Management's Discussion & Analysis
and
Financial Statements

June 30, 2017

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# 1. EXECUTIVE SUMMARY

This document provides Management's analysis of the financial condition and results of operations for the Multilateral Investment Guarantee Agency (MIGA or "the Agency") for the fiscal year ended June 30, 2017 (FY17). Key financial indicators for the past five years are provided in **Box 1**.

MIGA is a member of the World Bank Group (WBG)[1] and is a legal entity separate and distinct from the other WBG entities with its own charter, as amended (the "Convention"), share capital, financial structure, management and staff. Membership in the Agency, which currently stands at 181 countries, is open to all members of the International Bank for Reconstruction and Development (IBRD).

MIGA acts as a risk mitigator by providing investors and lenders in the international investment community with the level of comfort necessary to invest in developing countries by providing political risk insurance (PRI) and credit enhancement products.

***FY17 Business and Financial Results***

*New Business*

For FY17, new guarantee business reached a record high of $4.8 billion in support of 33 projects and reflects a 14% growth over guarantees issued in FY16 of $4.3 billion. Of the 33 projects supported, 45% were in IDA-eligible countries, 21% were in Fragile and Conflict-Affected Situations (FCS) and 12% were projects related to Energy and Climate Change, with all three being strategic priority areas for MIGA. Additionally, the Agency also issued guarantees in support of eleven projects in Sub Saharan Africa for just over $1 billion during the fiscal year.

*Guarantee Portfolio*

As of June 30, 2017, MIGA's gross guarantee portfolio also reached a record high of $17.8 billion, a 25% increase from June 30, 2016, attributable primarily to the combination of the significantly higher level of new business volume during FY17 and the low portfolio run-off. Of the gross outstanding exposure as of end-FY17, 37% is to IDA-eligible countries while 10% is to FCS, reflecting MIGA's strong commitment to these strategic priority areas.

In contrast, net guarantee exposure increased by a modest 2% from $6.7 billion as of end-FY16 to $6.8 billion as of June 30, 2017, primarily due to the increased portfolio reinsurance level resulting from the higher reinsurance on new business volumes and existing guarantees, coupled with the portfolio run-off of guarantees with higher net retention levels.

*Gross Premium Income*

FY17 Gross premium income increased by 29% to $179.7 million, reflecting the combined effect of the significantly higher average gross exposure and the higher effective portfolio premium rate, largely driven by the considerable increase in the average exposure of the non-honoring portfolio.

*Net Premium Income*

FY17 net premium income increased by 8% to $93.2 million, relative to the 29% increase in gross premium income. With the net guarantee exposure having remained flat due to the enhanced use of reinsurance for prudent capital and concentration risk management, the increase reflects the impact of the higher ceding commission contribution and the higher effective portfolio premium rate.

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[1] The other institutions of the World Bank Group are 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).

*Operating Income*
Operating income, defined as net premium income minus administrative expenses, increased by 9% from $38.3 million in FY16 to $41.9 million in FY17. Administrative expenses to net premium income ratio, one of MIGA's key measures of financial sustainability, decreased slightly to 55% from 56% in FY16, reflecting further cost efficiency improvements.

*Reserve for Claims*
The Agency recorded a decrease in reserve for claims of $154.3 million in FY17, largely attributable to the implementation of a new Economic Capital (EC) model, also used for provisioning purposes, compared to an increase in reserve for claims of $4.1 million in FY16. Included in the FY17 decrease in reserve for claims is a reduction in the net Insurance Portfolio Reserve (IPR), representing a one-time change in accounting estimate of $164.3 million, resulting from the implementation of the new EC model.

*Claims Paid*
During FY17, MIGA made two payments to its guarantee holders in relation to claims made under the War and Civil Disturbance cover. The Agency has paid ten claims[2] since its inception for a total of $26.5 million on a gross basis and $10.2 million, net of recoveries. The cumulative loss ratio for the Agency as of end-FY17 was 1.7% on a gross basis, and 0.6% net of recoveries.

*Net Income*
For FY17, MIGA recorded net income of $200.2 million compared to $56.8 million in the prior year. The increase of $143.4 million is mainly due to the net decrease in the reserve for claims of $154.3 million, compared to an increase of $4.1 million in FY16 and higher operating income of $3.6 million, partially offset by lower investment income of $18.1 million.

Excluding the one-time effect of the new EC model implementation, FY17 net income would have been $35.9 million, $20.9 million lower than FY16 net income, primarily driven by lower investment income.

### *Capital Management*

As noted previously, during FY17, MIGA implemented a new simulation-based EC model more suited to the insurance business and capable of capturing complex loss structures. This model is also used for capital utilization calculations. The adoption of the new EC model resulted in a one-time reduction in the EC consumed by the guarantee portfolio of $121.8 million. As of June 30, 2017, guarantee portfolio EC was $518 million while the Total EC was $592 million with MIGA's capital utilization ratio (defined as Total EC / Operating Capital[3]) declining to 42% as of June 30, 2017 from 50% as of June 30, 2016.

[2] Of these, two claim payouts were under the Expropriation cover and the remaining eight claims were paid under War and Civil Disturbance.
[3] Operating Capital is defined as the sum of paid-in-capital, retained earnings, accumulated other comprehensive income (AOCI) and the insurance portfolio reserve, net of the corresponding reinsurance recoverable.

**Box 1. Key Financial Indicators, Fiscal Years 2013 - 2017**

As of and for the fiscal years ended June 30

*US$ millions, unless otherwise stated*

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Guarantee Activities (See Section 4. Business Performance)** | | | | | |
| New business | 4,842 | 4,258 | 2,828 | 3,155 | 2,781 |
| Portfolio run-off[1] | 1,252 | 2,609 | 2,699 | 1,505 | 2,368 |
| Gross guarantee exposure | 17,778 | 14,187 | 12,538 | 12,409 | 10,758 |
| Net guarantee exposure | 6,780 | 6,665 | 7,708 | 7,113 | 6,410 |
| Guarantee portfolio reinsurance rate[2] | 62% | 53% | 38% | 43% | 40% |
| **Financial Results (See Section 3. Financial Performance)** | | | | | |
| Gross premium income | 179.7 | 139.8 | 128.1 | 115.6 | 97.2 |
| Net premium income | 93.2 | 86.4 | 79.0 | 72.5 | 66.3 |
| Operating income[3] | 41.9 | 38.3 | 34.1 | 26.9 | 19.2 |
| Net income (loss) | 200.2 | 56.8 | (10.8) | 70.0 | (4.3) |
| Cumulative Loss Ratio[4] | 1.7% | 1.6% | 1.7% | 1.5% | 1.6% |
| **Investing Activities (See Section 8. Investment Management)** | | | | | |
| Net investment portfolio | 1,516 | 1,376 | 1,323 | 1,282 | 1,157 |
| Investment income | 4.8 | 22.9 | 24.1 | 53.4 | 33.6 |
| Return on investments (%) | 0.3% | 1.7% | 2.0% | 4.4% | 3.1% |
| **Portfolio Risk Measures (See Section 9. Financial Risk Management)** | | | | | |
| Top five host country concentrations[5] | 25.8% | 24.8% | 26.9% | 30.2% | 28.5% |
| Top ten host country concentrations[5] | 43.3% | 42.2% | 46.7% | 50.7% | 47.8% |
| **Capital Measures (See Section 7. Capital Management)** | | | | | |
| Total shareholders' equity | 1,213 | 989 | 971 | 974 | 911 |
| Operating capital[6] | 1,398 | 1,329 | 1,312 | 1,262 | 1,178 |
| Total economic capital[7] | 592 | 663 | 705 | 620 | 572 |
| Total economic capital/operating capital (%) | 42% | 50% | 54% | 49% | 49% |
| Reinsurance counterparty credit risk[8] | 1.0% | 1.0% | 0.7% | n/a | n/a |

*1. Portfolio run-off includes cancellations, expiries and scheduled reductions of guarantee contracts in the portfolio.*

*2. Guarantee portfolio reinsurance rate is inclusive of public and private reinsurance and amounts ceded to Conflict Affected and Fragile Economies Facility (CAFEF). For FY17, the Board-approved reinsurance limit is 70% of gross outstanding portfolio.*

*3. Net premium income less Administrative and Pension and Other Post Retirement Benefit Plan expenses.*

*4. Cumulative claims paid as a percentage of cumulative gross premium income.*

*5. Net exposure host country concentrations .*

*6. Operating capital is comprised of Paid-in capital, Retained earnings/Accumulated Other Comprehensive Income and Insurance Portfolio Reserve, net.*

*7. Amount of capital utilized in support of the guarantee portfolio as well as the investment portfolio and operational risk.*

*8. Economic capital associated with reinsurance counterparties as a percentage of total exposure ceded to reinsurers.*

## 2. OVERVIEW

### *Introduction*

MIGA contributes to the WBG's twin goals of ending extreme poverty and promoting shared prosperity by facilitating foreign direct investment (FDI) into developing countries to support economic growth, reduce poverty and improve people's lives. To this end, acting as a risk mitigator, the Agency provides investors and lenders in the international investment community with the level of comfort necessary to invest in developing countries by providing political risk insurance (PRI) and credit enhancement products.

MIGA is committed to promoting projects that are economically, environmentally and socially sustainable and that promise a strong development impact. Since its inception, MIGA has issued $45 billion of guarantees, in support of over 800 projects in 110 of its member countries. The Agency has also supported multiple programs at regional and global levels in member countries.

### *MIGA's Outlook and Strategic Focus*

FY17 marks the end of MIGA's FY15-17 Strategy, under which the Agency sought to create development impact by delivering more foreign direct investment to its member countries using its expanded product line and broader client base, while targeting and achieving an increase of 50% in annual volume by FY17 – from $2.8 billion in FY13 to $4.8 billion in FY17, with a focus on activities in IDA-eligible countries, FCS, climate and energy efficiency, and innovative[4] projects.

In April 2017, MIGA's Board of Directors approved the Agency's FY18-20 Strategy under which the Agency seeks to increase the impact and scale of the projects it supports, with continued focus on strategic priority areas of IDA, FCS and Climate Change. To deliver on the strategy, four strategic pillars have been identified as necessary, namely: Grow Core Business, Innovate Applications, Create Projects for Impact, and Create Markets.

*Private Sector Window (PSW)*

A $2.5 billion IFC-MIGA Private Sector Window (PSW) has been created in IDA18 with the goal of mobilizing private sector investment in IDA-only countries, particularly in Fragility, Conflict and Violence (FCV) countries. The PSW will be deployed through four facilities, which have been designed to target critical challenges identified by IFC and MIGA's private sector counterparts and will leverage IFC and MIGA instruments including loan guarantees and derivatives.

The new IDA18 IFC-MIGA PSW will play a key role in enabling the next wave of product application innovation for MIGA. The Agency expects to utilize the US$ 500 million set aside under the MIGA Guarantee Facility (MGF) of the IDA18 IFC-MIGA PSW through structures with first loss and risk participation akin to reinsurance, with the objective of expanding the coverage of MIGA's Political Risk Insurance (PRI) products. The Agency will also administer, on behalf of IDA, the Risk Mitigation Facility (RMF), to provide project-based guarantees without sovereign indemnity to crowd-in private investment in large infrastructure projects and public private partnerships (PPP's) supported by IFC.

[4] Innovative projects include public private blend financing and new industries.

### *Non-Commercial Risk Insurance*

MIGA plays a critical role in supporting private investment flows to developing member countries by offering PRI and credit enhancement products and investment dispute resolution.

MIGA provides investment guarantees against certain non-commercial risks to eligible foreign investors for qualified investments in developing member countries and offers coverage against the risks of: 1) transfer restriction and inconvertibility, 2) expropriation, 3) breach of contract, 4) war and civil disturbance, 5) the non-honoring of a sovereign financial obligation, and 6) the non-honoring of a financial obligation by a state-owned enterprise (see **Box 2**)[5]. MIGA insures new and existing cross-border investments originating in any MIGA member country, destined for any developing member country. The types of investments that can be covered include equity, quasi-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.

**Box 2. MIGA's Product Line Up**

***Traditional Political Risk Insurance***

- **Transfer restriction and inconvertibility** – provides coverage for the risk of inconvertibility of local currency into foreign exchange for transfer outside the host country. Currency depreciation is not covered.
- **Expropriation** – protects against losses attributable to measures taken or approved by the host government that deprive the insured of its ownership or control over all or a substantial portion of its investment.
- **War and civil disturbance** – covers 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** – covers the risk of being unable to obtain or enforce an arbitral or judicial decision recognizing the breach of an obligation by the host government or a state-owned enterprise.

***Non-Honoring of Financial Obligations***

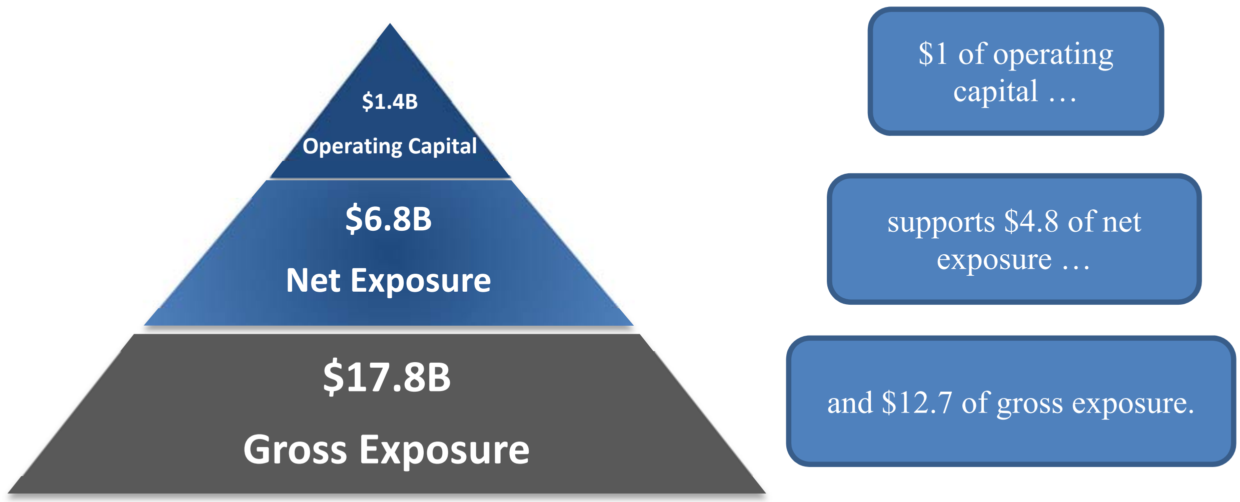
- **Non-honoring of a sovereign financial obligation (NHSFO)** – covers the risk that a sovereign or sub-sovereign fails to honor an unconditional payment obligation or guarantee, where the underlying project meets all of MIGA's eligibility requirements. Unlike MIGA's breach of contract coverage, credit enhancement coverage does not require a final arbitral award or court decision as a condition to the payment of a claim.
- **Non-honoring of a financial obligation by a state-owned enterprise (NHFO-SOE)**– covers the risk that a state-owned enterprise fails to honor an unconditional payment obligation or guarantee, where the underlying project meets all of MIGA's eligibility requirements. This coverage does not require a final arbitral award or court decision as a condition to the payment of a claim.

[5] 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.

### *Business and Operating Model*

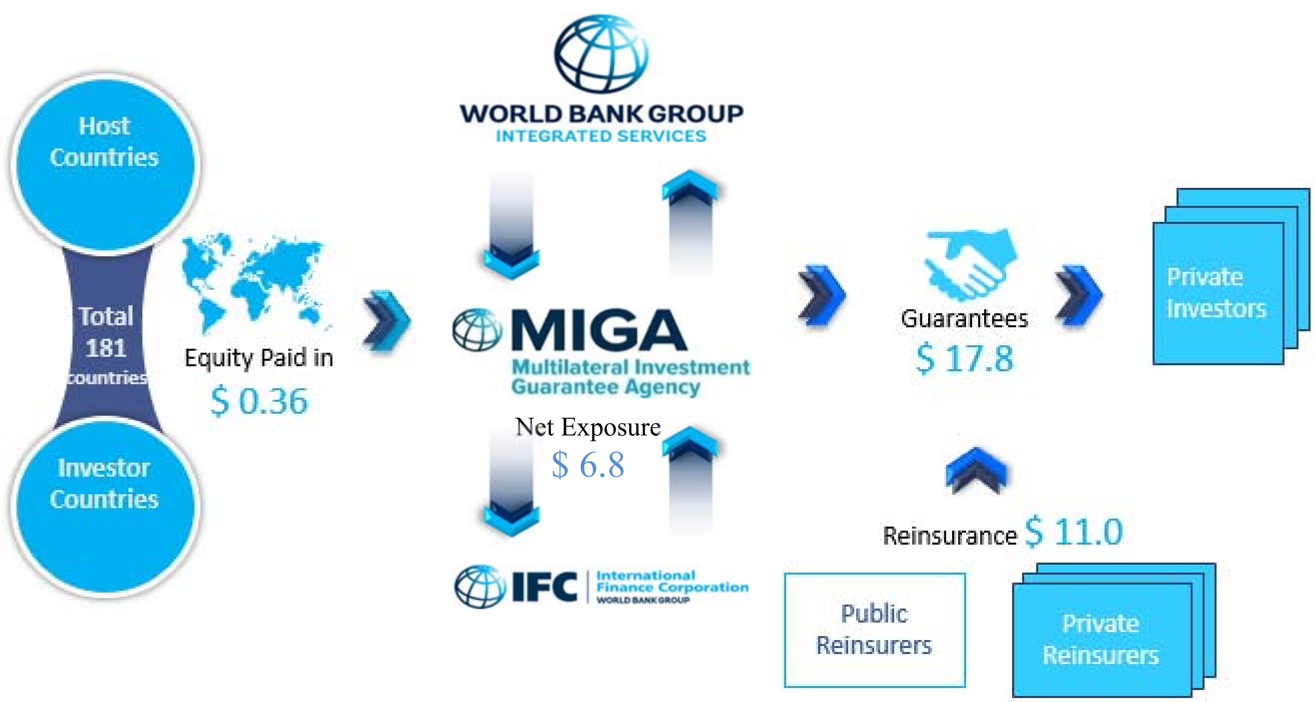
MIGA is financially self-sustaining and its activities are supported by a strong capital base and a comprehensive risk management framework. In the context of its statutory underwriting capacity, the Agency is able to support significant amounts of gross exposure and to contain risk, through the use of reinsurance in order to manage net guarantee exposure and the related capital utilization. **Figure 1** below illustrates how MIGA is able to utilize its capital base, coupled with reinsurance capacity, to maximize its development reach. As of June 30, 2017, each $1 of operating capital supported $12.7 of gross guarantee exposure.

