

# financial overview and financial statements

---

93	Financial Overview
96	Financial Statements
96	Balance Sheet
97	Statement of Income
98	Statement of Comprehensive Income
98	Statement of Changes in Shareholders's Equity
99	Statement of Cash Flows
100	Statement of Subscriptions to Capital Stock and Voting Power
104	Statement of of Guarantees Outstanding
106	Notes to Financial Statement
113	Report of Independent Accountants

---

## FINANCIAL OVERVIEW

---

### INCOME FROM GUARANTEES

MIGA's income from guarantees, comprising earned net premium income, fees and commissions, increased by \$6.9 million to \$36.5 million. This reflected the level of Net Exposure and reinsurance at the end of fiscal 2000, rather than growth during fiscal 2001, because the latter was substantially concentrated in the last month of the fiscal year.

### INVESTMENT INCOME

MIGA's investment income increased from \$23.5 million to \$30.4 million in fiscal 2001 reflecting: (1) the growth of the investment portfolio from \$464 million to \$552 million, and (2) the investment return, which increased from 5.3 percent to 7.5 percent (or 6.0 percent excluding unrealized gains). The average maturity of the investment portfolio in fiscal 2001 was 11.1 months, and unrealized investment gains accruing during the year amounted to \$7.7 million.

### ADMINISTRATIVE EXPENSES

Total administrative expenses amounted to \$19.8 million, compared with a budget of \$22.1 million. The variance of \$2.3 million comprised an unutilized contingency of \$0.6 million, benefits savings of \$0.8 million, and a general budget under-run of \$0.9 million. MIGA plans to carry over \$0.3 million into fiscal 2002 for budget purposes, in respect of spot awards and systems development.

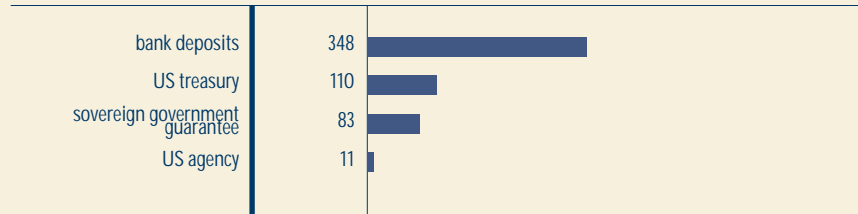
### NET INCOME

Net Income was \$19.6 million in fiscal 2001, compared with \$10.9 million in fiscal 2000. The variance comprised:

	US\$ M
increase in premium and fee income	+ 6.9
increase in investment income	+ 6.9
increase in income from Staff Retirement Plan	+ 0.3
increase in provisioning	- 3.1
increase in administrative and other expenses	- 2.3
<b>increase in net income</b>	<b>+8.7</b>

### TRANSLATION ADJUSTMENTS

Translation Adjustments in fiscal 2001 amounted to \$4.6 million, of which \$3.4 million related to paid in subscriptions, and \$1.2 million related to other assets and liabilities.

**INVESTMENTS, US\$ M, FY01****OTHER ASSETS**

Other Assets of \$53.7 million in fiscal 2001 compared with \$37.4 million in fiscal 2000. The variance comprised:

decrease in receivable and accrued interest	- 0.3
increase in prepaid pension	+ 2.7
increase in receivable for capital subscription	+ 8.0
increase in premiums receivable and prepaid	+ 5.9
increase in other assets	+16.3

**PAYABLES AND ACCRUED EXPENSES**

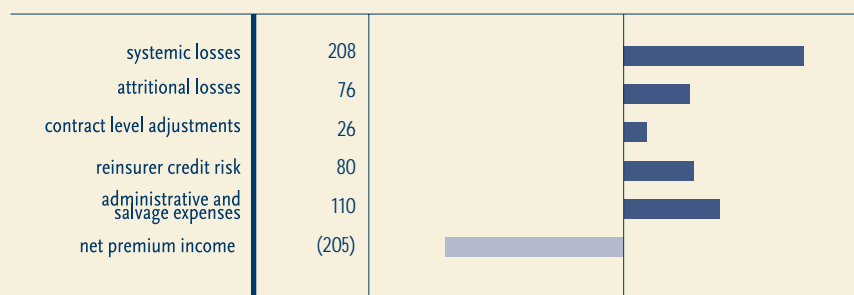
Payables and Accrued Expenses of \$31.7 million in fiscal 2001 compared with \$31.6 million in fiscal 2000. The variance comprised:

decrease in investment securities payables	- 1.9
increase in other payables	+ 1.8
increase in accrued expenses	+ 0.2
increase in Payables and Accrued Expenses	+ 0.1

### RESERVE FOR CLAIMS

MIGA's Reserve for Claims comprised Specific Claims Reserves of \$0.5 million and General Claims Reserves of \$294.6 million.<sup>1</sup> The provision for claims amounted to \$29.7 million and reflected: (1) the increase in Net Exposure and reinsurance, offset by a significant increase in estimated future premium income, and (2) an adverse adjustment for MIGA's exposure in Argentina.

### COMPOSITION OF GENERAL CLAIM RESERVE, US\$ M, FY01



### LIQUIDITY

MIGA measures liquidity by reference to: (1) the resources which are available to pay claims ("Sources of Cash"), and (2) the capital and reserves which are available to sustain losses and support the ongoing business ("Operating Capital"). As of June 30, 2001, Sources of Cash totaled \$767 million, including MIGA's investment portfolio of \$552 million, credit facilities of \$110 million<sup>2</sup>, and promissory notes of \$101 million. Operating Capital of \$653 million comprised General Claims Reserves of \$295 million, Retained Earnings of \$68 million, and Paid-in Capital of \$291 million. In addition, MIGA was supported by \$1,158 million of callable capital.

