569,132	10.9
Middle East and North Africa	768,217	482,979	7.7	415,751	245,717	4.7
Adjustment for Master Agreement *				(129,895)	(64,948)	(1.3)
	\$10,345,866	\$6,261,664	100.0	\$9,121,712	\$5,238,638	100.0

* 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, 2012 and June 30, 2011 is shown in the following table:

In thousands of US dollars	June 30, 2012			June 30, 2011		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Infrastructure	\$3,920,267	\$2,435,811	38.9	\$2,960,549	\$1,694,069	32.3
Financial	4,297,098	2,270,426	36.3	4,455,795	2,340,578	44.7
Tourism, Construction and Services	553,545	469,062	7.5	192,547	177,239	3.4
Manufacturing	774,027	457,205	7.3	790,406	471,818	9.0
Oil and Gas	335,879	260,573	4.2	233,527	195,188	3.7
Mining	241,368	171,221	2.7	243,265	172,359	3.3
Agribusiness	223,682	197,366	3.1	245,623	187,387	3.6
Total	\$10,345,866	\$6,261,664	100.0	\$9,121,712	\$5,238,638	100.0

NOTE E: CLAIMS

Reserve for Claims

MIGA's gross reserve for claims at June 30, 2012 amounted to \$278,200,000 (\$228,300,000 - June 30, 2011) and estimated reinsurance recoverables amounted to \$52,900,000 (\$40,300,000 - June 30, 2011).

An analysis of the changes to the gross reserve for claims for the fiscal years ended June 30, 2012 and June 30, 2011 appears in the table below:

In thousands of US dollars	June 30, 2012	June 30, 2011
Gross reserve balance	\$228,300	\$207,800
Less: Estimated reinsurance recoverables	40,300	18,100
Net reserve balance, beginning of the period	188,000	189,700
Increase (decrease) to net reserves before translation adjustments	48,700	(14,000)
Foreign currency translation adjustments	(11,400)	12,300
Provision for (release of) claims - net of reinsurance	37,300	(1,700)
Net reserve balance	225,300	188,000
Add: Estimated reinsurance recoverables	52,900	40,300
Gross reserve balance, end of the period	\$278,200	\$228,300

The provision for claims of \$37,300,000 for the fiscal year ended June 30, 2012 (release of claims of \$1,700,000 - June 30, 2011) is the result of an increase in the net insurance portfolio reserve (IPR) of \$44,500,000 (\$17,900,000 - June 30, 2011) and a decrease in the specific reserve of \$7,200,000 (\$19,600,000 - June 30, 2011).

Estimated reinsurance recoverables increased by \$12,600,000 (\$22,200,000 - June 30, 2011) during the fiscal year ended June 30, 2012.

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 gain of \$11,400,000 for the fiscal year ended June 30, 2012 is mainly the result of the Euro depreciating against the U.S. 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 U.S. 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 decreased as a result of translation adjustment is offset by the translation loss on MIGA's investment portfolio assets, reported on the Statement of Income.

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, 2012, the specific reserves amounted to \$7,700,000 (\$17,100,000 - June 30, 2011) on a gross basis and \$5,600,000 (\$12,800,000 - June 30, 2011) net of reinsurance.

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

In thousands of US dollars

Specific Reserve development over past ten fiscal years											
Reporting Period	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Est. 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	4,200
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	13	-	-	-
Three years later	5,650	3,279	6,800	45,600	-	-	2,500	13	-	-	-
Four years later	5,775	700	1,300	15,100	-	-	491	-	-	-	-
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	700	-	-	-	-	-	-	-	-	-
Nine years later	6,700	700	-	-	-	-	-	-	-	-	-
Ten years later	3,500	-	-	-	-	-	-	-	-	-	-

Specific reserves at June 30, 2012												
Fiscal Year	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	Total
Estimate of cumulative claims at June 30, 2012	3,500	700	-	-	-	-	491	13	-	-	4,200	8,904
Cumulative payments	-	(700)	-	-	-	-	(491)	(13)	-	-	-	(1,204)
Specific reserves at June 30, 2012	3,500	-	4,200	7,700								

Pending Claims

During the fiscal year ended June 30, 2012, MIGA did not receive any claims. One claim relating to a project in Kenya, which was originally filed in December 2009, was denied. The determination of claim filed in December 2010, for US\$5 million in connection to a project in Sierra Leone has been suspended with the consent of the claimant. MIGA received a notice from a guarantee holder that it intends to file a claim for losses suffered in Mali, which it asserts are covered by MIGA's War and Civil Disturbance provisions. Appropriate reserves are maintained for these matters.