**Figure 1. Maximizing Development Impact (June 30, 2017)**




MIGA's operating model leverages the entire World Bank Group (WBG), and mobilizes private and public reinsurers, multiplying the impact of its member countries investments. **Figure 2** below is a graphic depiction of the Agency's operating model.

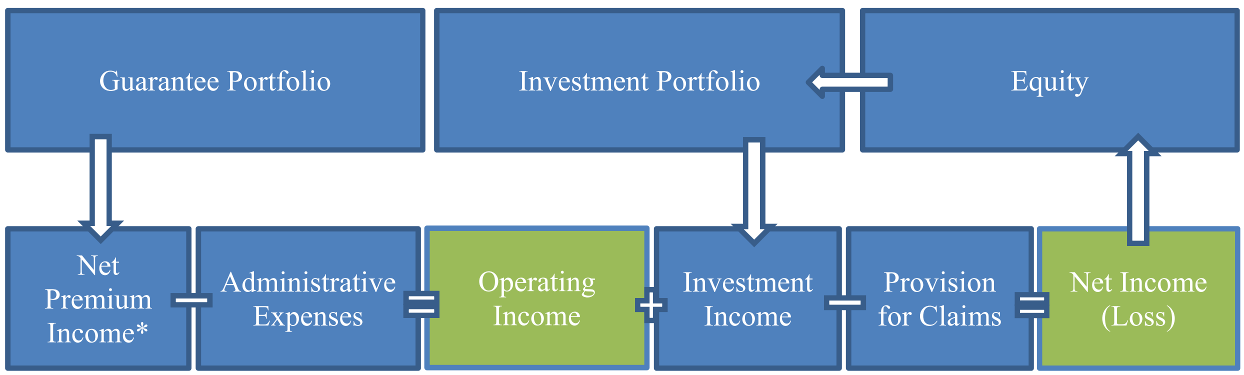
**Figure 2. MIGA Operating Model (June 30, 2017) ($B)**



### *Financial Model*

In fulfilling its mandate, MIGA seeks to operate in a financially sustainable manner by generating sufficient revenue from its guarantee and investment portfolios to cover its operating and claims-related expenses and contribute to the growth of its capital base. MIGA's business revenue base is represented by net premium income from its guarantee portfolio which is comprised of gross premium income less premium ceded to reinsurers net of ceding commissions and less brokerage costs. Operating income, defined as net premium income less administrative expenses, combined with earnings from the investment portfolio and after claim loss provisioning, enables MIGA to increase capital resources in the form of retained earnings and insurance portfolio reserve to strengthen its ability to support existing and new guarantee exposures. (**See Figure 3**).

**Figure 3. MIGA Financial Model**




**Net Premium Income = Gross Premium Income – Premium Ceded (Reinsurers) + Ceding Commissions – Brokerage Charges*

### *Basis of Reporting*

MIGA prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). MIGA's accounting policies are discussed in more detail under Note A to MIGA's Financial Statements.

## 3. FINANCIAL PERFORMANCE

MIGA's FY17 reported net income of $200.2 million is significantly higher than the $56.8 million in net income for FY16. This is attributable primarily to the decrease in reserve for claims of $154.3 million, largely due to the impact of implementing the new Economic Capital (EC) model during FY17, (also used for provisioning purposes) compared to a $4.1 million increase in reserve for claims in FY16 and higher operating income of $3.6 million, partially offset by $18.1 million lower investment income.

The introduction of the new EC model resulted in a one-time decrease in the net Insurance Portfolio Reserve (IPR) of $164.3 million, which is embedded in the FY17 decrease in reserve for claims. Excluding the effect of this one-time change in accounting estimate, FY17 net income would have been $35.9 million.

**Table 1** below shows the breakdown of MIGA's financial results over the past five years, followed by **Table 2** that shows the FY17 net income adjusted to exclude, for illustrative purposes, the one-time impact of the new EC model introduction and a variance analysis based on adjusted numbers with FY16.

**Table 1. Summary of Net Income and Key Financial Ratios ($M)**

| As of and for the Year Ended June 30 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Gross Premium Income | 179.7 | 139.8 | 128.1 | 115.6 | 97.2 |
| Premium Ceded | (105.3) | (64.1) | (56.6) | (50.1) | (37.7) |
| Ceding Commissions and Fees | 25.5 | 15.6 | 12.6 | 10.9 | 8.5 |
| Brokerage and Other Charges | (6.7) | (4.9) | (5.1) | (4.0) | (1.7) |
| **Net Premium Income** | **93.2** | **86.4** | **79.0** | **72.5** | **66.3** |
| Administrative Expenses | (41.1) | (42.8) | (39.0) | (39.9) | (41.2) |
| Pension and Post Retirement Benefit Plan Expense | (10.2) | (5.3) | (5.9) | (5.6) | (5.9) |
| **Operating Income**(1) | **41.9** | **38.3** | **34.1** | **26.9** | **19.2** |
| Income from Investments | 4.8 | 22.9 | 24.1 | 53.4 | 33.6 |
| Miscellaneous Income | 1.3 | - | - | - | - |
| Translation (Losses) Gains | (2.0) | (0.3) | (18.1) | 2.8 | (0.3) |
| Decrease (Increases) in Reserves for Claims and Other Exposures(2) | 154.3 | (4.1) | (50.9) | (13.1) | (56.7) |
| **Net Income (Loss)** | **200.2** | **56.8** | **(10.8)** | **70.0** | **(4.3)** |
| **Key Financial Ratios** | | | | | |
| Administrative Expenses / Net Premium Income | 55% | 56% | 57% | 63% | 71% |
| ROOC(3) (before provisions) | 3.3% | 4.6% | 3.0% | 6.6% | 4.5% |
| ROOC (after provisions) | 14.3% | 4.3% | -0.8% | 5.5% | -0.4% |
| ROCU(4) | 8.1% | 6.4% | 5.3% | 4.8% | 3.7% |

Note: numbers may not add up due to rounding.
(1) Operating Income = Net Premium Income less Administrative and Pension and Post Retirement Benefit Plan Expenses
(2) Provisions are net of currency translation effect
(3) Return on Operating Capital = Net Income/Operating Capital
(4) Return on Capital Utilized = (Net Premium Income-Administrative and Other Expenses)/Economic Capital Utilized by the Guarantee Portfolio

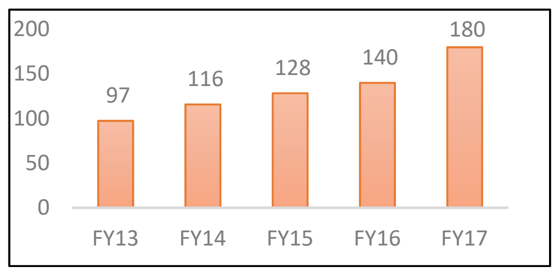
**Table 2. Impact of new EC Model on FY17 Income Statement ($M)**

| For the Year Ended June 30 | 2017 | | | 2016 | YoY Variance | |
|---|---|---|---|---|---|---|
| | As reported | Impact of new EC Model | Adjusted | As reported | Total | % Change |
| **Gross Premium Income** | **179.7** | | **179.7** | **139.8** | **39.9** | **29%** |
| **Net Premium Income** | **93.2** | | **93.2** | **86.4** | **6.8** | **8%** |
| Administrative Expenses (Including Pension and Post Retirement Benefit Plans) | (51.3) | | (51.3) | (48.1) | (3.3) | 7% |
| **Operating Income** | **41.9** | | **41.9** | **38.3** | **3.5** | **9%** |
| Income from Investments | 4.8 | | 4.8 | 22.9 | (18.1) | -79% |
| Miscellaneous Income | 1.3 | | 1.3 | - | 1.3 | |
| Translation (Losses) Gains | (2.0) | | (2.0) | (0.3) | (1.7) | 579% |
| Decrease (Increases) in Reserves for Claims and Other Exposures | 154.3 | 164.3 | (10.0) | (4.1) | (5.9) | 143% |
| **Net Income (Loss)** | **200.2** | **164.3** | **35.9** | **56.8** | **(20.9)** | **-37%** |

Following is a discussion of the key drivers of MIGA's financial performance in FY17 compared to FY16.

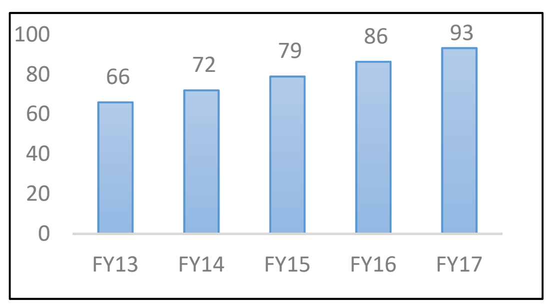
*Gross Premium Income (GPI):* FY17 gross premium income growth of 29% is largely attributable to the combined effect of the significantly higher average gross exposure and the higher effective portfolio premium rate. **Figure 4** shows the considerable growth of the Agency's gross premium income over the past five fiscal years, nearly doubling from the FY13 level of $97 million to $180 million in FY17. In addition, non-honoring guarantees have played a significant role in increasing GPI, with 45% of the FY17 GPI generated by non-honoring guarantees, up from 38% in FY16.

**Figure 4. Gross Premium Income (FY13 – FY17) ($M)**




*Net Premium Income (NPI):* FY17 net premium income reflects a modest growth of 8% relative to the growth in gross premium income of 29%, primarily due to the Agency's enhanced reinsurance strategy. As a result of this strategy, out of $179.7 million GPI in FY17, the Agency ceded premiums to reinsurers totaling $105.3 million and earned ceding commissions of $24 million, in comparison to premiums ceded of $64.1 million and ceding commissions of $14.5 million in FY16. While premiums ceded in FY17 increased by $41.2 million (64%), ceding commissions, which are earnings that represent a relatively less risky exposure base (i.e. reinsurer counterparty exposure), increased by $9.5 million (66%).

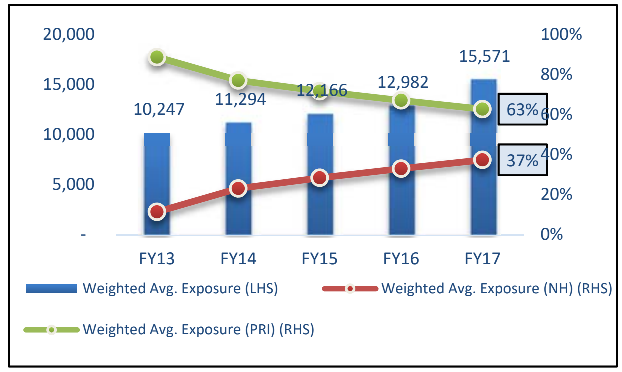
**Figure 5. Net Premium Income (FY13 – FY17) ($M)**



*Primary Drivers for increases in Gross and Net Premium Income*

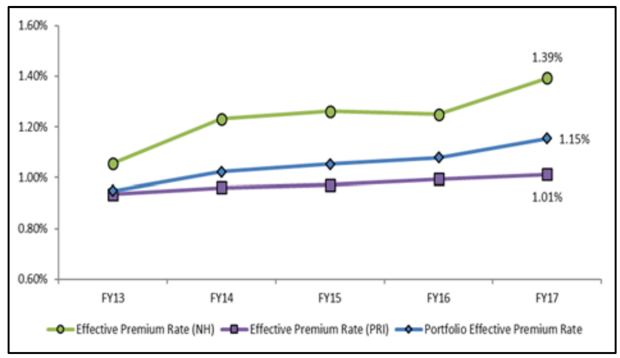
*Average Gross Exposure:* The average gross exposure is one of the key drivers for the increase in GPI and NPI over the past fiscal years increasing further by $2.6 billion (20%) to $15.6 billion in FY17 from $13.0 billion in FY16. This was largely driven by the increased demand for the non-honoring product coupled with portfolio run-off on traditional PRI guarantees. The average exposure of the non-honoring products has grown significantly over the last five years, with the average exposure of the NH product increasing to $5.8 billion (37%) in FY17, compared to $4.3 billion (33%) in FY16 and $1.2 billion (11%) in FY13.

**Figure 6. Average Gross Exposure (FY13 – FY17) ($M)**



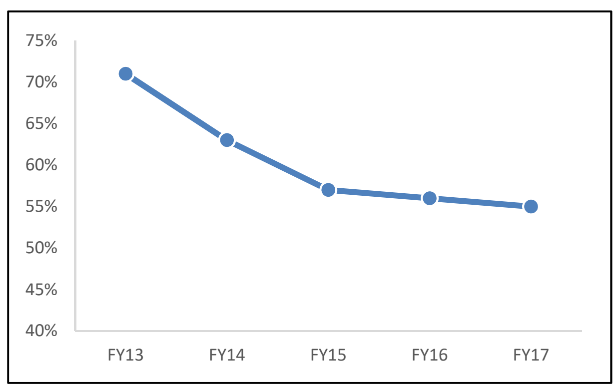

*Effective Portfolio Premium Rate:* Also instrumental in increasing the premium revenue for the Agency, is the effective portfolio premium rate which increased to 1.15% as of June 30, 2017 from 1.08% as of June 30, 2016. This was mainly driven by the increased proportion of the non-honoring product in the total portfolio, earning a higher effective premium rate than the traditional PRI guarantees. The effective rate for the non-honoring product increased to 1.39% as of June 30, 2017 compared to 1.27% as of June 30, 2016 and the effective rate on traditional PRI also trended upwards to 1.01% as of June 30, 2017 from 0.99% as of June 30, 2016.

**Figure 7. Effective Premium Rate (FY13 – FY17)**




*Administrative Expenses (including Pension and Post Retirement Benefit Plan Expenses)*
Administrative expenses, including pension and post-retirement benefit plan expenses in FY17, on a combined basis, were $51.3 million, a 7% increase from $48.1 million in FY16. The primary driver for the increase is attributable to the higher pension costs during FY17, associated with the higher service cost and amortization of unrecognized actuarial losses from the pension plans. The Administrative Expense to Net Premium Income ratio, a key measure of MIGA's cost efficiency improved slightly to 55% for FY17 in comparison to 56% in FY16. This ratio has been consistently below the management-approved cap of 75%, decreasing from 71% in FY13 to 55% in FY17.

**Figure 8. Admin Expense Ratio to NPI (FY13 – FY17)**




*Operating Income*
FY17 operating income of $41.9 million represents a 9% increase over FY16, primarily driven by the growth in net premium income outpacing that of administrative expenses.

*Investment Income*

FY17 investment income was $4.8 million compared to $22.9 million in FY16. The significant decline in investment income of $18.1 million was primarily due to the mark-to-market losses from the MBS and U.S. Treasury holdings resulting from the increase in interest rates (See **Section 8, Investment Management** for details on the Investment Portfolio and returns).