### CAPITAL INCREASE

On March 29, 1999, MIGA's Council of Governors approved a general capital increase of \$850 million, to be subscribed over three years. As of June 30, 2001, 51 countries had subscribed \$331.0 million, of which \$58.3 million was in cash and the balance was in the form of callable capital (see p.122 for a complete list).

- <sup>1</sup> General Claims Reserves are intended to cover the present value of the inherent probable losses, net of related premium income, arising from the existing guarantee portfolio, based on current events and developments.
- <sup>2</sup> MIGA has credit facilities of \$25 million with Union Bank of Switzerland, and \$85 million with Royal Bank of Canada. Also, since June 30, 2001, MIGA has arranged credit facilities of \$75 million with Lloyd's TSB.

**BALANCE SHEET**

June 30, 2001 and June 30, 2000

Expressed in thousands of US dollars

	2001	2000
<b>Assets</b>		
CASH	\$4,062	\$7,904
INVESTMENTS - Note B		
Available-for-sale	552,106	464,448
NONNEGOTIABLE, NONINTEREST-BEARING DEMAND OBLIGATIONS – Note C	100,921	102,328
OTHER ASSETS		
Estimated reinsurance recoverables	192,300	111,300
Other assets	53,695	37,445
	245,995	148,745
<b>TOTAL ASSETS</b>	<b>\$903,084</b>	<b>\$723,425</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$31,699	\$31,560
Unearned premiums and commitments fees	25,694	17,705
Reserve for claims - Note F		
Reserve for claims net of estimated reinsurance recoverables	295,100	264,400
Estimated reinsurance recoverables	192,300	111,300
Reserve for claims – gross	487,400	375,700
Total liabilities	544,793	424,965
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock - Note C		
Authorized capital ( 180,883 shares-June 30, 2001; 180,402 shares-June 30, 2000)		
Subscribed capital (132,869 shares-June 30, 2001; 117,694 shares - June 30, 2000)	1,437,643	1,273,449
Less uncalled portion of subscriptions	1,157,881	1,022,790
Less amounts due on called subscriptions	731	731
	279,031	249,928
Payments on account of pending subscriptions	11,586	3,587
Retained earnings	290,617	253,515
Accumulated other comprehensive income	74,939	55,369
	(7,265)	(10,424)
Total shareholders' equity	358,291	298,460
<b>CONTINGENT LIABILITIES - Notes D and E</b>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$903,084</b>	<b>\$723,425</b>

See *Notes to Financial Statements*

## STATEMENT OF INCOME

For the fiscal years ended June 30, 2001 and June 30, 2000

Expressed in thousands of US dollars

	2001	2000
<b>INCOME</b>		
Income from guarantees		
Premium income	\$46,341	\$37,443
Premium ceded	(18,078)	(13,037)
Fees and commissions	8,203	5,128
Total	<u>36,466</u>	<u>29,534</u>
Income from investments		
Available-for-sale	30,356	22,101
Held-to-maturity	-	1,372
Total	<u>30,356</u>	<u>23,473</u>
Income from staff retirement plan – Note G	2,858	2,576
Miscellaneous income	141	141
Total income	<u>69,821</u>	<u>55,724</u>
<b>EXPENSES</b>		
Provision for claims - Note F	29,734	26,625
Administrative expenses - Notes G,H and I	19,772	18,065
Other expenses	745	130
Total expenses	<u>50,251</u>	<u>44,820</u>
<b>NET INCOME</b>	<u><u>\$19,570</u></u>	<u><u>\$10,904</u></u>

See Notes to Financial Statements

**STATEMENT OF COMPREHENSIVE INCOME**

For the fiscal years ended June 30, 2001 and June 30, 2000

Expressed in thousands of US dollars

	2001	2000
NET INCOME	\$19,570	\$10,904
OTHER COMPREHENSIVE INCOME		
Translation adjustment	(4,558)	(1,724)
Unrealized gain/loss on available-for-sale investments	7,717	(361)
Total	<u>3,159</u>	<u>(2,085)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$22,729</u>	<u>\$8,819</u>

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the fiscal years ended June 30, 2001 and June 30, 2000

Expressed in thousands of US dollars

	2001	2000
CAPITAL STOCK		
Balance at beginning of the fiscal year	\$253,515	\$223,404
New subscriptions	29,103	26,866
Payments on account of pending subscriptions	7,999	3,245
Ending Balance	<u>290,617</u>	<u>253,515</u>
RETAINED EARNINGS		
Balance at beginning of the fiscal year	55,369	44,465
Net income	19,570	10,904
Ending Balance	<u>74,939</u>	<u>55,369</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of the fiscal year	(10,424)	(8,339)
Other comprehensive income	3,159	(2,085)
Ending Balance	<u>(7,265)</u>	<u>(10,424)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$358,291</u>	<u>\$298,460</u>