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

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for MIGA for the fiscal years ended June 30, 2012 and June 30, 2011:

In thousands of US dollars	SRP		RSBP		PEBP	
	2012	2011	2012	2011	2012	2011
Benefit Cost						
Service cost	\$3,456	\$3,143	\$830	\$702	\$370	\$324
Interest cost	5,540	5,506	902	831	374	316
Expected return on plan assets	(8,604)	(7,954)	(941)	(813)	-	-
Amortization of prior service cost	99	99	-	12	7	7
Amortization of net loss	309	1,009	178	202	290	187
Net periodic pension cost	\$800	\$1,803	\$969	\$934	\$1,041	\$834

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, 2012 and June 30, 2011. The assets for the PEBP are included in IBRD's investment portfolio.

In thousands of US dollars	SRP		RSBP		PEBP	
Projected Benefit Obligation	2012	2011	2012	2011	2012	2011
Beginning of year	\$107,784	\$97,829	\$16,518	\$13,968	\$7,418	\$5,662
Service cost	3,456	3,143	830	702	370	324
Interest cost	5,540	5,506	902	831	374	316
Participant contributions	1,009	964	96	77	20	9
Retiree drug subsidy received	n.a.	n.a.	30	29	n.a.	n.a.
Early Retiree Reinsurance Program received	n.a.	n.a.	2	22	n.a.	n.a.
Plan amendments	n.a.	n.a.	1,462	-	n.a.	n.a.
Benefits paid	(4,945)	(4,407)	(377)	(344)	(231)	(197)
Actuarial loss (gain)	17,017	4,749	2,277	1,233	1,434	1,304
End of year	\$129,861	\$107,784	\$21,740	\$16,518	\$9,385	\$7,418

In thousands of US dollars	SRP		RSBP		PEBP	
Fair value of plan assets	2012	2011	2012	2011	2012	2011
Beginning of year	\$135,330	\$118,513	\$13,700	\$11,252		
Participant contributions	1,009	964	96	77		
Actual return on assets	5,450	18,344	288	1,760		
Employer contributions	2,265	1,916	964	955		
Benefits paid	(4,945)	(4,407)	(377)	(344)		
End of year	\$139,109	\$135,330	\$14,671	\$13,700	\$-	\$-
Funded status ¹	\$9,248	\$27,546	\$(7,069)	\$(2,818)	\$(9,385)	\$(7,418)
Accumulated Benefit Obligation	\$103,986	\$84,614	\$21,740	\$16,518	\$8,115	\$6,459

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.

Currently MIGA is enrolled in the U.S. Government Retiree Drug Subsidy (RDS) program. Effective January 1, 2013, MIGA will be moving from RDS to an Employer Group Waiver Plan (EGWP), an employer-sponsored prescription drug plan that further enhances coordination with Medicare prescription drug coverage under Medicare Part D.

During the fiscal year ended June 30, 2012, amendments were made to the RSBP. These include the integration of the prescription drug coverage with EGWP providing reimbursements for standard and income related premiums paid for medical insurance under Medicare Part B to all eligible plan participants effective on July 1, 2012, and providing reimbursements of Medicare Part D income-related premium amounts once the plan is integrated with EGWP, for all eligible plan participants effective January 1, 2013. The effect of these changes is a \$1,462,000 increase to the projected benefit obligation at June 30, 2012.

The \$9,248,000 relating to SRP at June 30, 2012 (\$27,546,000 – June 30, 2011) 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 at June 30, 2012				
Net actuarial loss	\$22,916	\$6,212	\$5,117	\$34,245
Prior service cost	165	1,462	17	1,644
Net amount recognized in Accumulated Other Comprehensive Loss	\$23,081	\$7,674	\$5,134	\$35,889
Amounts included in Accumulated Other Comprehensive Loss at June 30, 2011				
Net actuarial loss	\$3,054	\$3,460	\$3,973	\$10,487
Prior service cost	264	-	24	288
Net amount recognized in Accumulated Other Comprehensive Loss	\$3,318	\$3,460	\$3,997	\$10,775

The estimated amounts that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost in the fiscal year ending June 30, 2013 are as follows:

In thousands of US dollars	SRP	RSBP	PEBP	Total
Net actuarial loss	\$1,761	\$361	\$445	\$2,567
Prior service cost	75	135	7	217
Net amount recognized in Accumulated Other Comprehensive Loss	\$1,836	\$496	\$452	\$2,784

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, 2012 and June 30, 2011:

In percent	SRP		RSBP		PEBP	
	2012	2011	2012	2011	2012	2011
Weighted average assumptions used to determine projected benefit obligations						
Discount rate	3.90	5.30	4.10	5.50	3.90	5.20
Rate of compensation increase	5.40	5.90			5.40	5.90
Health care growth rates-at end of fiscal year			6.30	6.90		
Ultimate health care growth rate			3.60	4.00		
Year in which ultimate rate is reached			2022	2022		
Weighted average assumptions used to determine net periodic pension cost						
Discount rate	5.30	5.75	5.50	6.00	5.20	5.75
Expected return on plan assets	6.40	6.75	6.70	7.75		
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		

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	4,600	(3,600)

Investment Strategy

The investment policy establishes 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, 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. The following table presents the actual and target asset allocation at June 30, 2012 and June 30, 2011 by asset category for the SRP and RSRP. The portfolios are still in a period of transition to the new SAA, especially with regard to private equity, hedge funds and real assets, which explains for the most part, the differences between the target allocation and the actual allocation as of June 2012.

In percent		SRP		RSBP		
Asset Class	Target allocation 2012	% of Plan Assets		Target allocation 2012	% of Plan Assets	
	(%)	2012	2011	(%)	2012	2011
Fixed income & cash	31	33	33	24	32	33
Public equity	27	24	24	29	27	27
Private equity	15	20	20	20	24	25
Hedge funds	15	11	11	15	8	8
Real assets ^a	12	12	12	12	9	7
Total	100	100	100	100	100	100

^a Real assets comprise primarily of Real estate and Real estate investment trusts (REITs) with a small allocation to infrastructure and timber

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

Managing investment risk is an integral part of managing the assets of the Plan. Liability-driven investment 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 Plan's overall investment risk. It is used to define the risk tolerance level and establish the overall level of investment risk.

Investment risk is regularly monitored at the absolute level, as well as at the relative levels with respect to the investment policy, manager benchmarks, and liabilities of the Plan. Stress tests are performed periodically using relevant market scenarios to assess the impact of extreme market events. Monitoring of performance (at both manager and asset class levels) against benchmarks and compliance with investment guidelines is carried out on a regular basis as part of the risk monitoring process. Risk management for different asset classes is tailored to their specific characteristics and is an integral part of the external managers' due diligence and monitoring processes.

Credit risk is monitored on a regular basis and assessed for possible market event impacts. The liquidity position of the Plans is analyzed at regular intervals and periodically tested using various stress scenarios to ensure that the Plans have sufficient liquidity to meet all cash flow requirements. In addition, the long-term cash flow needs of the Plans are considered during the SAA exercise and are one of the main drivers in determining maximum allocation to the illiquid investment vehicles.

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, 2012 and June 30, 2011.

Fair Value Measurements on a Recurring Basis as of June 30, 2012

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	\$-	\$468	\$-	\$468	\$-	\$188	\$-	\$188
Securities purchased under resale agreements	859	-	-	859	171	-	-	171
Government and agency securities	34,079	5,963	-	40,042	1,940	2,564	-	4,504
Corporate and convertible bonds	-	1,566	13	1,579	-	159	-	159
Asset-backed securities	-	455	20	475	-	22	8	30
Mortgage-backed securities	-	2,813	18	2,831	-	62	2	64
Total Debt Securities	34,938	11,265	51	46,254	2,111	2,995	10	5,116
Equities								
US common stocks	4,196	-	-	4,196	370	-	-	370
Non-US common stocks	13,756	-	-	13,756	1,644	-	-	1,644
Mutual funds	6,118	-	-	6,118	449	-	-	449
Real estate investment trusts (REITs)	3,228	-	-	3,228	167	-	-	167
Total Equity Securities	27,298	-	-	27,298	2,630	-	-	2,630
Commingled funds	-	7,994	-	7,994	-	1,178	-	1,178
Real estate (including infrastructure and timber)	-	3,705	9,974	13,679	-	105	1,101	1,206
Private equity	-	-	28,053	28,053	-	-	3,421	3,421
Hedge funds	-	9,929	3,913	13,842	-	772	339	1,111
Derivative assets/liabilities	(7)	(77)	-	(84)	13	(26)	-	(13)
Other assets/liabilities	-	-	-	2,073	-	-	-	22
Total Assets	\$62,229	\$32,816	\$41,991	\$139,109	\$4,754	\$5,024	\$4,871	\$14,671

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

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 are 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 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 which 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.

Investments in hedge funds and commingled funds can typically be redeemed at NAV within the near term while investments in private equity and most real estate are inherently long term and illiquid in nature with a quarter lag in reporting by the fund managers. For the reporting of those asset classes with a reporting lag, management estimates are based on the latest available information taking into account underlying market fundamentals and significant events through the balance sheet date.