*Decrease in Reserve for Claims*

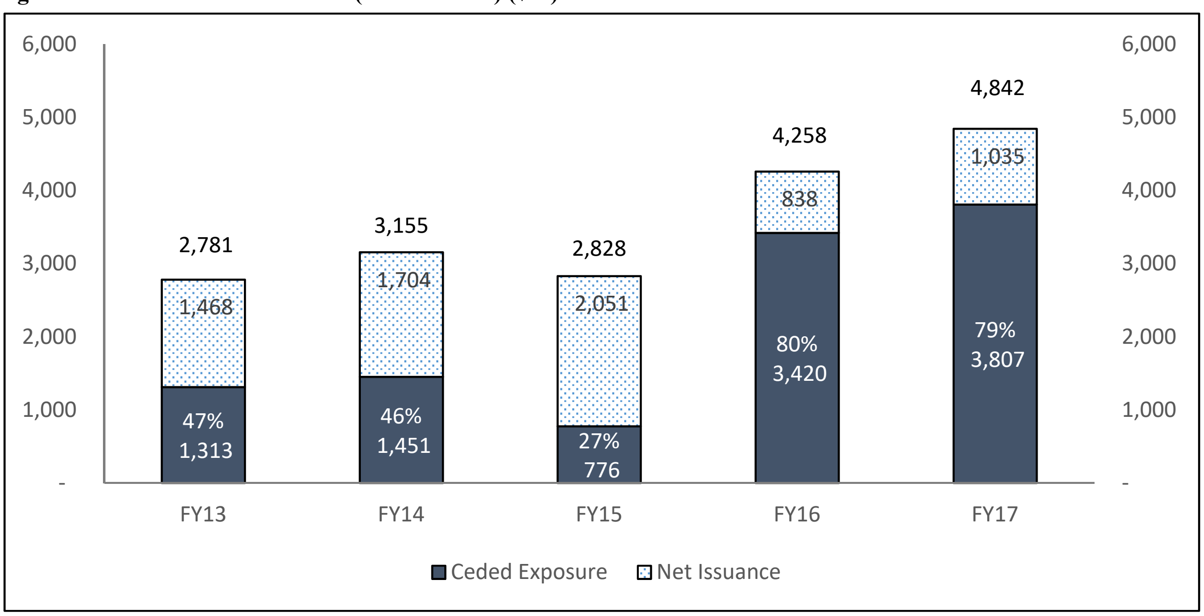
During FY17, reserve for claims decreased by $154.3 million compared to the $4.1 million increase in reserves for claims in FY16. This primarily reflects the impact of the introduction of the new EC model during FY17, which resulted in a decrease of $164.3 million in the net IPR. Excluding the effect of this one-time change in accounting estimate, the reserve for claims increased by $10 million due to changes in portfolio composition and net host country risk downgrades. In comparison, the $4.1 million increase in reserves for claims during FY16 was largely a result of a pending claim as of the end of that fiscal year, with the net IPR remaining relatively unchanged.

## 4. BUSINESS PERFORMANCE

***New Guarantee Issuance***

MIGA continued to facilitate foreign direct investment (FDI) into developing countries by providing its guarantee products to fit the unique needs of each project and sponsor. During FY17, the Agency issued a record $4.8 billion in new guarantees in support of 33 projects, reflecting a 14% growth over $4.3 billion issued in FY16 and a 74% increase over new business volumes in FY13 of $2.8 billion. **Figure 9** below depicts the growth of MIGA's new business volumes over the last five fiscal years.

**Figure 9. New Guarantee Issuance (FY13 - FY17) ($M)**



Cumulatively, MIGA has issued more than $45 billion in guarantees in 110 countries since its inception. **Table 3** below contains a summary of cumulative guarantees issued in member countries over the last five fiscal years.

**Table 3. Cumulative Guarantees Issued in Member Countries**

| | FY17 | FY16 | FY15 | FY14 | FY13 |
|---|---|---|---|---|---|
| Cumulative Guarantees Issued ($B)* | 45.1 | 40.3 | 36.0 | 33.2 | 30.0 |
| Host Countries | 110 | 109 | 109 | 109 | 108 |

** Includes amounts from Cooperative Underwriting Program issued prior to FY11.*

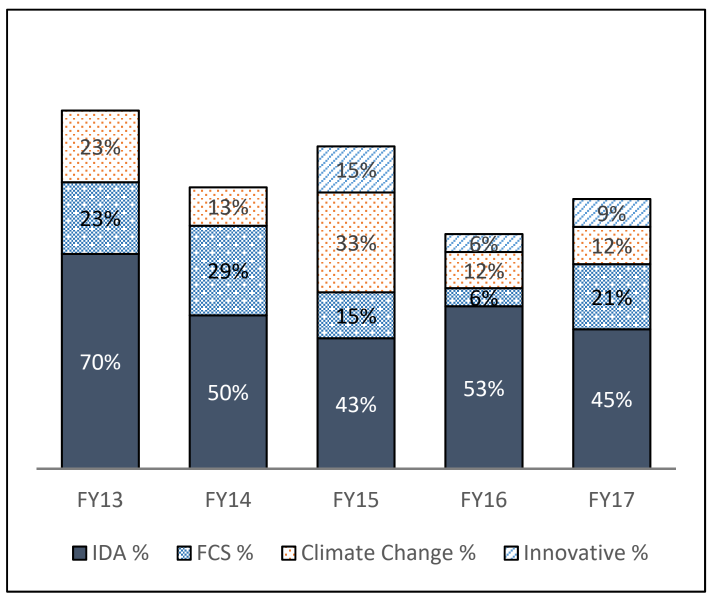
*Guarantees Issued by Priority Area*

Of the 33 projects supported in FY17, 20 projects were in one or more priority areas under the Agency's FY15-17 strategy, collectively representing 61% of the total projects supported in FY17. This includes guarantees totaling $1.1 billion issued in support of 15 projects (45% of total projects supported) in nine IDA-eligible countries (Bangladesh, Burundi, Cote d'Ivoire, Ethiopia, Ghana, Madagascar, Myanmar, Moldova and Zambia). MIGA also issued guarantees for $611 million in support of seven projects (21%) in four Fragile and Conflict Affected States (FCS) – Burundi, Cote d'Ivoire, Madagascar and Myanmar.

With regard to the remaining two strategic priority areas, the Agency has made good progress over the past five fiscal years and issued guarantees totaling $675 million in support of four climate change and energy efficiency projects during FY17. It also issued $1.7 billion in support of three innovative projects, including a Public-Private Partnership (PPP) project in Turkey's healthcare sector which was developed in collaboration with EBRD. MIGA's PRI coverage for the bond of this Turkish hospital project, which entailed decoupling sovereign and project ratings, resulted in a two notch-upgrade to the sovereign rating and has received considerable recognition and interest in the PRI community.

**Figure 10** highlights the percentage of projects supported by each strategic priority area over each of the past five fiscal years.

**Figure 10. Projects Supported by Priority Area (% of Projects)**

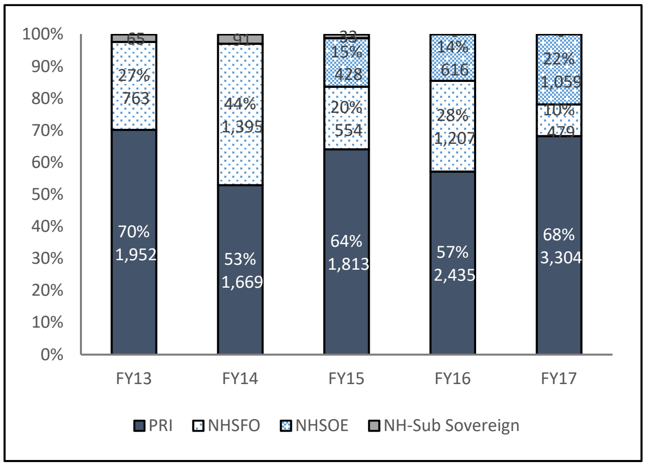



*Note: Share of projects supported by priority areas cannot be added as these are not mutually exclusive.*

*Guarantees Issued by Product Type*

Traditional PRI guarantees issued by MIGA reached a record high of $3.3 billion (68% of total new guarantee business) in FY17 across the four covers, compared to $2.4 billion (57% of total new guarantee business) in FY16. This also included the second largest guarantee ever issued by the Agency for an infrastructure power project in Mexico for just under $1 billion. Of the 33 projects supported in FY17, 27 projects (82%) were issued with the traditional PRI cover types.

**Figure 11. Guarantees Issued by Product Type (%)**




Credit enhancement guarantees issued during FY17 amounted to $1.5 billion and included guarantees covering non-honoring of financial obligations by state-owned enterprises (NHFO-SOE) of $1 billion and non-honoring of sovereign financial obligations (NHSFO) for $0.5 billion. In comparison, the Agency issued $1.8 billion (43%) of credit enhancement guarantees during FY16, with NHFO-SOE accounting for $0.6 billion and NHSFO for $1.2 billion.

**Figure 11** provides the guarantee issuance breakdown by product type over the past five fiscal years.

*Geographic Distribution of New Business Volume and Projects*

During FY17, three regions, Europe and Central Asia (ECA), Sub Saharan Africa (SSA) and Latin America and Caribbean (LAC) constituted 80% of the total new business volumes. New guarantees issued in the ECA region amounted to $1.9 billion and accounted for 39% of FY17 gross issuances, primarily on account of capital optimization deals, coverage for NHFO-SOE as well as innovative guarantees written in the healthcare sector in Turkey. While the share of new business volumes in SSA declined from 41% of the total FY16 issuances to 21% of FY17 total issuances, the number of projects supported in this region increased from eight in FY16 to eleven in FY17, with the Agency supporting a mix of projects including several small but important investments in FCS countries such as Burundi, Madagascar and Zambia. The share of new business volumes in LAC also increased to 20% of the total FY17 gross issuances, including the Agency's first project in Mexico for just under $1 billion in new guarantees. East Asia and Pacific (EAP), South Asia (SAR) and Middle East and North Africa (MENA), collectively accounted for the remaining 20% of FY17 gross issuance volumes, in support of six projects.

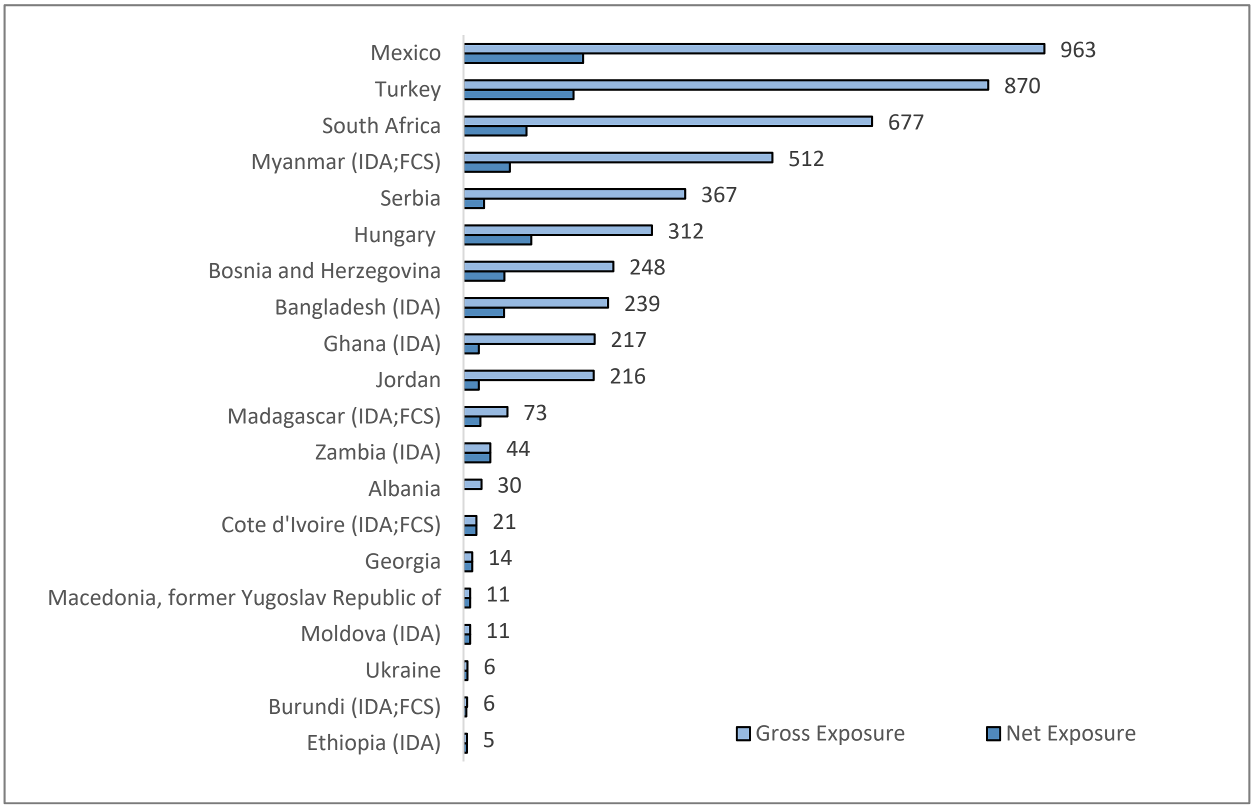
**Table 4** provides the regional breakdown of new business by gross issued volumes and by number of projects supported in FY17 and FY16, respectively.

**Table 4. Regional Breakdown of New Guarantee Business**

| ***Region*** | ***FY17 Projects*** | ***FY17 New Business ($m)*** | ***% Share of FY17 Volume*** | ***FY16 Projects*** | ***FY16 New Business ($m)*** | ***% Share of FY16 Volume*** |
|---|---|---|---|---|---|---|
| SSA | 11 | $1,044 | 21% | 8 | $1,758 | 41% |
| EAP | 2 | 512 | 11% | 3 | 1,250 | 29% |
| SAR | 3 | 239 | 5% | 1 | 69 | 2% |
| ECA | 15 | 1,869 | 39% | 3 | 727 | 17% |
| LAC | 1 | 963 | 20% | 1 | 439 | 10% |
| MENA | 1 | 216 | 4% | 1 | 15 | 0% |
| **Total** | **33** | **4,842** | **100%** | **17** | **4,258** | **100%** |

In terms of host countries, the Agency supported investments in 33 projects in 20 different host countries during FY17. **Figure 12** lists out the new business volumes by host country in descending order based on FY17 total new business. The Agency issued its first guarantee in Mexico, also the largest guarantee issued during FY17, and simultaneously supported small investments made in IDA-eligible and FCS countries such as Ethiopia, Cote'd Ivoire and Burundi.

**Figure 12. FY17 New Business Volumes by Host Country ($M)**



## *Guarantee Portfolio*

### *Portfolio Evolution*

MIGA's gross outstanding exposure continued its upward trajectory and reached a record high of $17.8 billion as of June 30 2017, in comparison to the previous record high of $14.2 billion as of June 30, 2016. This reflects a growth of 25% with the increase primarily due to the record new business written during FY17, coupled with the low portfolio runoff.

Net outstanding exposure increased modestly by 2% to $6.8 billion as of June 30, 2017, from $6.7 billion as of June 30, 2016. Accounting for the marginal increase was the continuation of the enhanced reinsurance strategy of prudent capital and concentration risk management (including reinsuring 79% of new business volumes), coupled with secondary reinsurance on existing deals and portfolio runoff of high net retention guarantees during FY17. **Figure 13** highlights the growth in the guarantee portfolio over the last five fiscal years.

**Figure 13. Gross and Net Portfolios ($M)**

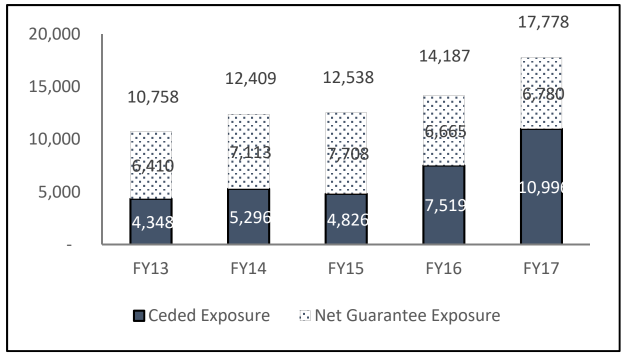
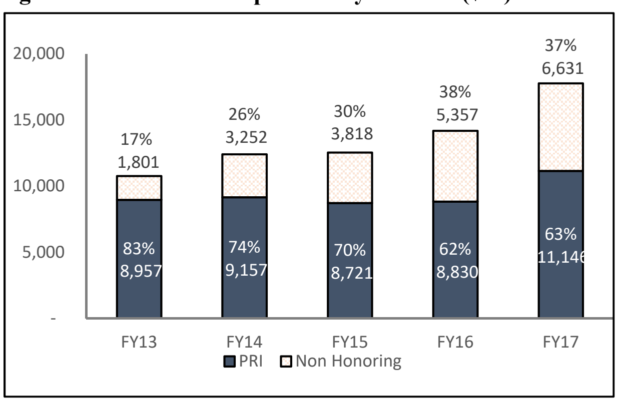



**Figure 14. Portfolio Composition by Product ($M)**




### *Portfolio Composition by Product Type*

Gross outstanding exposure on tradtional PRI guarantees remained relatively stable between FY13 and FY16, averaging about $8.9 billion. The record new business in FY17 in traditional PRI, coupled with low portfolio run-off, resulted in traditional PRI gross outstanding exposure increasing to $11.1 billion as of end-FY17 (63% of overall gross portfolio) from $8.8 billion (62%) as of end-FY16, representing a growth of $2.3 billion or 26%.

The gross outstanding exposure of credit enhancement guarantees as of end-FY17 accounted for $6.6 billion and 37% of the overall portfolio. The contribution of this product to the growth of the overall portfolio over the last five fiscal years has been significant, reflecting increased investor demand for the product from $1.8 billion as of end-FY13 to $6.6 as of end-FY17, a growth of $4.8 billion (268%) over the past five fiscal years.