*See Notes to Financial Statements*

## STATEMENT OF CASH FLOWS

For the years ended June 30, 2001 and June 30, 2000

Expressed in thousands of US dollars

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$19,570	\$10,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for claims	29,734	26,625
Accretion of discounts, net	-	(15)
Increase in other assets	(16,182)	(17,973)
Increase in unearned premiums and commitment fees	8,095	2,139
Increase in accounts payable	188	14,725
	<u>41,405</u>	<u>36,405</u>
Claim recovery (payment) - net	1,748	(4,500)
Net cash provided by operating activities	43,153	31,905
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Available-for-sale portfolio: Sales and maturities	24,784,163	26,666,287
Purchases	(24,867,306)	(26,769,750)
Held-to-maturity portfolio: Sales and maturities	-	39,982
Purchases	-	-
Net cash used in investing activities	<u>(83,143)</u>	<u>(63,481)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital subscription payments	36,450	30,005
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>		
Net decrease in cash	<u>(3,842)</u>	<u>(1,864)</u>
Cash at beginning of the fiscal year	7,904	9,768
<b>CASH AT END OF THE FISCAL YEAR</b>	<u><u>\$4,062</u></u>	<u><u>\$7,904</u></u>

See Notes to Financial Statements



STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER  
June 30, 2001  
Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (Note C)					VOTING POWER	
	Shares	Total Subscribed	Amount Paid-in	Amount Due	Amount Subject to Call	Number of Votes	% of Total
Albania	58	\$628	\$126	\$ -	\$502	235	0.15
Algeria	896	9,695	1,876	-	7,819	1,073	0.67
Angola	187	2,023	405	-	1,618	364	0.23
Argentina	1,254	13,568	2,714	-	10,854	1,431	0.89
Armenia	80	866	173	-	693	257	0.16
Australia	2,366	25,600	4,954	-	20,646	2,543	1.59
Austria	1,366	14,780	2,806	-	11,974	1,543	0.96
Azerbaijan	115	1,244	249	-	995	292	0.18
Bahamas, The	138	1,493	289	-	1,204	315	0.20
Bahrain	136	1,472	279	-	1,193	313	0.20
Bangladesh	340	3,679	736	-	2,943	517	0.32
Barbados	94	1,017	197	-	820	271	0.17
Belarus	233	2,521	504	-	2,017	410	0.26
Belgium	3,577	38,703	7,347	-	31,356	3,754	2.34
Belize	69	747	144	-	603	246	0.15
Benin	61	660	132	-	528	238	0.15
Bolivia	125	1,353	271	-	1,082	302	0.19
Bosnia and Herzegovina	80	866	173	-	693	257	0.16
Botswana	50	541	108	-	433	227	0.14
Brazil	1,854	20,060	3,917	-	16,143	2,031	1.27
Bulgaria	643	6,957	1,321	-	5,636	820	0.51
Burkina Faso	61	660	132	-	528	238	0.15
Burundi	74	801	160	-	641	251	0.16
Cambodia	93	1,006	201	-	805	270	0.17
Cameroon	107	1,158	232	-	926	284	0.18
Canada	5,225	56,535	10,732	-	45,803	5,402	3.37
Cape Verde	50	541	108	-	433	227	0.14
Central African Republic	60	649	130	-	519	237	0.15
Chile	485	5,248	1,050	-	4,198	662	0.41
China	4,334	46,894	9,075	-	37,819	4,511	2.82
Colombia	437	4,728	946	-	3,782	614	0.38
Congo, Democratic Republic of	338	3,658	-	731	2,927	515	0.32
Congo, Republic of	65	703	141	-	562	242	0.15
Costa Rica	117	1,266	253	-	1,013	294	0.18
Côte d'Ivoire	176	1,904	381	-	1,523	353	0.22
Croatia	258	2,792	540	-	2,252	435	0.27
Cyprus	183	1,980	376	-	1,604	360	0.22
Czech Republic	784	8,483	1,610	-	6,873	961	0.60
Denmark	1,265	13,687	2,598	-	11,089	1,442	0.90
Dominica	50	541	108	-	433	227	0.14
Dominican Republic	147	1,591	318	-	1,273	324	0.20
Ecuador	182	1,969	394	-	1,575	359	0.22
Egypt, Arab Republic of	459	4,966	993	-	3,973	636	0.40

See Notes to Financial Statements

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER  
June 30, 2001  
Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (Note C)					VOTING POWER	
	Shares	Total Subscribed	Amount Paid-in	Amount Due	Amount Subject to Call	Number of Votes	% of Total
El Salvador	122	\$1,320	\$264	\$ -	\$1,056	299	0.19
Equatorial Guinea	50	541	108	-	433	227	0.14
Eritrea	50	541	108	-	433	227	0.14
Estonia	65	703	141	-	562	242	0.15
Ethiopia	70	757	151	-	606	247	0.15
Fiji	71	768	154	-	614	248	0.15
Finland	828	8,959	1,734	-	7,225	1,005	0.63
France	6,712	72,624	14,054	-	58,570	6,889	4.30
Gambia, The	50	541	108	-	433	227	0.14
Georgia	111	1,201	240	-	961	288	0.18
Germany	5,071	54,868	10,974	-	43,894	5,248	3.28
Ghana	245	2,651	530	-	2,121	422	0.26
Greece	493	5,334	1,013	-	4,321	670	0.42
Grenada	50	541	108	-	433	227	0.14
Guatemala	140	1,515	303	-	1,212	317	0.20
Guinea	91	985	197	-	788	268	0.17
Guyana	84	909	182	-	727	261	0.16
Haiti	75	812	162	-	650	252	0.16
Honduras	139	1,504	291	-	1,213	316	0.20
Hungary	779	8,429	1,631	-	6,798	956	0.60
Iceland	90	974	195	-	779	267	0.17
India	3,048	32,979	6,596	-	26,383	3,225	2.01
Indonesia	1,049	11,350	2,270	-	9,080	1,226	0.77
Ireland	650	7,033	1,335	-	5,698	827	0.52
Israel	835	9,035	1,715	-	7,320	1,012	0.63
Italy	4,970	53,775	10,208	-	43,567	5,147	3.21
Jamaica	181	1,958	392	-	1,566	358	0.22
Japan	8,979	97,153	18,443	-	78,710	9,156	5.72
Jordan	134	1,450	281	-	1,169	311	0.19
Kazakhstan	288	3,116	603	-	2,513	465	0.29
Kenya	237	2,564	496	-	2,068	414	0.26
Korea, Republic of	791	8,559	1,625	-	6,934	968	0.60
Kuwait	930	10,063	2,013	-	8,050	1,107	0.69
Kyrgyz Republic	77	833	167	-	666	254	0.16
Lao People's Democratic Republic	60	649	130	-	519	237	0.15
Latvia	171	1,850	351	-	1,499	348	0.22
Lebanon	142	1,536	307	-	1,229	319	0.20
Lesotho	50	541	108	-	433	227	0.14
Libya	549	5,940	1,188	-	4,752	726	0.45
Lithuania	106	1,147	229	-	918	283	0.18
Luxembourg	160	1,731	335	-	1,396	337	0.21
Macedonia, Former Yugoslav Republic of	88	952	181	-	771	265	0.17
Madagascar	100	1,082	216	-	866	277	0.17