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 input.

The following tables present a reconciliation of Level 3 assets held during the year ended June 30, 2012 and June 30, 2011. 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.

	Corporate and convertible Debt	Asset- backed Securities	Mortgage- backed Securities	Private Equity	Real Estate	Hedge Funds	Total
Balance as of July 1, 2011	\$25	\$268	\$154	\$27,394	\$8,024	\$3,518	\$39,383
Actual return on plan assets:							-
Relating to assets still held at the reporting date	1	(7)	51	(2,497)	207	(69)	(2,314)
Relating to assets sold during the period	1	2	(46)	2,231	313	(35)	2,466
Purchases, issuance and settlements, net	(14)	(239)	(89)	925	1,430	590	2,603
Transfers in	-	-	9	-	-	224	233
Transfers out	-	(4)	(61)	-	-	(315)	(380)
Balance as of June 30, 2012	\$13	\$20	\$18	\$28,053	\$9,974	\$3,913	\$41,991

**RSBP - Fair Value Measurements Using Significant Unobservable Inputs (Level 3),
Year Ended June 30, 2012**

In thousands of US dollars

	Corporate and convertible Debt	Asset-backed Securities	Mortgage-backed Securities	Private Equity	Real Estate	Hedge Funds	Total
Balance as of June 30, 2011	\$-	\$17	\$7	\$3,413	\$889	\$298	\$4,624
Actual return on plan assets:							
Relating to assets still held at the reporting date	-	-	0	(292)	159	(9)	(142)
Relating to assets sold during the period	-	(0)	-	297	97	(1)	393
Purchases, issuance and settlements, net	-	(8)	(4)	4	(45)	86	33
Transfers in	-	-	-	-	-	17	17
Transfers out	-	(0)	(2)	-	-	(53)	(55)
Balance as of June 30, 2012	\$-	\$8	\$2	\$3,421	\$1,101	\$339	\$4,871

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

In thousands of US dollars

	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	3,239
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	\$39,383

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

In thousands of US dollars

	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	\$633	\$367	\$3,914
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	24	40	412
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	\$7	\$3,413	\$889	\$298	\$4,624

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, 2012.

In thousands of US dollars	SRP	RSBP		PEBP
		Before Medicare Part D Subsidy	Medicare Part D Subsidy	
July 1, 2012 - June 30, 2013	\$5,171	\$366	\$8	\$457
July 1, 2013 - June 30, 2014	5,378	406	-	492
July 1, 2014 - June 30, 2015	5,745	448	-	526
July 1, 2015 - June 30, 2016	6,207	492	-	606
July 1, 2016 - June 30, 2021	6,554	544	-	641
July 1, 2017 - June 30, 2022	38,541	3,741	-	3,797

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, 2012 is \$2,606,000 and \$938,000, 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, 2012 and June 30, 2011 are as follows:

In thousands of US dollars	June 30, 2012	June 30, 2011
Fees charged by IBRD	\$11,373	\$9,758
Fees charged by IFC	3,544	3,389

At June 30, 2012 and June 30, 2011, 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, 2012			June 30, 2011		
	Administrative Services	Pension and Other Postretirement Benefits	Total	Administrative Services	Pension and Other Postretirement Benefits	Total
IBRD	\$(2,165)	\$5,374	\$3,209	\$(3,040)	\$4,541	\$1,501
IFC	(1,546)	-	(1,546)	(1,043)	-	(1,043)
	\$(3,711)	\$5,374	\$1,663	\$(4,083)	\$4,541	\$458

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 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 best practices framework used in risk modeling. The Economic Capital concept is a widely recognized risk management tool in the banking and insurance industries, defining the minimum amount of capital an organization needs to hold in order to sustain larger than expected losses with a high degree of confidence, 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.

■ **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 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 for the year ended June 30, 2012, by approximately \$19.9 million (\$21.3 million – June 30, 2011). 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 for the year ended June 30, 2012, by approximately \$9.0 million (\$8.1million – June 30, 2011) and net guarantee exposure by approximately \$229.7 million (\$203.4 million – June 30, 2011). 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 stress scenarios where claims situations propagate through contagion across countries and regions. As of June 30, 2012, there were no claims (\$10 million – June 30, 2011) filed with the Agency.

■ **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, processes, systems 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 integrated risk management process to strengthen monitoring of the operational risks and controls in financial reporting, 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. A new Lead Information Officer has been appointed to assess future information technology requirements at MIGA.

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.