### *Portfolio Exposure in Strategic Priority Areas*

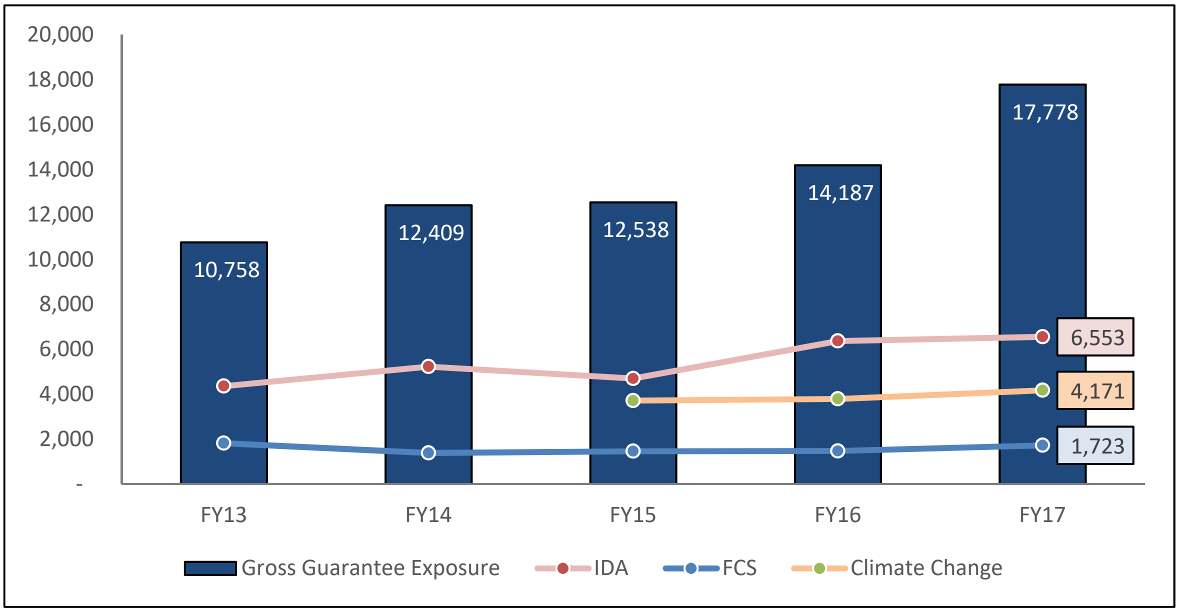
As of June 30 2017, MIGA's gross outstanding exposure in IDA-eligible countries was $6.6 billion or 37% compared to $6.4 billion (45%) as of end-FY16, and $4.4 billion (40%) as of end-FY13. While the share of IDA-eligible countries in the gross portfolio declined from end-FY13, the Agency significantly increased its portfolio exposure in these countries by $2.2 billion over the same period or 50%. The decreasing share is also the natural result of the non-honoring products gaining a more significant share in the overall portfolio, with the focus on middle income countries (MICs) for these products.

MIGA's exposure in FCS as of June 30, 2017 was $1.7 billion or 10% of the total gross portfolio, compared to $1.5 billion (10%) as of end-FY16, representing an increase of $252 million or 17%.

Gross outstanding exposure on climate related and energy efficiency projects also increased to $4.2 billion as of end-FY17 compared to $3.8 billion as of end-FY16.

**Figure 15** indicates the trend of MIGA's gross outstanding exposure in these three strategic priority areas over the last five fiscal years.

**Figure 15. Gross Portfolio in Strategic Priority Areas ($M)**




### *Investment Dispute Resolution*

Consistent with Article 23 of the MIGA Convention, the Agency seeks 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 some cases, these efforts focus on situations in which either a claim has been or may be filed. Over the course of FY17, the Agency worked with a number of investors and host governments on incipient investment disputes. These discussions do not necessarily imply that a claim was imminent.

### *Claim Activities*

During FY17, MIGA has made payments on two War and Civil Disturbance claims. As of June 30, 2017, there was one pending claim related to War and Civil Disturbance for which appropriate reserves have been maintained. Since inception, the Agency has now paid ten claims for a total of $26.5 million on a gross basis and $10.2 million, net of recoveries. Of the ten claims paid, eight were in relation to War and Civil Disturbance and two related to Expropriation.

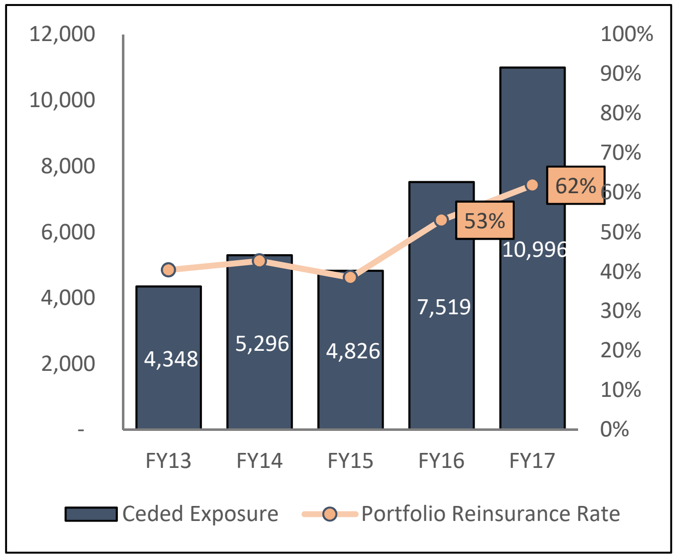
## 5. Reinsurance Management

### *Portfolio Reinsurance*

MIGA's objective of using reinsurance is to support the Agency's growth while managing portfolio concentration and ensuring efficient capital utilization, and is also in line with the WBG goal of mobilizing the private sector into financing development. In order for the Agency to meet and exceed its ambitious growth targets and to alleviate capacity constraints, during FY17 MIGA management proposed to its Board of Directors to amend the Agency's statutory underwriting capacity and portfolio reinsurance limit. The combined effect of these changes significantly enhance the capacity of the Agency to issue guarantees and further its development mandate. Accordingly, on August 30, 2016, the Board of Directors approved an increase in the portfolio reinsurance limit from 50% to 70% of the overall gross portfolio, to be applied for both public and private reinsurance (See **Section 7** for discussion on underwring capacity).

As of June 30, 2017, $11.0 billion (62%) of the gross outstanding exposure was reinsured under facultative and quota share treaty arrangements. This compares to $7.5 billion (53%) as of end-FY16 and $4.8 billion (38%) as of end-FY15. **Figure 16** shows the evolution of the reinsurance portfolio over the past five fiscal years and the upward trend of the portfolio reinsurance rate.

**Figure 16. Portfolio Reinsurance ($M) and Rate (%)**




The sharp increase in the portfolio reinsurance rate during FY17 can be attributed to: (i) High reinsurance (79%) of FY17 new business in line with the Agency's enhanced reinsurance strategy for prudent capital and concentration risk management, (ii) portfolio run-off of high net retention deals (44% reinsured), and (iii) secondary reinsurance of existing projects with facultative reinsurers ($183 million) in FY17.

### *Treaty and Facultative Reinsurance*

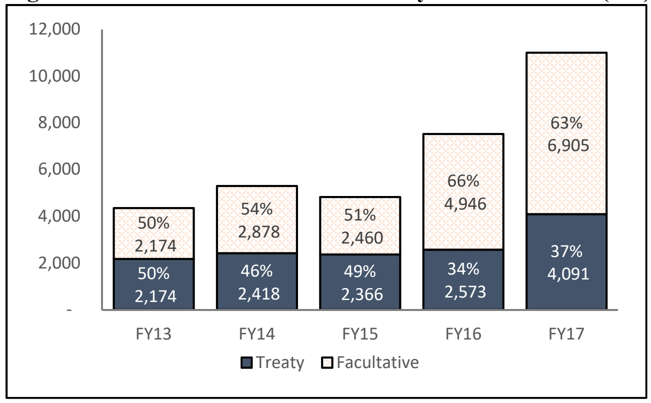
As part of its reinsurance strategy and in order to meet the increased reinsurance requirements, MIGA recently expanded its panel of reinsurers and continues to look to add new reinsurer partners with the aim of diversifying the counterparty credit risk created by the increased reinsurance.

During FY17, and in line with the enhanced reinsurance strategy, the Agency also instituted changes to its arrangements with treaty reinsurers which entailed increasing the treaty project limits and decreasing the treaty attachment points. The combined effect of these two changes was to increase the level of reinsurance ceded to treaty reinsurers.

As of June 30, 2017, exposure ceded to the panel of treaty reinsurers amounted to $4.1 billion or 37% of total outstanding reinsurance, an increase of $1.5 billion from the end-FY16 level of $2.6 billion. This reflects a 59% growth rate, explained in part by the effect of the amendments made to the treaty arrangements in FY17 as noted previously. Prior to FY16, outstanding treaty exposure did not experience significant growth.

Exposure ceded to facultative reinsurers was $6.9 billion as of end-FY17, or 63% of total outstanding reinsurance, an increase of $2.0 billion from the end-FY16 level of $4.9 billion (66%), and an increase of $4.4 billion from end-FY15 level, reflecting a growth rate of 40% and 181%, respectively. (**See Figure 17**)

**Figure 17. Portfolio Reinsurance - Treaty and Facultative ($M)**



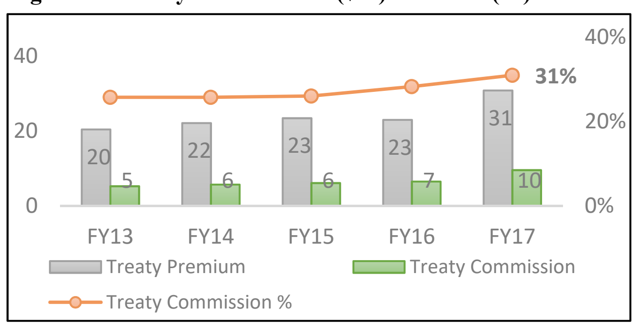

### *Ceding Commissions Earned on Reinsurance Transactions*

Reinsurance plays a key role in allowing MIGA to fulfill its developmental mandate utilizing its capital efficiently and minimizing risk concentrations. At the same time, it also contributes to MIGA's revenue in the form of ceding commissions, (i.e. a percentage of the premiums ceded to reinsurers is retained by MIGA). During FY17, MIGA earned ceding commissions of $24.0 million, a 66% increase over commissions of $14.5 million earned in FY16. This constitutes 26% of the FY17 NPI and 17% of the FY16 NPI, respectively, reflecting a significant increase in revenue generated by low-risk counterparties (the weighted average rating of MIGA's reinsurance panel is AA-).

*Treaty Commissions*

On the treaty reinsurance portfolio, MIGA earned ceding commissions of $9.5 million during FY17, and approximately 31% of the premiums ceded. Commission rates increased from an average of 26% in FY13 to 31% in FY17, while treaty commissions almost doubled from $5.3 million in FY13 to $9.5 million in FY17. **Figure 18** provides the five year trend of the treaty commissions, premiums and commission rates.

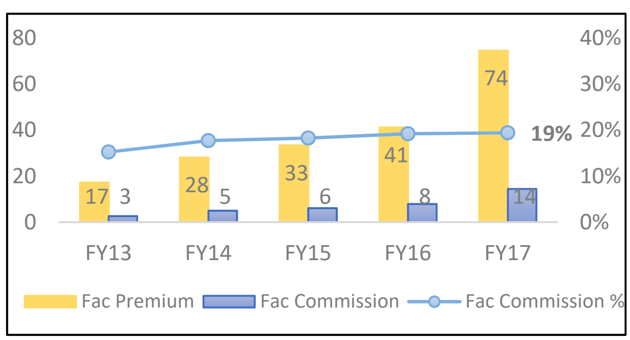
**Figure 18. Treaty Commissions ($M) and Rate (%)**




*Facultative Commissions*

During FY17, MIGA earned commissions of $14.5 million or approximately 19% of the premiums ceded to its facultative reinsurers. Both the amount of commissions and the proportion of commissions to premiums ceded have increased considerably over the past fiscal years. **Figure 19** shows the increasing trend in facultative commissions over the past five fiscal years, increasing by 451% between FY13 and FY17, and the facultative commission rate increasing from an average of 15% in FY13 to 19% in FY17.

**Figure 19. Facultative Commissions ($M) and Rate (%)**



## 6. FUNDING SOURCES

### *Capital Stock*

MIGA derives its financial strength primarily from the capital backing it receives from its shareholders and from its retained earnings and reserves. MIGA's Convention initially established its 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, 2017, MIGA had 181 member countries and a total subscribed capital of $1.9 billion. **Table 5** provides a summary of the capital stock as of June 30, 2017.

**Table 5. Capital Stock ($M) - June 30, 2017**

| | Initial Capital | Capital Increase | Total |
|---|---|---|---|
| Subscribed Capital | 1,169 | 750 | 1,919 |
| Of which: | | | |
| Paid in Capital | 234 | 132 | 366 |
| Callable Capital | 935 | 618 | 1,553 |

Of the initial membership shares subscribed, 20 percent had been paid-in and the remaining 80 percent was subject to call when needed by MIGA to meet its obligations. As of June 30, 2017, $109.8 million of paid-in capital is in the form of non-negotiable, non-interest bearing demand obligations (promissory notes). The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. Since inception, MIGA has not encashed any of the promissory notes.

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 requiring the call, then 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 such member's capital subscription. Since its inception, no call has been made on MIGA's callable capital.

### *Shareholders' Equity*

Total shareholders' equity as of June 30, 2017 was $1,213.2 million compared to $988.5 million as of June 30, 2016, an increase of $224.7 million. The increase primarily reflects FY17's net income contribution of $200.2 million, of which $164.3 million reflects the decrease in the net IPR resulting from the introduction of the new Economic Capital model in FY17, coupled with the decrease in accumulated other comprehensive loss by $24.5 million, resulting from actuarial gains on the three pension and post-retirement benefit plans. FY17 actuarial gains are attributable largely to the increases in the discount rates applied to the annual re-measurement of the pension benefit obligations (PBO).

# 7. CAPITAL MANAGEMENT

### *Statutory Underwriting Capacity*

MIGA's capital base ensures the financial sustainability of the Agency over both the short-term and long-term. MIGA's underwriting capacity is discussed in Article 22 of MIGA's Convention and is defined as the "risk-assets ratio" multiplied by MIGA's unimpaired subscribed capital and reserves plus 100% of outstanding reinsurance coverage. To support MIGA's strong growth ambitions and to alleviate capacity constraints, on November 11, 2016 the Council of Governors adopted Resolution No. 101, increasing the risk asset ratio from 350% to the maximum extent allowable under the Convention of 500%.

As of June 30, 2017, MIGA's underwriting capacity was $25,722 million, as detailed in **Table 6** below. MIGA's gross outstanding exposure on that date was $17,778 million, and represented 69% of the Agency's statutory underwriting capacity.

**Table 6. Statutory Underwriting Capacity ($M)**

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Subscribed Capital | 1,919 | 1,919 |
| Retained Earnings | 884 | 684 |
| Accumulated Other Comprehensive Loss | (37) | (62) |
| Insurance Portfolio Reserve (net) | 185 | 341 |
| Total | 2,951 | 2,882 |
| 500%[6] of Subscribed Capital, Retained Earnings, Accumulated Other Comprehensive Loss and Insurance Portfolio Reserve, net | 14,752 | 10,086 |
| 100% of Exposure Ceded[7] | 10,970 | 7,495 |
| Statutory Underwriting Capacity | **25,722** | **17,581** |

### *Capital Adequacy*

Under its Economic Capital-based capital adequacy framework, 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[8] in the Agency and the risk of loss in the investment portfolio.

During FY17, MIGA implemented a new simulation-based EC model and associated core parameters with the primary objective of ensuring MIGA is employing a flexible model that is appropriate for measuring MIGA's risks related to the guarantee portfolio, as well as for pricing, assessing capital adequacy and reserving. A key change to the model engine was the ability of the new model to handle more granular treatments of loss structures and portfolio exposures, such as limits and excess of loss structures. The new model strengthened calculations of extreme loss scenarios, representative of the low

[6] "Increase in Overall Limit on Guarantee Capacity (Adoption of Resolution and Tally of Voting)", MIGA Resolution No. 101, November 11, 2016 (MIGA/R2016-0094). This increased the statutory underwriting capacity to the maximum 500% allowed by the Convention, from the earlier limit of 350%, which has been applied for June 30, 2016 in **Table 6**.

[7] For the purposes of calculation of FY17 underwriting capacity, exposure ceded excludes adjustments relating to the exposure exchange agreement with IBRD and amounts ceded to the CAFEF facility, which as of June 30, 2017 stood at $1.2 million and $26.2 million, respectively.

[8] Operational risk capital is based on the Basel II methodology for calculating operational risk capital as a percentage of gross revenues and amounted to $54 million as of June 30, 2017.

frequency but high severity nature of MIGA's portfolio. Additionally, some of the models core parameters, such as claim probabilities, recoveries, correlations and loss dependency assumptions, were reviewed and refined prior to the implementation.

Total economic capital, defined as capital consumption from the guarantee portfolio and estimated capital required for operational risk and investment risk, represents a broader measure of MIGA's capital adequacy. As of June 30, 2017, the economic capital consumed by the guarantee portfolio amounted to $518 million and the total economic capital for the Agency amounted to $592 million, compared to $597 million and $663 million, respectively, as of June 30, 2016. The $79 million decrease in guarantee portfolio economic capital primarily reflects the impact of the implementation of the new EC model during FY17.