See Notes to Financial Statements

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER  
June 30, 2001  
Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (Note C)					VOTING POWER	
	Shares	Total Subscribed	Amount Paid-in	Amount Due	Amount Subject to Call	Number of Votes	% of Total
Malawi	77	\$833	\$167	\$-	\$666	254	0.16
Malaysia	579	6,265	1,253	-	5,012	756	0.47
Mali	81	876	175	-	701	258	0.16
Malta	132	1,428	271	-	1,157	309	0.19
Mauritania	63	682	136	-	546	240	0.15
Mauritius	153	1,655	314	-	1,341	330	0.21
Micronesia, Fed. States of	50	541	108	-	433	227	0.14
Moldova	96	1,039	208	-	831	273	0.17
Mongolia	58	628	126	-	502	235	0.15
Morocco	480	5,194	1,005	-	4,189	657	0.41
Mozambique	97	1,050	210	-	840	274	0.17
Namibia	107	1,158	232	-	926	284	0.18
Nepal	69	747	149	-	598	246	0.15
Netherlands	3,822	41,354	7,850	-	33,504	3,999	2.50
Nicaragua	102	1,104	221	-	883	279	0.17
Nigeria	844	9,132	1,826	-	7,306	1,021	0.64
Norway	1,232	13,330	2,531	-	10,799	1,409	0.88
Oman	94	1,018	203	-	815	271	0.17
Pakistan	911	9,857	1,908	-	7,949	1,088	0.68
Palau	50	541	108	-	433	227	0.14
Panama	131	1,417	283	-	1,134	308	0.19
Papua New Guinea	96	1,039	208	-	831	273	0.17
Paraguay	80	866	173	-	693	257	0.16
Peru	515	5,572	1,078	-	4,494	692	0.43
Philippines	484	5,237	1,047	-	4,190	661	0.41
Poland	764	8,266	1,653	-	6,613	941	0.59
Portugal	673	7,282	1,382	-	5,900	850	0.53
Qatar	137	1,482	296	-	1,186	314	0.20
Romania	766	8,288	1,604	-	6,684	943	0.59
Russian Federation	5,528	59,813	11,355	-	48,458	5,705	3.56
St. Kitts and Nevis	50	541	108	-	433	227	0.14
St. Lucia	69	747	144	-	603	246	0.15
St. Vincent and the Grenadines	50	541	108	-	433	227	0.14
Samoa	50	541	108	-	433	227	0.14
Saudi Arabia	4,332	46,872	9,071	-	37,801	4,509	2.82
Senegal	145	1,569	314	-	1,255	322	0.20
Seychelles	50	541	108	-	433	227	0.14
Sierra Leone	75	812	162	-	650	252	0.16
Singapore	154	1,666	333	-	1,333	331	0.21
Slovak Republic	222	2,402	480	-	1,922	399	0.25
Slovenia	102	1,104	221	-	883	279	0.17
South Africa	1,662	17,983	3,414	-	14,569	1,839	1.15
Spain	2,265	24,507	4,652	-	19,855	2,442	1.53
Sri Lanka	374	4,047	783	-	3,264	551	0.34

See Notes to Financial Statements

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER  
June 30, 2001  
Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (Note C)					VOTING POWER	
	Shares	Total Subscribed	Amount Paid-in	Amount Due	Amount Subject to Call	Number of Votes	% of Total
Sudan	206	\$2,229	\$446	\$-	\$1,783	383	0.24
Swaziland	58	628	126	-	502	235	0.15
Sweden	1,849	20,006	3,798	-	16,208	2,026	1.27
Switzerland	1,500	16,230	3,246	-	12,984	1,677	1.05
Tanzania	141	1,526	305	-	1,221	318	0.20
Thailand	421	4,555	911	-	3,644	598	0.37
Togo	77	833	167	-	666	254	0.16
Trinidad and Tobago	280	3,030	586	-	2,444	457	0.29
Tunisia	156	1,688	338	-	1,350	333	0.21
Turkey	462	4,999	1,000	-	3,999	639	0.40
Turkmenistan	66	714	143	-	571	243	0.15
Uganda	132	1,428	286	-	1,142	309	0.19
Ukraine	764	8,266	1,653	-	6,613	941	0.59
United Arab Emirates	372	4,025	805	-	3,220	549	0.34
United Kingdom	6,095	65,948	12,876	-	53,072	6,272	3.92
United States	21,983	237,856	47,199	-	190,657	22,160	13.84
Uruguay	202	2,186	438	-	1,748	379	0.24
Uzbekistan	175	1,894	380	-	1,514	352	0.22
Vanuatu	50	541	108	-	433	227	0.14
Venezuela Rep. Bolivariana de	1,427	15,440	3,088	-	12,352	1,604	1.00
Vietnam	220	2,380	476	-	1,904	397	0.25
Yemen, Republic of	155	1,677	335	-	1,342	332	0.21
Zambia	318	3,441	688	-	2,753	495	0.31
Zimbabwe	236	2,553	511	-	2,042	413	0.26
Total-June 30, 2001 <sup>a</sup>	132,869	\$1,437,643	\$279,031	\$731	\$1,157,881	160,127	100.00
Total-June 30, 2000	117,694	\$1,273,449	\$249,928	\$731	\$1,022,790	144,598	

Note: Amounts aggregating the equivalent of \$11,586,000 have been received from (i) countries in the process of completing its membership requirements: Rwanda \$61,000, Suriname \$155,000; (ii) a country in the process of succession to membership: Federal Republic of Yugoslavia (Serbia and Montenegro) \$188,000; and (iii) a member in the process of subscribing to additional shares of the 1998 General Capital Increase: United States \$11,182,000.

a May differ from the sum of individual figures shown because of rounding

See Notes to Financial Statements

STATEMENT OF GUARANTEES OUTSTANDING  
June 30, 2001  
Expressed in thousands of US dollars

Host Country	Gross Exposure by Guarantee Currency (Note D)					Total	Reinsurance (Note D)	Net Exposure
	US Dollars	Deutsche Marks	Euro	French Francs	Japanese Yen			
Albania	\$8,585	\$	\$	\$	\$	\$8,585	\$	\$8,585
Algeria			4,735			4,735		4,735
Angola	21,818					21,818		21,818
Argentina	693,589					693,589	434,858	258,731
Armenia	2,700					2,700		2,700
Azerbaijan	40,612					40,612		40,612
Bangladesh	79,542					79,542	14,670	64,872
Bolivia	14,594					14,594		14,594
Bosnia and Herzegovina			45,977			45,977		45,977
Brazil	888,453					888,453	576,394	312,059
Bulgaria	1,598					1,598		1,598
Cape Verde	2,206					2,206		2,206
Chile	22,216					22,216		22,216
China	110,237	2,911				113,148	33,128	80,020
Colombia	192,889					192,890	74,040	118,850
Costa Rica	86,272					86,272	13,290	72,982
Côte d'Ivoire			12,881			12,881		12,881
Croatia			36,494			36,494		36,494
Czech Republic	10,807		69,046			79,853	7,565	72,288
Dominican Republic	181,352					181,352	58,243	123,109
Ecuador	210,360					210,360	81,000	129,360
Georgia	2,134					2,134		2,134
Guatemala	114,064					114,064	56,267	57,797
Guinea	51,462					51,462		51,462
Guyana	30,600					30,600		30,600
Honduras	14,060					14,060		14,060
Indonesia	56,496					56,496	3,527	52,969
Jamaica	93,812					93,812	4,760	89,052
Jordan	24,300		14,986			39,286	11,786	27,500
Kazakhstan	42,882					42,882		42,882
Kenya	42,190					42,190	18,745	23,445
Kuwait	50,000					50,000		50,000
Kyrgyz Republic	50,730					50,730	4,983	45,747
Lesotho	23,761					23,761		23,761
Macedonia			17,298			17,298		17,298
Madagascar				1,320		1,320		1,320
Moldova	63,792					63,792	30,546	33,246
Mozambique	143,850				27,412	171,262	41,706	129,556
Nepal	19,140					19,140	7,770	11,370
Nicaragua	80,755					80,755	40,377	40,378

See Notes to Financial Statements

STATEMENT OF GUARANTEES OUTSTANDING  
June 30, 2001  
Expressed in thousands of US dollars

Host Country	Gross Exposure by Guarantee Currency (Note D)						Reinsurance (Note D)	Net Exposure
	US Dollars	Deutsche Marks	Euro	French Francs	Japanese Yen	Total		
Pakistan	\$82,540	\$6,909	\$7,313	\$	\$	\$96,762	\$16,793	\$79,969
Panama	3,288					3,288		3,288
Paraguay	5,000					5,000	1,500	3,500
Peru	271,419					271,419	114,015	157,404
Philippines	139,500					139,500	10,450	129,050
Romania	20,256		134,001			154,257	36,273	117,984
Russian Federation	263,470					263,470	119,238	144,232
Slovak Republic	5,000	5,117	685			10,802		10,802
South Africa	12,300					12,300		12,300
Sri Lanka	3,236					3,236		3,236
Swaziland	32,000				27,412	59,412	29,706	29,706
Tanzania	175,230					175,230	104,733	70,497
Togo			7,431			7,431		7,431
Turkey	153,857		3,988			157,845	70,660	87,185
Turkmenistan	8,000					8,000		8,000
Uganda	42,805					42,805	9,515	33,290
Uruguay	27,735					27,735	8,320	19,415
Uzbekistan	10,000					10,000		10,000
Venezuela, R. B. de	68,500					68,500	12,450	56,050
Vietnam	20,000					20,000	5,000	15,000
Zambia	31,000				2,349	33,349		33,349
<b>Sub-total</b>	<b>\$ 4,846,995</b>	<b>\$14,938</b>	<b>\$354,835</b>	<b>\$1,320</b>	<b>\$57,172</b>	<b>\$5,275,260</b>	<b>\$2,052,309</b>	<b>\$3,222,951</b>
<b>Adjustments for dual-country contracts:</b>								
Argentina/Chile	-22,216					-22,216		-22,216
Brazil/Bolivia	-14,594					-14,594		-14,594
Mozambique/Swaziland	-32,000				-27,412	-59,412	-29,706	-29,706
<b>Total - June 30, 2001<sup>a</sup></b>	<b>\$4,778,186</b>	<b>\$14,938</b>	<b>\$354,835</b>	<b>\$1,320</b>	<b>\$29,760</b>	<b>\$5,179,040</b>	<b>\$2,022,603</b>	<b>\$3,156,437</b>
<b>Total - June 30, 2000</b>	<b>\$4,110,048</b>	<b>\$33,370</b>	<b>\$218,760</b>	<b>\$1,440</b>	<b>\$1,194</b>	<b>\$4,364,812</b>	<b>\$1,548,856</b>	<b>\$2,815,956</b>