In addition to gauging the capital adequacy position by comparing the current amount of economic capital consumed by MIGA's activities and available operating capital, MIGA assesses how much economic capital is projected to be utilized in the future under various scenarios of growth and development of the guarantee portfolio. These stress-test scenarios, performed annually, estimate the economic capital consumed under assumptions of continued growth in MIGA's portfolio over four years, in combination with increased concentration of exposures, country rating downgrades, regional and global contagion effects, reinsurance risks and changes to the product mix.

MIGA's management monitors the level and utilization of available operating capital, comprised of paid-in-capital, retained earnings, accumulated other comprehensive income (AOCI) and the insurance portfolio reserve, net of the corresponding reinsurance recoverable, with the objective of ensuring sufficient operating capital to sustain expected and unexpected losses associated with claims and to support the ongoing business without facing a significant risk of having to avail itself of the callable capital. **Table 7** shows the ratios of guarantee portfolio and total economic capital to operating capital over the past three years, which serve as measures of the current utilization of the operating capital by the guarantee portfolio and the whole Agency. These ratios stood at 37.1% and 42.4%, respectively, as of June 30, 2017 compared with 44.9% and 49.8% as of June 30, 2016. The decline is largely attributable to the introduction of the new EC model during FY17.

As a gauge of year-on-year changes to the relative risk-level of the guarantee portfolio, **Table 7** also shows the ratio of guarantee portfolio economic capital to portfolio net exposure. As of June 30, 2017, this ratio stood at 7.6% compared to 9.0% at end-FY16 with the decline again largely reflective of the new EC model implementation. The above ratios indicate a strong and stable capital position for the Agency at the end of FY17.

**Table 7. Capital Utilization (FY15-17, $M)**

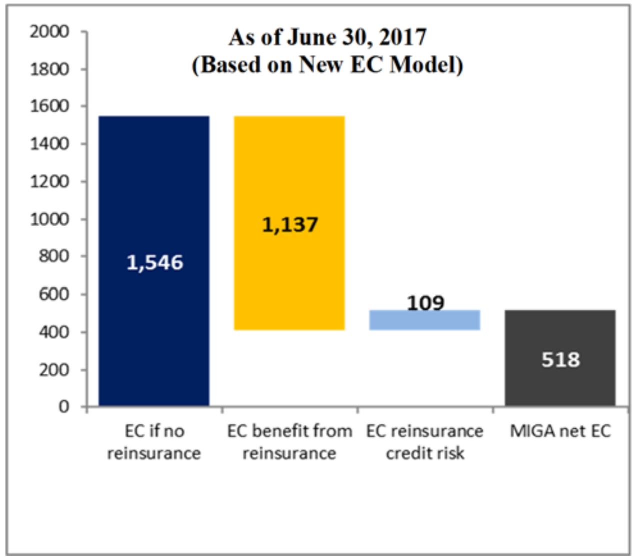
| | FY17 | FY16 | FY15 |
|---|---|---|---|
| Guarantee Portfolio Economic Capital | **518** | **597** | **644** |
| Total Economic Capital | **592** | **663** | **705** |
| Insurance Portfolio Reserve (net) | 185 | 341 | 341 |
| Retained Earnings and Accumulated Other Comprehensive Loss | 847 | 622 | 605 |
| Paid-in Capital | 366 | 366 | 366 |
| Operating Capital | **1,398** | **1,329** | **1,312** |
| Net Exposure | **6,780** | **6,665** | **7,708** |
| Guarantee Portfolio Economic Capital / Operating Capital | **37.1%** | **44.9%** | **49.1%** |
| Total Economic Capital / Operating Capital | **42.4%** | **49.9%** | **53.7%** |
| Guarantee Portfolio Economic Capital / Net Exposure | **7.6%** | **9.0%** | **8.4%** |

*Note: numbers may not add up due to rounding.*

*Effects of Reinsurance on Economic Capital*

As mentioned earlier in Section 5, reinsurance of MIGA's guarantee portfolio plays a key part in risk management and business growth, as it helps MIGA manage its exposure concentration by transferring risk and provides substantial capital relief in comparison to the counterparty credit risk assumed. As of June 30, 2017, reinsurance on the guarantee portfolio provided relief to the overall guarantee portfolio EC consumption by 66% compared to 67% in FY16. **Figure 20** shows the benefit provided by reinsurance on the guarantee portfolio economic capital in FY17 , net of EC for reinsurer counterparty credit risk (RCC).

**Figure 20. Impact of Reinsurance on Economic Capital**




MIGA is exposed to the risk of default by its reinsurers when claims materialize. **Figure 20** indicates the impact of the RCC on the guarantee portfolio economic capital. As of June 30, 2017, the amount of RCC EC is estimated at $109 million and is included in the overall guarantee portfolio EC. MIGA closely monitors the credit ratings of each of its reinsurer counterparts.

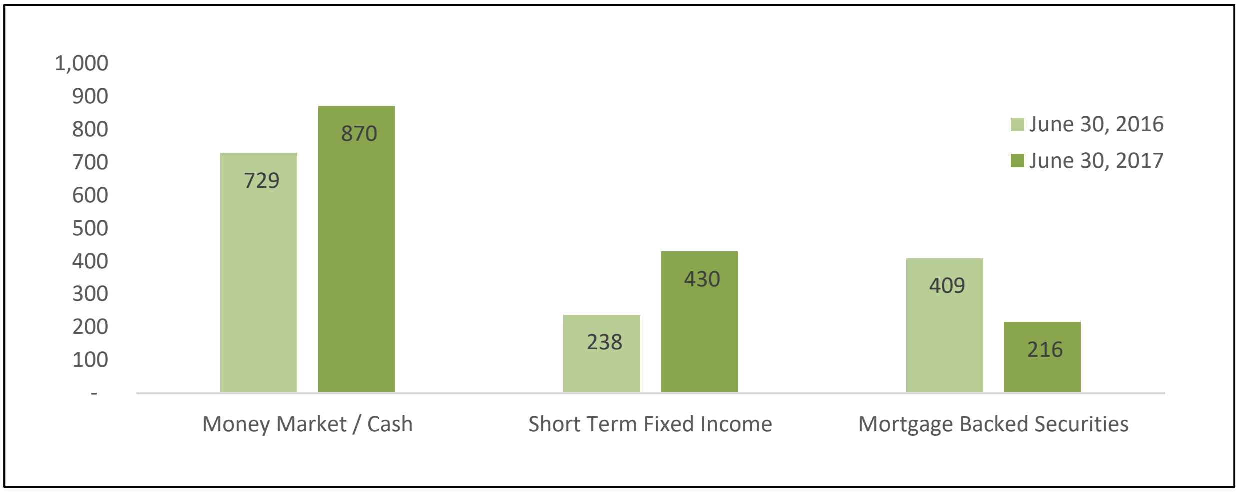
## 8. INVESTMENT MANAGEMENT

MIGA's investment portfolio management strategy is to provide liquidity to pay for identified claims as well as to cover future unidentified claims and to maximize investment returns to provide for capital growth, consistent with clearly defined and prudent risk limits. The portfolio consists of two tranches. Tranche 1 is managed with a 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 (Long-Term Investment Portfolio or LTIP) supports long-term capital growth, by investing in assets such as global equities. Portfolio management activities for MIGA's fixed income assets, as well as trading, risk analytics and reporting, are provided by IBRD's Treasury Investment Management Department. As of June 30, 2017, MIGA had no Tranche 2 investment holdings. The Agency is considering various alternatives to increase the returns on its portfolio within acceptable risk parameters.

During FY17, in order to reduce the overall portfolio duration in the face of the rising interest rate environment, MIGA sold $190 million of MBS holdings and invested the proceeds in short-term US Government Treasury bonds.

As of June 30, 2017, the net investment portfolio totaled $1,516 million comprising of cash and money market investments, treasury securities, agency securities, MBS, ABS, sovereign and government guaranteed securities, and derivatives (see **Figure 21**). This compares to $1,376 million as of end-FY16. Although primarily USD-denominated, the portfolio as of end-FY17 also held cash and government securities denominated in currencies other than USD totaling $133 million or 9%.

**Figure 21. Composition of MIGA's Investment Portfolio ($M)**

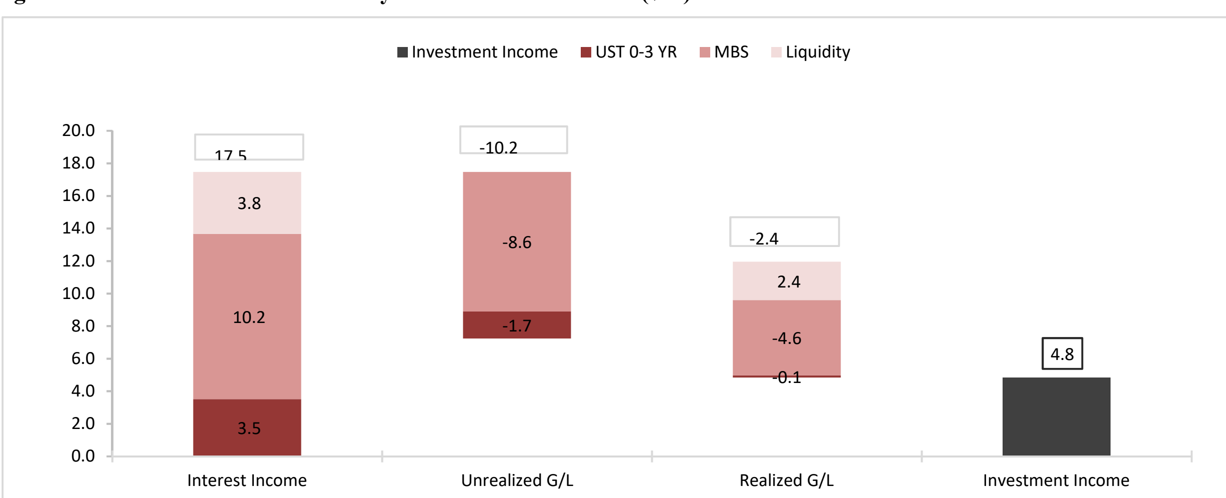



MIGA's investment portfolio had an annual return of 0.3% in FY17 compared to 1.7% in FY16. **Table 8** provides details on the investment income by asset class over the past three fiscal years. Total investment income earned in FY17 was $4.8 million compared to $22.9 million in FY16, a decline of $18.1 million primarily driven by the mark-to-market valuation losses on the MBS and U.S. Treasury holdings.

**Table 8. Investment Income Analysis by Asset Class ($M)**

| Asset Class | FY17 | FY16 | FY15 |
|---|---|---|---|
| Money Market / Cash | 6.2 | 3.1 | 1.2 |
| US Short Term (0-3 Year) | 1.8 | 2.3 | 1.8 |
| Mortgage Backed Securities (MBS) | (3.0) | 17.5 | 10.1 |
| LTIP - Global Equities | - | - | 11.0 |
| **Total Investment Income** | **4.8** | **22.9** | **24.1** |
| **Total Portfolio Return** | **0.3%** | **1.7%** | **2.0%** |

**Figure 22. FY17 Investment Income by Asset Class and Source ($M)**



# 9. FINANCIAL 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 and Chief Executive Officer 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 input from the Legal Affairs and Claims Group, the Operations Group and the Economics and Sustainability 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 measure and manage its risk. Below is a description of the risk management programs for MIGA's principal risks.

*Insurance Risk*

Assessment of non–commercial risk 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 on the extent to which claims experience is consistent with assumptions used in setting prices for products and establishing technical provisions 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, claim reserves for the guarantee portfolio are calculated using MIGA's Economic Capital Model.

*Concentration Risk*

For portfolio risk management purposes, MIGA utilizes an Economic Capital (EC) [9] Model, based on best practices applied in risk modeling. Under the EC Model, MIGA defines its economic capital as the 99.97th percentile of the aggregate loss distribution over a three year horizon, minus the mean of the loss distribution, which is in line with industry practice for a AAA rated institution. 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. **Table 9** below captures the top five and top ten largest EC consuming countries in the portfolio as of June 30, 2017.

[9] 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 withstand larger than expected losses with a high degree of confidence, over a defined time horizon and given the risk exposure and defined risk tolerance.

**Table 9. Top Five and Ten Countries by EC Consumption ($M)**

| Host Country | EC | Share of EC (%) |
|---|---|---|
| Turkey | 117.7 | 22.7% |
| Honduras | 36.1 | 7.0% |
| South Africa | 27.2 | 5.3% |
| Cote d'Ivoire | 26.1 | 5.0% |
| Ghana | 23.5 | 4.5% |
| **Top Five Host Countries** | **230.6** | **44.5%** |
| | | |
| Indonesia | 20.5 | 4.0% |
| Hungary | 19.4 | 3.7% |
| Mexico | 19.3 | 3.7% |
| Cameroon | 17.7 | 3.4% |
| Vietnam | 17.2 | 3.3% |
| **Top Ten Host Countries** | **324.7** | **62.7%** |

In addition, in order to prevent excessive risk concentration, MIGA has in place nominal maximum net guarantee exposure limits per country and per project, which as of June 30, 2017 stood at $820 million and $250 million, respectively. The top five and ten largest exposure countries by net exposure as of June 30, 2017 are shown below in **Table 10**, and accounted for 26% and 43% of the total net guarantee portfolio, respectively.

**Table 10. Top Five and Ten Countries by Net Exposure ($M)**

| Host Country | Gross Exposure | Net Exposure | Share of Net Exposure (%) |
|---|---|---|---|
| Turkey | 2,512 | 615 | 9.1% |
| Serbia | 856 | 303 | 4.5% |
| Cote d'Ivoire | 728 | 285 | 4.2% |
| Honduras | 327 | 273 | 4.0% |
| Hungary | 786 | 271 | 4.0% |
| **Top Five Host Countries** | **5,209** | **1,746** | **25.8%** |
| | | | |
| Ghana | 477 | 261 | 3.9% |
| Pakistan | 350 | 260 | 3.8% |
| South Africa | 1,457 | 235 | 3.5% |
| Russian Federation | 381 | 221 | 3.3% |
| Cameroon | 272 | 212 | 3.1% |
| **Top Ten Host Countries** | **8,146** | **2,935** | **43.3%** |

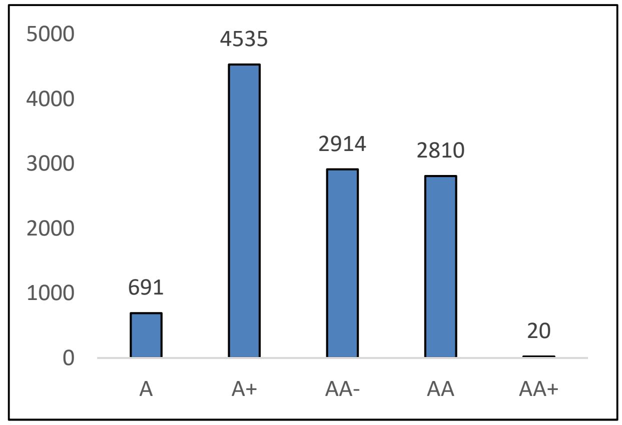
*Liquidity Risk*

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.

*Reinsurance Counterparty Credit Risk (RCC)*

Counterparty credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. MIGA's exposure to counterparty credit risk is derived mainly from its reinsurance counterparts and is the risk of default by MIGA's reinsurers when claims materialize. 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. MIGA has also established limits both at the project and portfolio levels, which restrict the amount of reinsurance. **Figure 23** provides a graphical representation of the ceded exposure with reinsurance counterparties by credit risk ratings.

**Figure 23. Reinsurer Counterparty Exposure Distribution by Rating ($M)**




As discussed in **Section 5**, given the strong growth in the portfolio reinsurance rate during FY16 and FY17, the Agency created a small dedicated team in FY17, that monitors and manages the RCC to which MIGA is exposed. This team is tasked with performing, amongst others, the in-house credit risk analysis of MIGA's reinsurance counterparts and the development of the reporting and credit monitoring frameworks, as well as policies and operating guidelines, for the credit risks assumed under MIGA's reinsurance programs. This should support the Agency's aim of diversifying the counterparty credit risk created by the increased reinsurance portfolio, as well as enhance MIGA's in-house analytical capability to measure and manage any financial risks to the Agency as a result of its increased exposure to the reinsurance industry as a whole.

As part of the implementation of the new EC model, MIGA has reviewed and refined the RCC methodology. The key changes made to the methodology during FY17 were (i) the introduction of an explicit recognition of a correlation between MIGA guarantee claim events and reinsurer defaults, (ii) introduction of the 'non-double default' EC, which measures the risk of reinsurers being downgraded without their being concurrent and simultaneous claim events on MIGA guarantees and (iii) an update of reinsurer probabilities of default to be based on S&P default data published annually. RCC as computed by the new EC model as of June 30, 2017 was $109 million, **(See Figure 20)**.

*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 based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s 2013 *Integrated Internal Control* framework. A key component of this framework is the effectiveness of key controls over external financial reporting. This component is assessed and validated annually.

*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, and with MIGA failing to protect its assets, including its intellectual property.

MIGA manages these risks by monitoring current and prospective 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. MIGA also manages these legal risks by developing and enforcing policies and procedures to govern its activities.