a May differ from the sum of individual figures shown because of rounding

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

---

### PURPOSE

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

### Note A | SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

MIGA's financial statements have been prepared in conformity with International Accounting Standards and with accounting principles generally accepted in the United States of America. 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.

**Use of Estimates** The preparation of financial statements in conformity with International Accounting Standards and accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. The following summary of policies adopted by MIGA is provided to assist readers in the interpretation of these financial statements.

**Translation of Currencies** MIGA's financial statements are expressed in terms of United States dollars solely for the purpose of summarizing MIGA's financial position and the results of its operations for the convenience of its members and other interested parties.

MIGA is an international organization that may conduct its operations in the currencies of all its members. MIGA's resources are derived from its capital and retained earnings in its members' currencies. MIGA strives to minimize exchange rate risks in a multicurrency environment. As such, MIGA attempts to match its contingent obligations in any one currency with assets in the same currency on a pro-rata basis.

Accordingly, MIGA may periodically undertake currency conversions on a pro-rata basis to match the currencies underlying its reserves with those of the outstanding contingencies. The purpose of these conversions will be to minimize currency exposure that may occur through operations. Otherwise, MIGA will not convert one currency into another except for small amounts required to meet certain operational needs.

Assets and liabilities are translated at market rates of exchange at the end of the period. Capital subscriptions are stated in accordance with the procedures described below. Income and expenses are generally translated at an average of the market rates of exchange in effect during each month. Translation adjustments are charged or credited to other comprehensive income.

**Valuation of Capital Stock** Under the MIGA Convention, all payments from members subscribing to the capital stock of MIGA shall be settled on the basis of the average value of the Special Drawing Right (SDR) 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.

**Investments** As part of its overall portfolio management strategy, to diversify its credit exposure to commercial banks and to obtain higher returns, MIGA invests in government and agency obligations and time deposits according to its credit risk and maturity policies. 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 multi-lateral organizations.

Investments classified as available-for-sale, which are those securities that may be sold prior to maturity as part of asset/liability management or in response to other factors, are carried at fair value with any changes in fair value reported in the Balance Sheet as a component of other comprehensive income.

**Revenue Recognition** Revenue from premium payments for direct insurance and reinsurance contracts assumed and ceded is recognized on a pro-rata basis over the contract period. Revenue from commitment fees, which are fees paid by investors to reserve for a limited period of time guarantee capacity for future use, is recognized on a pro-rata basis over the commitment period.

**Reserve for Claims** The reserve for claims provides for probable losses, net of future premiums, inherent in guarantee operations based upon an estimation of the net present value of future premium income as compared to the net present value of future losses related to guarantee operations. MIGA has incurred only one loss to date (see Note D). Accordingly, MIGA has computed expected future losses by reference to (i) the loss experiences of other insurers engaged in similar underwriting, (ii) the composition and volume of outstanding guarantee contracts, and (iii) the worldwide economic and political environment. This reserve is available to absorb probable losses inherent in outstanding guarantees and is increased by provisions charged to expense and decreased by claims settlements.

The level of provision is based upon management's evaluation of probable losses, net of future premiums, that may result from (i) risks that are inherent, but unidentifiable at the time of reporting, (ii) unusually large concentrations of exposure to individual risks, countries or guarantee contracts, and (iii) an ongoing assessment of MIGA's expected recovery rates. Sufficient claims reserves are established at the end of each year to cover all of the inherent probable losses arising from contracts outstanding at that time on a net present value basis; future provisions are then established to reflect changes in MIGA's outstanding portfolio.

In the event of a formal filing of claim by an investor, and upon receipt of full evidence of the occurrence of the covered risk, MIGA normally has between two months and six months to determine its liability under the contract, depending upon the type of coverage and contract terms, and 60 days thereafter to pay the claim.

**Accounting and financial reporting developments** In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which, as amended by SFAS Nos. 137 and 138, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Agency adopted SFAS 133 effective July 1, 2000. The adoption of SFAS 133 did not have any impact on the financial position or results of operations of the Agency.

In March 1999, the International Accounting Standards Committee issued IAS No. 39, *Financial Instruments Recognition and Measurement*. The Standard prescribes balance sheet recognition of all financial assets and financial liabilities, including derivatives. It requires financial assets and financial liabilities to be initially measured at cost, and to be carried at fair value on the balance sheet thereafter. The Standard is effective for the Agency for the year ending June 30, 2002.

In September 2000, FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 140, which replaces SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, provides accounting and reporting standards for securitizations and other transfers of financial assets. The accounting requirements of the Standard are effective for transfers and servicing of financial assets and extinguishments of liabilities after March 31, 2001, and must be applied prospectively. The Agency applied the provisions of SFAS No. 140 beginning April 1, 2001. The adoption of SFAS No. 140 did not have any impact on the Agency's financial position or results of operations for the period.



## Note B | INVESTMENTS

**Available-for-sale portfolio:** Investment securities in the available-for-sale portfolio are carried at fair value. A summary of the available-for-sale portfolio at June 30, 2001 and June 30, 2000 is as follows:

(in thousands of US dollars)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>At June 30, 2001</b>				
Government obligations	\$264,879	\$6,350	\$73	\$271,156
Time deposits	280,950	-	-	280,950
Total	<u>\$545,829</u>	<u>\$6,350</u>	<u>\$73</u>	<u>\$552,106</u>
<b>At June 30, 2000</b>				
Government obligations	\$250,141	\$358	\$1,798	\$248,701
Time deposits	215,747	-	-	215,747
Total	<u>\$465,888</u>	<u>\$358</u>	<u>\$1,798</u>	<u>\$464,448</u>

The expected maturities of investment securities in the available-for-sale portfolio at June 30, 2001 were as follows:

(in thousands of US dollars)	Amortized Cost	Fair Value
<b>At June 30, 2001</b>		
Due in one year or less	\$300,677	\$301,318
Due after one year through two years	177,310	181,251
Due after two years through three years	67,842	69,537
Total	<u>\$545,829</u>	<u>\$552,106</u>

Investments were denominated primarily in United States dollars with instruments in nondollar currencies representing 8.1 percent (8.2 percent - June 30, 2000) of the portfolio.

## 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, 2001, the initial authorized capital stock increased to 102,324 (101,843 - June 30, 2000) 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 nonnegotiable, noninterest 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 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.

At June 30, 2001, MIGA's authorized capital stock comprised 180,883 shares of which 132,869 (117,694 – June 30, 2000) 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, \$279,031,000 (\$249,928,000 – June 30, 2000) has been paid in; \$731,000 (731,000 – June 30, 2000) is due and the remaining \$1,157,881,000 (\$1,022,790,000 June 30, 1999) is subject to call. Of the amounts paid in, at June 30, 2001, \$100,921,000 (\$102,328,000 June 30, 2000) is in the form of nonnegotiable, noninterest bearing demand obligations (promissory notes). A summary of MIGA's capital stock at June 30, 2001 and June 30, 2000 is as follows:

	Initial Capital		Capital Increase		Total	
	Shares	(US\$000)	Shares	(US\$000)	Shares	(US\$000)
<i>At June 30, 2001</i>						
Authorized	102,324	\$1,107,146	78,559	\$850,008	180,883	\$1,957,154
Subscribed	102,324	\$1,107,146	30,545	\$330,497	132,869	\$1,437,643
<i>At June 30, 2000</i>						
Authorized	101,843	\$1,101,941	78,559	\$850,008	180,402	\$1,951,950
Subscribed	101,843	\$1,101,941	15,851	\$171,508	117,694	\$1,273,449

#### Note D | GUARANTEE PROGRAM AND CONTINGENT LIABILITIES

**Guarantee program.** MIGA offers guarantees or insurance against loss caused by noncommercial risks (political risk insurance) to eligible investors on qualified investments in developing member countries. MIGA insures investments for up to 20 years against four different categories of risk: currency transfer, expropriation, war and civil disturbance, and breach of contract. Currency transfer protects the investor from inconvertibility of local currency returns and proceeds from the liquidation of the investment project into foreign exchange for transfer outside the host country. Expropriation 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 protects the investor against losses from damage to, or the destruction or disappearance of, tangible assets caused by politically motivated acts of war or civil disturbance in the host country. Breach of contract protects the investor against the impossibility to obtain or to enforce an arbitral or judicial decision recognizing the breach of an obligation by the host government. Investors may insure projects for any combination of the four types of coverage. MIGA guarantees, other than those issued as reinsurance, cannot be terminated unilaterally by the guarantee holder within the first three years from the date of issuance. Premium rates applicable to issued contracts are fixed for five years. Payments against all claims under a guarantee may not exceed the maximum amount of coverage issued under the guarantee.

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 reserves plus such portion of the insurance ceded by MIGA through contracts of reinsurance as the Board of Directors may determine. Accordingly, at June 30, 2001, the maximum level of guarantees outstanding may not exceed \$8,121,241,000.

**Contingent Liability.** The maximum amount of contingent liability of MIGA under guarantees outstanding at June 30, 2001 totaled \$5,179,040,000 (\$4,364,812,000 - June 30, 2000). 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, 2001, MIGA's estimate of its actual exposure to insurance claims exclusive of standby coverage is \$2,628,939,000 (\$2,329,948,000 - June 30, 2000). At June 30, 2001, approximately 37 percent of the contingent liability represents guarantees issued that will expire on or after June 30, 2011.

As of June 30, 2001, additional guarantee capacity committed was nil (\$117,000,000 - June 30, 2000).

**Claim Activity.** In June 2000, MIGA paid its first claim, an expropriation claim related to a power project in Indonesia, amounting to \$15,000,000, of which 70% was reinsured. The net amount paid by MIGA was \$4,500,000. MIGA has entered into a settlement agreement with Indonesia under which the loss should be repaid in six semi-annual payments of principal and interest on the outstanding balance. As at June 30, 2001, in accordance with the terms of the settlement agreement, two installments totalling \$5,825,000 have been received. MIGA has retained \$1,748,000 (30%).