## 10. Critical Accounting Policies And The Use Of Estimates

The notes to MIGA's financial statements contain a detailed summary of MIGA's accounting policies. Described below are those accounting policies which involve significant management judgment and estimates when preparing the Agency's financial statements and accompanying notes to conform to U.S. GAAP. Accounting estimates generally involve the establishment of parameters by management based on judgments about the probable outcome of future conditions, transactions, or events. Because these are projections, actual results may differ from those estimates in a variety of areas. The area which management deems most critical with respect to the application of estimates and assumptions is the establishment of MIGA's 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.[10]

Reserves are presented on a gross basis on the liability side of the balance sheet, and the associated reinsurance assets on the asset side, since reinsurance does not relieve MIGA of its primary liability to the insured. A detailed summary of MIGA's provisioning policy can be found in the Notes to Financial Statements – Note A, *Summary of Significant Accounting and Related Policies*.

### *Pension and Other Postretirement Benefits*

Along with IBRD and IFC, MIGA participates in 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, *Pension and Other Post Retirement Benefits*.

### *Fair Value of Financial Instruments*

The fair values of financial instruments are based on a three-level hierarchy. For financial instruments classified as Levels 1 and 2, inputs are based on observable market data, with less judgment applied in arriving at fair values. For financial instruments classified as Level 3, where applicable, unobservable inputs are used. These require Management to make significant assumptions and judgments in determining fair value measures.

[10] The Insurance Portfolio Reserve is calculated as the 95$^{th}$ percentile loss less the mean loss from the Economic Capital Model.

All of MIGA's financial instruments are classified as Levels 1 and 2, as the inputs are based on observable market data, with less judgment applied in arriving at fair value measures. The methodology, inputs, and assumptions are reviewed, on a quarterly basis, to assess the appropriateness of the fair value hierarchy classification of each financial instrument.

In cases where Management relies on instrument valuations supplied by external pricing vendors, procedures are in place to validate the appropriateness of the models used, as well as the inputs applied in determining those values.

# 11. Governance And Control

## *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 every two years by their member governments. 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 or AC, (iii) Budget Committee or BC, (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.

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.

### *Senior Management Changes*

On September 27, 2016, Dr. Jim Yong Kim was appointed to a second five-year term as President of the World Bank Group, commencing on July 1, 2017.

Effective September 19, 2016, Ms. Ana-Mita Betancourt retired from MIGA as Director and General Counsel and Ms. Aradhana Kumar-Capoor was appointed as the new Director and General Counsel, effective December 1, 2016.

Ms. Merli Baroudi was appointed Director, Economics and Sustainability, effective November 21, 2016.

Effective July 1, 2017, Ms. Karin Finkleston retired from MIGA as Vice President and Chief Operating Officer and the Agency is in the process of seeking a replacement.

## *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 Committee also reviews with the external auditor the financial statements prior to their publication and recommends the annual audited financial statements for approval to the Directors. 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 statements issued by other members of the Audit Committee.
- The Annual Report to the Board of Directors, which provides an overview of the main issues addressed by the committee over the year.

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

*Executive Sessions*

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

Throughout the year, the Audit Committee receives a large volume of information, with respect to the 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 authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

### *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* (the Code), 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**.

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 staff 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 each 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 appointment of the external auditor of MIGA is governed by a set of Board-approved principles. Key features of those principles include:

- Prohibition of the external auditor from the provision of any non-audit related services
- All audit-related services must be pre-approved on a case-by-case basis by the Board of Directors, upon recommendation by the Audit Committee
- Mandatory rebidding of the external audit contract every five years, with a limitation of two consecutive terms and mandatory rotation thereafter, provided however that the committee may exceptionally recommend that the incumbent audit firm should be allowed to participate in the re-bidding
- 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 Directors.

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. 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.

On December 7, 2016, the Board of Directors approved amendments to the policy on appointment of the external auditor and will be effective for the FY19 audit period onwards. The amendments to the existing policy permit the external auditor to provide non-audit related services that are not prohibited subject to monetary limits. Non-audit related services that are prohibited include those that place the external auditor in roles typically handled by management and in a position of auditing their own work, such as accounting and internal audit services. A monetary limit of seventy percent of the audit fees over the term of the relevant external audit engagement will be applied when considering the fees relating to the total non-audit related services over the same period.

### *Internal Control*

#### *Internal Control Over Financial Reporting*

Management makes an annual assertion whether, as of June 30 of each fiscal year, the organization's system of internal control over its external financial reporting has met the criteria for effective internal control over external financial reporting as described in the 2013 *Internal Control – Integrated Framework* issued by The Committee of the Sponsoring Organizations of the Treadway Commission (COSO)[11].

Concurrently, MIGA's external auditor provides an independent opinion on the effectiveness of internal control over external financial reporting.

[11] COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private-sector initiative which studied the casual factors that can lead to fraudulent financial reporting. In 1992, COSO issued its Internal Control-Integrated Framework, which provided a common definition of internal control and guidance on judging its effectiveness, and subsequently revised on May 14, 2013.

## 12. ABBREVIATIONS AND ACRONYMS

AOCL: Accumulated Other Comprehensive Loss
CAFEF: Conflict-Affected and Fragile Economies Facility
CODE: Committee on Development Effectiveness
COGAM: Committee on Governance and Administrative Matters
COSO: Committee of the Sponsoring Organizations of the Treadway Commission
EAP: East Asia and Pacific
EC: Economic Capital
ECA: Europe and Central Asia
FCS: Fragile and Conflict-Affected Situations
FCV: Fragility, Conflict and Violence
IBRD: International Bank for Reconstruction and Development
IDA: International Development Association
IFC: International Finance Corporation
LAC: Latin America and the Caribbean
LTIP: Long -Term Investment Portfolio
MBS: Mortgage-Backed Securities
MENA: Middle East and North Africa
MIGA: Multilateral Investment Guarantee Agency
NHFO-SOE: Non-Honoring of Financial Obligation by a State-Owned Enterprise
NHSFO: Non-Honoring of a Sovereign Financial Obligation
PBO: Projected Benefit Obligation
PRI: Political Risk Insurance
RCC: Reinsurance Counterpart Credit Risk
SAR: South Asia
SSA: Sub-Saharan Africa
WBG: World Bank Group

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**June 30, 2017**

Multilateral Investment Guarantee Agency
WORLD BANK GROUP

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

August 3, 2017

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 U.S. generally accepted accounting principles, 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 the effectiveness of the Agency's internal control over external 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 U.S. generally accepted accounting principles. 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 U.S. generally accepted accounting principles as of June 30, 2017. This assessment was based on the criteria for effective internal control over external financial reporting described in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that MIGA maintained effective internal control over external financial reporting presented in conformity with U.S. generally accepted accounting principles. The independent audit firm that audited the financial statements has issued an Independent

Auditors' Report which expresses an opinion 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*

Keiko Honda
*Executive Vice President and CEO*

Santiago Gerardo Assalini
*Director, Corporate Risk*

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 Multilateral Investment Guarantee Agency's (MIGA) internal control over financial reporting as of June 30, 2017, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### *Management's Responsibility for Internal Control Over Financial Reporting*

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting.*

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Definition and Inherent Limitations of Internal Control Over Financial Reporting*

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 U.S. generally accepted accounting principles. 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 U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment 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.

***Opinion***

In our opinion, MIGA maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Report on Financial Statements***

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of MIGA, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and our report dated August 3, 2017 expressed an unmodified opinion on those consolidated financial statements.

KPMG LLP

Washington, D.C.
August 3, 2017

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 financial statements of the Multilateral Investment Guarantee Agency (MIGA), which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2017 in accordance with U.S. generally accepted accounting principles.

### *Other Matter*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2017 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to

KPMG

the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Report on Internal Control over Financial Reporting***

We also have audited, in accordance with auditing standards generally accepted in the United States of America, MIGA's internal control over financial reporting as of June 30, 2017, based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 3, 2017 expressed an unmodified opinion on the effectiveness of MIGA's internal control over financial reporting.

KPMG LLP

Washington, D.C.
August 3, 2017

# Balance Sheets

**June 30, 2017 and June 30, 2016**
**Expressed in thousands of US dollars**

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| **Assets** | | |
| Cash | $ 7,076 | $ 7,087 |
| Investments - Trading (including securities transferred under repurchase agreements) - Note B | 1,515,121 | 1,348,699 |
| Securities purchased under resale agreements - Note B | - | 42,001 |
| Derivative assets - Note B | 145,823 | 332,708 |
| Non negotiable, non interest - bearing demand obligations - Note C | 109,763 | 110,292 |
| Receivable for investment securities sold - Note B | 36,090 | 11,440 |
| Reinsurance recoverable - Note E | 223,770 | 216,139 |
| Prepaid premium ceded to reinsurers | 271,637 | 182,267 |
| Net assets under retirement benefits plan - Note F | 4,043 | - |
| Miscellaneous assets - Note G | 17,421 | 88,589 |
| TOTAL ASSETS | $ 2,330,744 | $ 2,339,222 |
| **Liabilities and Shareholders' Equity** | | |
| LIABILITIES | | |
| Payable for investment securities purchased - Note B | $ 19,983 | $ 10,192 |
| Securities sold under repurchase agreements and payable for cash collateral received - Note B | 13,040 | 2,691 |
| Derivative liabilities - Note B | 150,388 | 348,531 |
| Other liabilities - Note E, F and G | 100,565 | 136,096 |
| Unearned premiums and commitment fees | 433,359 | 307,705 |
| Reserve for claims, gross - Note E | | |
| Specific reserves for claims | 1,488 | 4,458 |
| Insurance portfolio reserve | 398,725 | 541,043 |
| Reserve for claims - gross | 400,213 | 545,501 |
| TOTAL LIABILITIES | 1,117,548 | 1,350,716 |
| CONTINGENT LIABILITIES - Note D | | |
| SHAREHOLDERS' EQUITY | | |
| Capital stock - Note C | | |
| Authorized capital (186,587 shares - June 30, 2017 and June 30, 2016) | | |
| Subscribed capital (177,331 shares - June 30, 2017 and June 30, 2016) | 1,918,721 | 1,918,721 |
| Less uncalled portion of subscriptions | 1,552,599 | 1,552,599 |
| | 366,122 | 366,122 |
| Retained earnings | 884,235 | 684,023 |
| Accumulated other comprehensive loss - Note H | (37,161) | (61,639) |
| TOTAL SHAREHOLDERS' EQUITY | 1,213,196 | 988,506 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 2,330,744 | $ 2,339,222 |

See accompanying notes to the financial statements

# Statements of Income

**For the fiscal years ended June 30, 2017 and June 30, 2016**
**Expressed in thousands of US dollars**

| | 2017 | 2016 |
|---|---|---|
| INCOME | | |
| Income from guarantees | | |
| Premium income - Note D | $ 179,659 | $ 139,801 |
| Premium ceded - Note D | (105,277) | (64,089) |
| Ceding commission and other fees - Note D | 25,508 | 15,603 |
| Brokerage and other charges - Noted D | (6,666) | (4,922) |
| Total | 93,224 | 86,393 |
| Income from investments - Note B | 4,772 | 22,916 |
| Miscellaneous income | 1,256 | - |
| Total income | 99,252 | 109,309 |
| EXPENSES | | |
| (Decrease) increase in reserves, net - Note E | | |
| (Decrease) increase in reserves, excluding translation (gains) | (152,298) | 4,954 |
| Translation (gains) | (2,038) | (846) |
| (Decrease) increase in reserves, net | (154,336) | 4,108 |
| Administrative expenses | 41,143 | 42,802 |
| Expenses from pension and other post retirement benefit plans - Note F | 10,190 | 5,254 |
| Translation losses - Investments and other assets | 2,043 | 332 |
| (Decrease) increase in reserves and total expenses | (100,960) | 52,496 |
| NET INCOME | $ 200,212 | $ 56,813 |

See accompanying notes to the financial statements

# Statements of Comprehensive Income

**For the fiscal years ended June 30, 2017 and June 30, 2016**
**Expressed in thousands of US dollars**

| | 2017 | 2016 |
|---|---|---|
| NET INCOME | $ 200,212 | $ 56,813 |
| OTHER COMPREHENSIVE INCOME - Note H | | |
| Net actuarial gains (losses) on benefit plans | 24,220 | (39,422) |
| Prior service credits (costs) on benefit plans | 258 | (58) |
| Total other comprehensive income (loss) | 24,478 | (39,480) |
| COMPREHENSIVE INCOME | $ 224,690 | $ 17,333 |

# Statements of Changes in Shareholders' Equity

**For the fiscal years ended June 30, 2017 and June 30, 2016**
**Expressed in thousands of US dollars**

| | 2017 | 2016 |
|---|---|---|
| CAPITAL STOCK | | |
| Balance at beginning of the fiscal year | $ 366,122 | $ 366,122 |
| Paid-in subscriptions | - | - |
| Ending Balance | 366,122 | 366,122 |
| RETAINED EARNINGS | | |
| Balance at beginning of the fiscal year | 684,023 | 627,210 |
| Net income | 200,212 | 56,813 |
| Ending Balance | 884,235 | 684,023 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | |
| Balance at beginning of the fiscal year | (61,639) | (22,159) |
| Other comprehensive income (loss) | 24,478 | (39,480) |
| Ending Balance | (37,161) | (61,639) |
| TOTAL SHAREHOLDERS' EQUITY | $ 1,213,196 | $ 988,506 |

# Statements of Cash Flows

**For the fiscal years ended June 30, 2017 and June 30, 2016**
**Expressed in thousands of US dollars**

| | 2017 | 2016 |
|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net income | $ 200,212 | $ 56,813 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| (Decrease) increase in reserves, net - Note E | (154,336) | 4,108 |
| Translation losses - Investments and other assets | 2,043 | 332 |
| Claims paid, net of reinsurance recoveries | (4,780) | - |
| Net change in: | | |
| Investments - Trading, net | (139,103) | (54,097) |
| Other assets | (12,132) | (117,298) |
| Other liabilities | (11,686) | 46,396 |
| Unearned premiums and commitment fees | 118,854 | 61,498 |
| Net cash used in operating activities | (928) | (2,248) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 917 | (375) |
| Net decrease in cash | (11) | (2,623) |
| Cash at beginning of the fiscal year | 7,087 | 9,710 |
| CASH AT END OF THE FISCAL YEAR | $ 7,076 | $ 7,087 |

# Statement of Subscriptions to Capital Stock and Voting Power

**As of June 30, 2017**

**Expressed in thousands of US dollars**

| | SUBSCRIPTIONS (NOTE C) | | | | VOTING POWER | |
|---|---|---|---|---|---|---|
| **Members** | **Shares[1]** | **Total Subscribed** | **Amount Paid-in** | **Amount Subject to Call** | **Number of Votes** | **% of Total** |
| Afghanistan | 118 | $ 1,277 | $ 255 | $ 1,022 | 344 | 0.16 |
| Albania | 102 | 1,104 | 210 | 894 | 328 | 0.15 |
| Algeria | 1,144 | 12,378 | 2,350 | 10,028 | 1,370 | 0.63 |
| Angola | 187 | 2,023 | 405 | 1,618 | 413 | 0.19 |
| Antigua and Barbuda | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Argentina | 2,210 | 23,912 | 4,539 | 19,373 | 2,436 | 1.12 |
| Armenia | 80 | 866 | 173 | 693 | 306 | 0.14 |
| Australia | 3,019 | 32,666 | 6,201 | 26,465 | 3,245 | 1.49 |
| Austria | 1,366 | 14,780 | 2,806 | 11,974 | 1,592 | 0.73 |
| Azerbaijan | 115 | 1,244 | 249 | 995 | 341 | 0.16 |
| Bahamas, The | 176 | 1,904 | 362 | 1,542 | 402 | 0.18 |
| Bahrain | 136 | 1,472 | 279 | 1,193 | 362 | 0.17 |
| Bangladesh | 599 | 6,481 | 1,230 | 5,251 | 825 | 0.38 |
| Barbados | 120 | 1,298 | 246 | 1,052 | 346 | 0.16 |
| Belarus | 233 | 2,521 | 504 | 2,017 | 459 | 0.21 |
| Belgium | 3,577 | 38,703 | 7,347 | 31,356 | 3,803 | 1.74 |
| Belize | 88 | 952 | 181 | 771 | 314 | 0.14 |
| Benin | 108 | 1,169 | 222 | 947 | 334 | 0.15 |
| Bolivia | 220 | 2,380 | 452 | 1,928 | 446 | 0.20 |
| Bosnia and Herzegovina | 80 | 866 | 173 | 693 | 306 | 0.14 |
| Botswana | 88 | 952 | 181 | 771 | 314 | 0.14 |
| Brazil | 2,606 | 28,197 | 5,353 | 22,844 | 2,832 | 1.30 |
| Bulgaria | 643 | 6,957 | 1,321 | 5,636 | 869 | 0.40 |
| Burkina Faso | 61 | 660 | 132 | 528 | 287 | 0.13 |
| Burundi | 74 | 801 | 160 | 641 | 300 | 0.14 |
| Bhutan | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Cambodia | 164 | 1,774 | 337 | 1,437 | 390 | 0.18 |
| Cameroon | 107 | 1,158 | 232 | 926 | 333 | 0.15 |
| Canada | 5,225 | 56,535 | 10,732 | 45,803 | 5,451 | 2.50 |
| Cape Verde | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Central African Rep | 60 | 649 | 130 | 519 | 286 | 0.13 |
| Chad | 60 | 649 | 130 | 519 | 286 | 0.13 |
| Chile | 855 | 9,251 | 1,756 | 7,495 | 1,081 | 0.50 |
| China | 5,530 | 59,835 | 11,359 | 48,476 | 5,756 | 2.64 |
| Colombia | 770 | 8,331 | 1,582 | 6,749 | 996 | 0.46 |
| Comoros | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Congo, Democratic Republic of | 596 | 6,449 | 1,224 | 5,225 | 822 | 0.38 |
| Congo, Republic of | 115 | 1,244 | 236 | 1,008 | 341 | 0.16 |
| Costa Rica | 206 | 2,229 | 423 | 1,806 | 432 | 0.20 |
| Cote d'Ivoire | 310 | 3,354 | 637 | 2,717 | 536 | 0.25 |
| Croatia | 330 | 3,571 | 678 | 2,893 | 556 | 0.25 |
| Cyprus | 183 | 1,980 | 376 | 1,604 | 409 | 0.19 |
| Czech Republic | 784 | 8,483 | 1,610 | 6,873 | 1,010 | 0.46 |
| Denmark | 1,265 | 13,687 | 2,598 | 11,089 | 1,491 | 0.68 |
| Djibouti | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Dominica | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Dominican Republic | 147 | 1,591 | 318 | 1,273 | 373 | 0.17 |
| Ecuador | 321 | 3,473 | 659 | 2,814 | 547 | 0.25 |
| Egypt, Arab Republic of | 809 | 8,753 | 1,662 | 7,091 | 1,035 | 0.47 |
| El Salvador | 122 | 1,320 | 264 | 1,056 | 348 | 0.16 |

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

**As of June 30, 2017**
**Expressed in thousands of US dollars**

| | | SUBSCRIPTIONS (NOTE C) | | | VOTING POWER | |
|---|---|---|---|---|---|---|
| **Members** | **Shares[1]** | **Total Subscribed** | **Amount Paid-in** | **Amount Subject to Call** | **Number of Votes** | **% of Total** |
| Equatorial Guinea | 50 | $ 541 | $ 108 | $ 433 | 276 | 0.13 |
| Eritrea | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Estonia | 115 | 1,244 | 236 | 1,008 | 341 | 0.16 |
| Ethiopia | 123 | 1,331 | 253 | 1,078 | 349 | 0.16 |
| Fiji | 71 | 768 | 154 | 614 | 297 | 0.14 |
| Finland | 1,057 | 11,437 | 2,171 | 9,266 | 1,283 | 0.59 |
| France | 8,565 | 92,673 | 17,593 | 75,080 | 8,791 | 4.03 |
| Gabon | 169 | 1,829 | 347 | 1,482 | 395 | 0.18 |
| Gambia, The | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Georgia | 111 | 1,201 | 240 | 961 | 337 | 0.15 |
| Germany | 8,936 | 96,688 | 18,355 | 78,333 | 9,162 | 4.20 |
| Ghana | 432 | 4,674 | 887 | 3,787 | 658 | 0.30 |
| Greece | 493 | 5,334 | 1,013 | 4,321 | 719 | 0.33 |
| Grenada | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Guatemala | 140 | 1,515 | 303 | 1,212 | 366 | 0.17 |
| Guinea | 91 | 985 | 197 | 788 | 317 | 0.15 |
| Guinea-Bissau | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Guyana | 84 | 909 | 182 | 727 | 310 | 0.14 |
| Haiti | 75 | 812 | 162 | 650 | 301 | 0.14 |
| Honduras | 178 | 1,926 | 366 | 1,560 | 404 | 0.19 |
| Hungary | 994 | 10,755 | 2,042 | 8,713 | 1,220 | 0.56 |
| Iceland | 90 | 974 | 195 | 779 | 316 | 0.14 |
| India | 5,371 | 58,114 | 11,032 | 47,082 | 5,597 | 2.56 |
| Indonesia | 1,849 | 20,006 | 3,798 | 16,208 | 2,075 | 0.95 |
| Iran, Islamic Rep | 1,659 | 17,950 | 3,590 | 14,360 | 1,885 | 0.86 |
| Iraq | 350 | 3,787 | 757 | 3,030 | 576 | 0.26 |
| Ireland | 650 | 7,033 | 1,335 | 5,698 | 876 | 0.40 |
| Israel | 835 | 9,035 | 1,715 | 7,320 | 1,061 | 0.49 |
| Italy | 4,970 | 53,775 | 10,208 | 43,567 | 5,196 | 2.38 |
| Jamaica | 319 | 3,452 | 655 | 2,797 | 545 | 0.25 |
| Japan | 8,979 | 97,153 | 18,443 | 78,710 | 9,205 | 4.22 |
| Jordan | 171 | 1,850 | 351 | 1,499 | 397 | 0.18 |
| Kazakhstan | 368 | 3,982 | 756 | 3,226 | 594 | 0.27 |
| Kenya | 303 | 3,278 | 622 | 2,656 | 529 | 0.24 |
| Korea, Republic of | 791 | 8,559 | 1,625 | 6,934 | 1,017 | 0.47 |
| Kosovo | 96 | 1,039 | 208 | 831 | 322 | 0.15 |
| Kuwait | 1,639 | 17,734 | 3,367 | 14,367 | 1,865 | 0.85 |
| Kyrgyz Republic | 77 | 833 | 167 | 666 | 303 | 0.14 |
| Lao People's Dem | 60 | 649 | 130 | 519 | 286 | 0.13 |
| Latvia | 171 | 1,850 | 351 | 1,499 | 397 | 0.18 |
| Lebanon | 250 | 2,705 | 514 | 2,191 | 476 | 0.22 |
| Lesotho | 88 | 952 | 181 | 771 | 314 | 0.14 |
| Liberia | 84 | 909 | 182 | 727 | 310 | 0.14 |
| Libya | 549 | 5,940 | 1,188 | 4,752 | 775 | 0.36 |
| Lithuania | 187 | 2,023 | 384 | 1,639 | 413 | 0.19 |
| Luxembourg | 204 | 2,207 | 419 | 1,788 | 430 | 0.20 |
| Macedonia, FYR of | 88 | 952 | 181 | 771 | 314 | 0.14 |
| Madagascar | 176 | 1,904 | 362 | 1,542 | 402 | 0.18 |

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

**As of June 30, 2017**
**Expressed in thousands of US dollars**

| | SUBSCRIPTIONS (NOTE C) | | | | VOTING POWER | |
|---|---|---|---|---|---|---|
| **Members** | **Shares[1]** | **Total Subscribed** | **Amount Paid-in** | **Amount Subject to Call** | **Number of Votes** | **% of Total** |
| Malawi | 77 | $ 833 | $ 167 | $ 666 | 303 | 0.14 |
| Malaysia | 1,020 | 11,036 | 2,095 | 8,941 | 1,246 | 0.57 |
| Maldives | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Mali | 143 | 1,547 | 294 | 1,253 | 369 | 0.17 |
| Malta | 132 | 1,428 | 271 | 1,157 | 358 | 0.16 |
| Mauritania | 111 | 1,201 | 228 | 973 | 337 | 0.15 |
| Mauritius | 153 | 1,655 | 314 | 1,341 | 379 | 0.17 |
| Myanmar | 178 | 1,926 | 385 | 1,541 | 404 | 0.19 |
| Mexico | 1,192 | 12,897 | 2,579 | 10,318 | 1,418 | 0.65 |
| Micronesia, Fed. States of | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Moldova | 96 | 1,039 | 208 | 831 | 322 | 0.15 |
| Mongolia | 58 | 628 | 126 | 502 | 284 | 0.13 |
| Montenegro | 61 | 660 | 132 | 528 | 287 | 0.13 |
| Morocco | 613 | 6,633 | 1,259 | 5,374 | 839 | 0.38 |
| Mozambique | 171 | 1,850 | 351 | 1,499 | 397 | 0.18 |
| Namibia | 107 | 1,158 | 232 | 926 | 333 | 0.15 |
| Nepal | 122 | 1,320 | 251 | 1,069 | 348 | 0.16 |
| Netherlands | 3,822 | 41,354 | 7,850 | 33,504 | 4,048 | 1.85 |
| New Zealand | 513 | 5,551 | 1,110 | 4,441 | 739 | 0.34 |
| Nicaragua | 180 | 1,948 | 370 | 1,578 | 406 | 0.19 |
| Niger | 62 | 671 | 134 | 537 | 288 | 0.13 |
| Nigeria | 1,487 | 16,089 | 3,054 | 13,035 | 1,713 | 0.78 |
| Norway | 1,232 | 13,330 | 2,531 | 10,799 | 1,458 | 0.67 |
| Oman | 166 | 1,796 | 341 | 1,455 | 392 | 0.18 |
| Pakistan | 1,163 | 12,584 | 2,389 | 10,195 | 1,389 | 0.64 |
| Palau | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Panama | 231 | 2,499 | 474 | 2,025 | 457 | 0.21 |
| Papua New Guinea | 96 | 1,039 | 208 | 831 | 322 | 0.15 |
| Paraguay | 141 | 1,526 | 290 | 1,236 | 367 | 0.17 |
| Peru | 657 | 7,109 | 1,350 | 5,759 | 883 | 0.40 |
| Philippines | 853 | 9,229 | 1,752 | 7,477 | 1,079 | 0.49 |
| Poland | 764 | 8,266 | 1,653 | 6,613 | 990 | 0.45 |
| Portugal | 673 | 7,282 | 1,382 | 5,900 | 899 | 0.41 |
| Qatar | 241 | 2,608 | 495 | 2,113 | 467 | 0.21 |
| Romania | 978 | 10,582 | 2,009 | 8,573 | 1,204 | 0.55 |
| Russian Federation | 5,528 | 59,813 | 11,355 | 48,458 | 5,754 | 2.64 |
| Rwanda | 132 | 1,428 | 271 | 1,157 | 358 | 0.16 |
| St. Kitts & Nevis | 50 | 541 | 108 | 433 | 276 | 0.13 |
| St. Lucia | 88 | 952 | 181 | 771 | 314 | 0.14 |
| St. Vincent and the Grenadines | 88 | 952 | 181 | 771 | 314 | 0.14 |
| Samoa | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Sao Tome & Principe | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Saudi Arabia | 5,528 | 59,813 | 11,355 | 48,458 | 5,754 | 2.64 |
| Senegal | 256 | 2,770 | 526 | 2,244 | 482 | 0.22 |
| Serbia | 407 | 4,404 | 836 | 3,568 | 633 | 0.29 |
| Seychelles | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Sierra Leone | 132 | 1,428 | 271 | 1,157 | 358 | 0.16 |
| Singapore | 272 | 2,943 | 559 | 2,384 | 498 | 0.23 |
| Slovak Republic | 391 | 4,231 | 803 | 3,428 | 617 | 0.28 |
| Slovenia | 180 | 1,948 | 370 | 1,578 | 406 | 0.19 |

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

**As of June 30, 2017**
**Expressed in thousands of US dollars**

| | | SUBSCRIPTIONS (NOTE C) | | | VOTING POWER | |
|---|---|---|---|---|---|---|
| **Members** | **Shares**[1] | **Total Subscribed** | **Amount Paid-in** | **Amount Subject to Call** | **Number of Votes** | **% of Total** |
| Solomon Islands | 50 | $ 541 | $ 108 | $ 433 | 276 | 0.13 |
| South Africa | 1,662 | 17,983 | 3,414 | 14,569 | 1,888 | 0.87 |
| South Sudan | 155 | 1,677 | 335 | 1,342 | 381 | 0.17 |
| Spain | 2,265 | 24,507 | 4,652 | 19,855 | 2,491 | 1.14 |
| Sri Lanka | 478 | 5,172 | 982 | 4,190 | 704 | 0.32 |
| Sudan | 206 | 2,229 | 445 | 1,784 | 432 | 0.20 |
| Suriname | 82 | 887 | 177 | 710 | 308 | 0.14 |
| Swaziland | 58 | 628 | 126 | 502 | 284 | 0.13 |
| Sweden | 1,849 | 20,006 | 3,798 | 16,208 | 2,075 | 0.95 |
| Switzerland | 2,643 | 28,597 | 5,429 | 23,168 | 2,869 | 1.31 |
| Syrian Arab Republic | 296 | 3,203 | 608 | 2,595 | 522 | 0.24 |
| Tajikistan | 130 | 1,407 | 267 | 1,140 | 356 | 0.16 |
| Tanzania | 248 | 2,683 | 509 | 2,174 | 474 | 0.22 |
| Thailand | 742 | 8,028 | 1,524 | 6,504 | 968 | 0.44 |
| Timor-Leste | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Togo | 77 | 833 | 167 | 666 | 303 | 0.14 |
| Trinidad and Tobago | 358 | 3,874 | 735 | 3,139 | 584 | 0.27 |
| Tunisia | 275 | 2,976 | 565 | 2,411 | 501 | 0.23 |
| Turkey | 814 | 8,807 | 1,672 | 7,135 | 1,040 | 0.48 |
| Turkmenistan | 66 | 714 | 143 | 571 | 292 | 0.13 |
| Uganda | 233 | 2,521 | 478 | 2,043 | 459 | 0.21 |
| Ukraine | 1,346 | 14,564 | 2,765 | 11,799 | 1,572 | 0.72 |
| United Arab Emirates | 656 | 7,098 | 1,347 | 5,751 | 882 | 0.40 |
| United Kingdom | 8,565 | 92,673 | 17,593 | 75,080 | 8,791 | 4.03 |
| United States | 32,564 | 352,342 | 67,406 | 284,936 | 32,790 | 15.02 |
| Uruguay | 202 | 2,186 | 437 | 1,749 | 428 | 0.20 |
| Uzbekistan | 175 | 1,894 | 379 | 1,515 | 401 | 0.18 |
| Vanuatu | 50 | 541 | 108 | 433 | 276 | 0.13 |
| Venezuela, R.B. de | 1,427 | 15,440 | 3,087 | 12,353 | 1,653 | 0.76 |
| Vietnam | 388 | 4,198 | 797 | 3,401 | 614 | 0.28 |
| Yemen, Republic of | 155 | 1,677 | 335 | 1,342 | 381 | 0.17 |
| Zambia | 318 | 3,441 | 688 | 2,753 | 544 | 0.25 |
| Zimbabwe | 236 | 2,554 | 511 | 2,043 | 462 | 0.21 |
| Total - Jun 30, 2017[2] | 177,331 | $ 1,918,721 | $ 366,122 | $ 1,552,599 | 218,237 | 100.00 |
| Total - Jun 30, 2016 | 177,331 | $ 1,918,721 | $ 366,122 | $ 1,552,599 | 218,237 | 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.