#### Note E | REINSURANCE

Although MIGA obtains quota-share and facultative reinsurance to augment its underwriting capacity and to protect portions of its insurance portfolio, it remains responsible to the insured client for the entire amount of the insurance contract. Of the \$5,179,040,000 outstanding contingent liability (gross exposure) as at June 30, 2001 (\$4,364,812,000 - June 30, 2000), \$2,022,603,000 was ceded through contracts of reinsurance (\$1,548,856,000 - June 30, 2000). Net exposure amounted to \$3,156,437,000 as at June 30, 2001 (\$2,815,956,000 - June 30, 2000).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2001, total insurance assumed by MIGA, primarily with official investment insurers, amounted to \$99,882,000 (\$124,472,000 - June 30, 2000).

Estimated reinsurance recoverables have been determined based upon a review of the selected contracts in force and other available information.

Premiums relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2001 and June 30, 2000 were as follows:

(in thousands of US dollars)	2001	2000
<b>Premiums written</b>		
Direct	\$56,491	\$39,980
Assumed	1,697	2,207
Ceded	(23,344)	(16,663)
<b>Premiums earned</b>		
Direct	\$44,300	\$35,062
Assumed	2,041	2,381
Ceded	(18,078)	(13,037)

**Note F | RESERVE FOR CLAIMS**

MIGA's gross reserve for claims as of June 30, 2001 amounted to \$487,400,000 (\$375,700,000 – June 30, 2000)

An analysis of the changes to the gross reserve for claims for the fiscal years ended June 30, 2001 and June 30, 2000 were as follows:

(in thousands of US dollars )	2001	2000
Balance, beginning of the fiscal year	\$375,700	\$340,000
Provision for claims-net	29,734	26,625
Estimated reinsurance recoverables	81,000	14,300
Claim recovered (paid)	1,748	(4,500)
Translation adjustment	(782)	(725)
Balance, end of the fiscal year	<u>\$487,400</u>	<u>\$375,700</u>

**Note G | STAFF RETIREMENT PLAN**

The World Bank Group has a defined benefit retirement plan (Plan) covering substantially all of MIGA's staff. The Plan also covers substantially all the staff of IBRD and IFC. Under the Plan, benefits are based on the years of contributory service and the highest three-year average of pensionable remuneration as defined in the Plan, with the staff contributing a fixed percentage of pensionable remuneration, and the World Bank Group contributing the remainder of the actuarially determined cost of future Plan benefits. The actuarial present values of Plan obligations throughout the fiscal year are determined at the beginning of the fiscal year by the Plan's actuary. MIGA's total contribution to the Plan is based upon the aggregate funding method. All contributions to the Plan and all other assets and income held for the purposes of the Plan are held separately from the other assets and income of the World Bank Group and can be used only for the benefit of the participants in the Plan and their beneficiaries, until all liabilities to them have been paid or provided for. Plan assets consists primarily of equity and fixed income securities, with small holdings of cash, real estate and other investments.

Net periodic pension income allocated to MIGA and included in income from Staff Retirement Plan for the fiscal year ended June 30, 2001 was \$2,858,000 (\$2,576,000 – June 30, 2000).

**Note H | OTHER POSTRETIREMENT BENEFITS**

IBRD provides other postretirement benefits for eligible active and retired World Bank Group staff, including MIGA. These benefits can be grouped under two major types, i.e. health care and life insurance benefit and the pensions administered outside of the Staff Retirement Plan (discussed in Note G). IBRD has designated assets to fund these liabilities. The assets and liabilities were recorded on IBRD's balance sheet.

At June 30, 2001, MIGA has included in other assets an accrued/prepaid postretirement benefits cost of \$27,600 (\$135,000 - June 30, 2000) relating to its share of the postretirement benefits net assets. Expense resulting from the decrease in MIGA's share of these net assets for the fiscal year ended June 30, 2001 was \$162,600 (\$189,000 – June 30, 2000).

**Note I | SERVICE AND SUPPORT FEE**

The Agency obtains certain administrative and overhead services from IBRD in those areas where common services can be efficiently provided by IBRD. This includes shared costs of the Boards of Governors and Directors, and other services such as communications, internal auditing, administrative support, supplies and insurance. Payments for these services are made by the Agency to IBRD based on negotiated fees, chargebacks and allocated charges where chargeback is not feasible. Expenses allocated to the Agency for the fiscal year ended June 30, 2001, were \$1,008,306 (\$984,000 - June 30, 2000).

**Note J | ESTIMATED FAIR VALUES**

The estimated fair values of MIGA's cash and nonnegotiable, noninterest-bearing demand obligations are assumed to approximate their carrying values. The estimated fair value of MIGA's investments shown in Note B is based on market quotations. The estimated fair values are only indicative of individual financial instruments' values and should not be considered an indication of MIGA's fair value.

REPORT OF INDEPENDENT ACCOUNTANTS

---

Deloitte Touche Tohmatsu International Firm  
Suite 500  
555 12th Street, N.W.  
Washington, DC 20004-1287

Tel: (202) 879 5600  
Fax: (202) 879 5339  
www.us.deloitte.com

**Deloitte  
Touche  
Tohmatsu  
(International Firm)**

President and Board of Governors  
Multilateral Investment Guarantee Agency

We have audited the accompanying balance sheets of the Multilateral Investment Guarantee Agency as of June 30, 2001 and 2000, including the statement of subscription to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2001, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Multilateral Investment Guarantee Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing and auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Multilateral Investment Guarantee Agency as of June 30, 2001 and 2000 and the results of operations and its cash flows for the years then ended in conformity with International Accounting Standards and accounting principles generally accepted in the United States of America.

*Deloitte Touche Tohmatsu (International Firm)*

July 30, 2001