# Statement of Guarantees Outstanding

### As of June 30, 2017
### Expressed in thousands of US dollars

| Host Country | Gross Exposure (Note D) | | | | Ceded Exposure[1] | Net Exposure |
|---|---|---|---|---|---|---|
| | US Dollars | Euro | Swiss Franc | Total | | |
| Afghanistan | $ 115,701 | $ 798 | $ - | $ 116,499 | $ 40,810 | $ 75,689 |
| Albania | - | 340,110 | - | 340,110 | 223,110 | 117,000 |
| Angola | 69,993 | 378,739 | - | 448,732 | 318,528 | 130,204 |
| Bangladesh | 525,418 | - | - | 525,418 | 381,213 | 144,205 |
| Belarus | - | 119,156 | - | 119,156 | 59,578 | 59,578 |
| Benin | - | 5,644 | - | 5,644 | - | 5,644 |
| Bosnia and Herzegovina | - | 412,713 | - | 412,713 | 207,041 | 205,672 |
| Brazil[2] | 335,388 | - | - | 335,388 | 145,287 | 190,101 |
| Bulgaria | - | 51,388 | - | 51,388 | 25,694 | 25,694 |
| Burundi | 5,615 | 7,081 | - | 12,696 | 1,140 | 11,556 |
| Cameroon | 180,000 | 92,393 | - | 272,393 | 60,000 | 212,393 |
| China | 9,855 | - | - | 9,855 | - | 9,855 |
| Colombia | 95,000 | 2,275 | - | 97,275 | - | 97,275 |
| Congo, Democratic Republic of | 67,500 | - | - | 67,500 | 60,542 | 6,958 |
| Cote d'Ivoire | 658,799 | 69,369 | - | 728,168 | 443,402 | 284,766 |
| Djibouti | 49,599 | - | - | 49,599 | 23,450 | 26,149 |
| Dominican Republic | 79,589 | - | - | 79,589 | 11,938 | 67,651 |
| Egypt, Arab Republic of | 193,935 | 6,815 | - | 200,750 | 57,260 | 143,490 |
| El Salvador | 129,337 | - | - | 129,337 | - | 129,337 |
| Ethiopia | 13,962 | - | - | 13,962 | - | 13,962 |
| Gabon | - | 5,983 | - | 5,983 | - | 5,983 |
| Georgia | 106,528 | - | - | 106,528 | - | 106,528 |
| Ghana | 477,206 | - | - | 477,206 | 216,049 | 261,157 |
| Guinea-Bissau | - | 9,334 | - | 9,334 | 933 | 8,401 |
| Honduras | 326,946 | - | - | 326,946 | 54,250 | 272,696 |
| Hungary | - | 785,516 | - | 785,516 | 514,879 | 270,637 |
| Indonesia | 200,000 | - | - | 200,000 | - | 200,000 |
| Iran, Islamic Republic of | 46,017 | - | - | 46,017 | 4,602 | 41,415 |
| Iraq | 8,316 | - | - | 8,316 | - | 8,316 |
| Jamaica | 33,028 | - | - | 33,028 | 6,606 | 26,422 |
| Jordan | 439,034 | - | - | 439,034 | 265,927 | 173,107 |
| Kenya | 158,349 | 51,390 | - | 209,739 | 24,216 | 185,523 |
| Kosovo | - | 93,302 | - | 93,302 | - | 93,302 |
| Lao People's Democratic Republic | 45,573 | - | - | 45,573 | 22,787 | 22,786 |
| Lebanon | 35,460 | - | - | 35,460 | - | 35,460 |
| Macedonia, former Yugoslav Republic of | - | 21,665 | - | 21,665 | - | 21,665 |
| Madagascar | - | 73,888 | - | 73,888 | 45,838 | 28,050 |
| Mali | 11,419 | - | - | 11,419 | 1,142 | 10,277 |
| Mauritania | - | 2,632 | - | 2,632 | - | 2,632 |
| Mexico | 962,913 | - | - | 962,913 | 765,000 | 197,913 |
| Moldova | - | 25,699 | - | 25,699 | - | 25,699 |
| Mongolia | 965,570 | - | - | 965,570 | 818,320 | 147,250 |
| Mozambique | 106,396 | - | - | 106,396 | 50,263 | 56,133 |
| Myanmar | 511,927 | - | - | 511,927 | 435,332 | 76,595 |
| Nicaragua | 27,270 | - | - | 27,270 | - | 27,270 |
| Nigeria | 487,765 | - | - | 487,765 | 388,267 | 99,498 |
| Pakistan | 266,134 | - | 83,433 | 349,567 | 89,553 | 260,014 |

See accompanying notes to the financial statements

# Statement of Guarantees Outstanding *(cont'd)*

**As of June 30, 2017**
**Expressed in thousands of US dollars**

| Host Country | Gross Exposure (Note D) US Dollars | Euro | Swiss Franc | Total | Ceded Exposure[1] | Net Exposure |
|---|---|---|---|---|---|---|
| Panama[3] | $ 456,445 | $ - | $ - | $ 456,445 | $ 271,986 | $ 184,459 |
| Peru | 6,156 | - | - | 6,156 | 1,231 | 4,925 |
| Russian Federation | 56,050 | 324,971 | - | 381,021 | 160,333 | 220,688 |
| Saudi Arabia | 15,313 | - | - | 15,313 | - | 15,313 |
| Senegal | 10,000 | 93,805 | - | 103,805 | 82,098 | 21,707 |
| Serbia | - | 855,850 | - | 855,850 | 553,243 | 302,607 |
| Sierra Leone | - | 5,053 | - | 5,053 | - | 5,053 |
| South Africa | 677,278 | 768,282 | 11,733 | 1,457,293 | 1,222,706 | 234,587 |
| Swaziland | 5,386 | - | - | 5,386 | 2,693 | 2,693 |
| Tanzania | 28,890 | - | - | 28,890 | - | 28,890 |
| Thailand | 40,573 | - | - | 40,573 | 20,287 | 20,286 |
| Tunisia | - | 82,410 | - | 82,410 | 30,285 | 52,125 |
| Turkey | 832,307 | 1,679,720 | - | 2,512,027 | 1,896,781 | 615,246 |
| Turkmenistan | 11,477 | - | - | 11,477 | - | 11,477 |
| Uganda | 132,726 | - | - | 132,726 | 60,425 | 72,301 |
| Ukraine | 130,056 | 8,341 | - | 138,397 | 42,054 | 96,343 |
| Uruguay | 439,349 | - | - | 439,349 | 345,000 | 94,349 |
| Vietnam | 689,598 | - | - | 689,598 | 568,057 | 121,541 |
| Zambia | 76,858 | - | - | 76,858 | - | 76,858 |
| | 11,354,004 | 6,374,322 | 95,166 | 17,823,492 | 11,020,136 | 6,803,356 |
| Adjustment for Dual-Country Contracts[4] | | | | | | |
| Lao PDR/Thailand | (40,573) | | | (40,573) | (20,287) | (20,286) |
| Mozambique/Swaziland | (5,386) | | | (5,386) | (2,693) | (2,693) |
| | (45,959) | | | (45,959) | (22,980) | (22,979) |
| Total - June 30, 2017[5] | $ 11,308,045 | $ 6,374,322 | $ 95,166 | $ 17,777,533 | $ 10,997,156 | $ 6,780,377 |
| Total - June 30, 2016 | $ 9,525,330 | $ 4,568,168 | $ 93,523 | $ 14,187,021 | $ 7,521,757 | $ 6,665,264 |

1. Ceded exposure reflects amounts ceded to facultative and treaty reinsurers, Conflict-Affected and Fragile Economies Facility (CAFEF) and amounts relating to exposure exchange agreement with IBRD (Note D).

2. Net exposure to Brazil increased by $85 million on account of exposure exchange agreement with IBRD (Note D).

3. Net exposure to Panama reduced by $86 million on account of exposure exchange agreement with IBRD (Note D).

4. 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 for double-counting.

5. May differ from the sum of individual figures shown because of rounding.

# 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 Group 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.

MIGA is immune from taxation pursuant to Chapter VII, Article 47, of the Convention establishing the Agency.

## Note A: Summary of Significant Accounting and Related Policies

### Basis of Preparation

MIGA's financial statements have been prepared in accordance with the United States generally accepted accounting principles (U.S. GAAP).

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. Significant judgments have been made in areas which management views as most critical with respect to the establishment of the reserve for claims, and valuation of pension and post-retirement benefits-related liabilities and the related net periodic cost of such benefit plans.

On August 3, 2017, the Board of Directors approved the financial statements for issue, which was also the date through which MIGA's management evaluated subsequent events.

The significant accounting policies employed by MIGA are summarized below.

***Investments***

MIGA manages its investment portfolio both for the purpose of providing liquidity for potential claims and for capital growth. MIGA invests in time deposits, asset-backed securities (ABS) and government and agency obligations based on its investment authorization approved by the Board. ABS are diversified among credit cards, student loans, home equity loans and mortgage backed securities. 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 derivative 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 and accounted for all its investment securities as trading securities. 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. A liability is recorded for securities purchased but not settled before the reporting dates. Similarly, a receivable is recorded for securities sold but not settled before the reporting dates.

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

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

***Reserve for Claims***
MIGA's reserve for claims 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 and where management finds it likely that a claim payment will be made in the near term.

The *Insurance Portfolio Reserve* is calculated based on the long-term historical experiences of the non-commercial political risk insurance industry and the default history of sovereigns and sub-sovereigns. Estimates are derived using an economic capital model, whereby alignment with calculations of MIGA's capital adequacy and risk-based pricing is achieved. The simulation-based model is constructed specifically for MIGA's insurance-type contracts and with consideration to the low-frequency but high-severity loss potential inherent in MIGA's business model; as such, it captures portfolio effects including geographical and product concentration. Assumptions and parameters used in the calculations serve as the basis for an objective assessment of potential portfolio claims losses. Historical loss experience is augmented by internal econometric scoring analysis in order to derive risk-differentiated parameters that include term structure effects and correlations between exposures. The discount rate is representative of the average maturity and currency composition of the guarantee portfolio.

Data used to derive the parameters for the economic capital model covers periods of up to 40 years. The parameters are reviewed at frequencies between one to six years depending on the type of parameter. Short-term risk changes are captured in the reserve estimate via changes in internal risk ratings for host countries, sub-sovereigns and guaranteed projects on a quarterly basis.

For the purpose of the presentation of the financial statements, insurance liabilities (or reserves) are presented on a gross basis, before the effect 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.

# Notes to Financial Statements

***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, where necessary. Objective evidence may be in the form of observable data that comes to MIGA's attention periodically.

***Currency Translation***
Assets and liabilities denominated in foreign currencies are translated at market exchange rates in effect at the end of the reporting 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 Statements of Income.

MIGA has in place a system for active management of exposures to foreign currencies, under which the amounts of non-U.S. dollar assets are matched to non-U.S. dollar insurance portfolio reserve components. The objective is to align the currency compositions of MIGA's assets and liabilities to 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 upfront, 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 a contract has been issued or renewed and coverage amounts have been specified.

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 ceded premium on a pro rata basis over the contract period.

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

Brokerage charges primarily consist of brokers' fee, agents' fee, finders' fee, and marketing fee. Charges paid upon contract issuance or renewal are recognized as expense on a pro rata basis over the contract period.

***Retroactive Reinsurance***
As part of its reinsurance strategy for prudent capital management, MIGA occasionally cedes exposure on existing guarantee contracts. Since MIGA is not relieved of its obligations to the guarantee holders under these transactions, it does not recognize a credit in the Statements of Income in relation to exposures subsequently ceded; instead it accounts for these as retroactive reinsurance contracts.

# Notes to Financial Statements

Premium paid to the reinsurers on these contracts is accounted for as a reinsurance recoverable on the Balance Sheet. The shortfall between the associated reserves and the premium paid, is recognized as a deferred gain under Other Liabilities on the Balance Sheet and increases the reinsurance recoverable by an equal amount. Both the deferred gain and reinsurance recoverable are subsequently amortized over the life of the guarantee contracts in proportion to the expected cash flows associated with each reinsurance contract, with the excess recoverable charged to the Statements of Income.

***Statements of Cash Flows***
For the purpose of MIGA's Statements of Cash Flows, cash is defined as the amounts of unrestricted currencies due from Banks.

***Fair Value Measurements***
FASB's ASC 820-10, *Fair Value Measurements and Disclosures:* Defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and expands disclosure requirements about fair value measurements.

MIGA has an established process for determining fair values. Fair value is based upon quoted market prices, where available. Examples include futures contracts, and most government and agency securities.

For financial instruments for which quoted market prices are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the discounted cash flow method using market observable inputs such as yield curves, foreign exchange rates, constant prepayment rates and credit spreads. Where applicable, unobservable inputs such as constant prepayment rates, probability of default and loss severity are used. Unless quoted prices are available, time deposits are valued at face value, which approximates fair value, given their short-term nature.

***Fair Value Hierarchy***
ASC 820-10 establishes a three-level fair value hierarchy under which financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable and unobservable. Additionally, 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.

**Accounting and Reporting Developments**

***Accounting Developments***

*Reserve for Claims*

During the quarter ended December 31, 2016, MIGA implemented its new economic capital model and associated core parameters for the purpose of calculating the Agency's insurance portfolio reserve (IPR), as well as for pricing and assessing capital adequacy. The model was developed in order to ensure that MIGA's main risk model, in a flexible and transparent manner, reflects the complex risks MIGA faces as an insurer and that it serves as a useful tool for applications which include reserving, pricing, and capital adequacy, while taking into account industry best practice, developments in the political risk landscape, and MIGA's experience and changes in mix of business and reinsurance strategy. The model underwent further refinement during the quarter ended June 30, 2017, which entailed the introduction of the reinsurance counterparty credit risk module.

Operating within MIGA's existing reserving policy and methodology, the new model benefits from a Monte-Carlo simulation approach that is widely used in the insurance industry, enhanced ability to model complex loss structures, and strengthened calculations of extreme loss scenarios indicative of the low-frequency, high-severity nature of MIGA's exposures. Prior to the new model implementation, the model's core parameters underwent comprehensive reviews and refinements, for example in terms of claim probabilities, recoveries, correlations, loss dependency assumptions, and consideration of MIGA's unique nature as a part of the World Bank Group.

Under the new model, the overarching IPR framework (comprised of policy and methodology) were unchanged, with the changes reflecting refinements of the core model parameters. Management's conclusion from the assessment of the changes is that the financial effects associated with the introduction of the new model constitute a change in an accounting estimate, with the results reflected in the Statements of Income for the fiscal year ended June 30, 2017.

The new model implementation in the second quarter resulted in a net decrease in the IPR of $165,900,000, represented by a $227,100,000 decrease in the Reserve for claims, gross, and a $61,200,000 decrease in Reinsurance recoverable.

The introduction of further refinements to the model in the fourth quarter with respect to reinsurance counterparty credit risk, resulted in a net increase in the IPR of $1,600,000, represented by a $1,700,000 increase in the Reserve for claims, gross, and a $100,000 increase in Reinsurance recoverable.

Included in the decrease in reserves, excluding translation gains, during the fiscal year ended June 30, 2017 of $152,298,000 on the Statements of Income was a decrease in the IPR of $164,300,000, being the combined financial impact of the commissioning of the new Economic Capital Model during the fiscal year.
MIGA's approach to the Specific claim and Probable reserve calculations remained unchanged.

***Reporting Developments***

*Recently adopted Accounting Standards:*

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainities about an entity's ability to continue as a Going Concern*. The ASU provides guidance on management's responsibilities in evaluating the entity's ability to continue as a going concern and on the related financial statement disclosures. Under this ASU, at the end of each reporting period, management is required to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within a year after the date on which the financial statements are issued. For MIGA, the ASU became effective during the fourth quarter of the fiscal year ending June 30, 2017. To implement the requirement of the ASU, MIGA established a quarterly evaluation process. Based on this evaluation, at June 30, 2017, there is no substantial doubt that MIGA will continue as a going concern for a period of one year after the date of the financial statements issuance.

*Accounting Standards under Evaluation:*

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that the amounts of restricted cash and cash equivalents are included in the total of cash and cash equivalents at the beginning and end of the period in the statements of cash flows. For MIGA, the ASU will become effective from the fiscal year beginning after December 15, 2019, and subsequent interim periods. MIGA is currently evaluating the impact of this ASU on its financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires that an employer report the service cost component of net benefit cost in the same line item as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and are not eligible for capitalization. For MIGA the ASU will become effective from annual periods beginning on December 15, 2018 and subsequent interim periods. MIGA is currently evaluating the impact of this ASU on its financial statements.

# Notes to Financial Statements

**Note B: Investments**

The investment securities held by MIGA are carried and reported at fair value. As of June 30, 2017, the majority of the Investments – Trading is comprised of Time deposits and Government and agency obligations (57.0% and 30.5%, respectively), with all instruments being classified as Level 1 and Level 2 within the fair value hierarchy.

A summary of MIGA's investment portfolio at June 30, 2017 and June 30, 2016 are as follows:

*In thousands of US dollars*

| | Fair Value | |
|---|---|---|
| | *June 30, 2017* | *June 30, 2016* |
| Time deposits | $ 863,630 | $ 351,494 |
| Government and agency obligations | 461,743 | 627,130 |
| Asset-backed securities | 189,748 | 370,075 |
| Total investments - Trading | $ 1,515,121 | $ 1,348,699 |

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | Fair Value | |
|---|---|---|
| | *June 30, 2017* | *June 30, 2016* |
| Investment - Trading | $ 1,515,121 | $ 1,348,699 |
| Cash held in investment portfolio[a] | 2,789 | 2,552 |
| Securities purchased under resale agreements | - | 42,001 |
| Receivable for investment securities sold | 36,090 | 11,440 |
| | 1,554,000 | 1,404,692 |
| Derivative assets | | |
| Currency forward contracts | 145,592 | 332,353 |
| Others[b] | 231 | 355 |
| | 145,823 | 332,708 |
| Derivative liabilities | | |
| Currency forward contracts | (150,095) | (348,223) |
| Others[b] | (293) | (308) |
| | (150,388) | (348,531) |
| Payable for investment securities purchased | (19,983) | (10,192) |
| Securities sold under repurchase agreement and payable for cash collateral received | (13,040) | (2,691) |
| Net investment portfolio | $ 1,516,412 | $ 1,375,986 |

*a. This amount is included in Cash on the Balance Sheet.*

*b. These related to To-Be-Announced (TBA) securities and futures contracts.*

## Notes to Financial Statements

As of June 30, 2017, investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 8.7 percent (10.7 percent – June 30, 2016) of the portfolio, of which the Euro-denominated instruments accounted for 8.6 percent (10.5 percent – June 30, 2016) of the total 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 Income from investments on Statements of Income.

The following table summarizes MIGA's Income from investments during the fiscal year ended June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | Fiscal Year Ended | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| Interest income | $ 17,402 | $ 17,192 |
| Realized gains (losses) | 12,796 | (292) |
| Unrealized (losses) gains | (25,426) | 6,016 |
| | $ 4,772 | $ 22,916 |

The following table summarizes MIGA's income from derivative instruments, reported as part of Income from investments, which mainly relates to interest rate futures, options, and covered forwards for the fiscal year ended June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | Fiscal Year Ended | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| Interest income | $ 1,096 | $ 2,384 |
| Realized gains (losses) | 17,555 | (697) |
| Unrealized (losses) | (14,865) | (41) |
| | $ 3,786 | $ 1,646 |

# Notes to Financial Statements

### Fair Value Disclosures

The following tables present MIGA's fair value hierarchy for investment assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | Fair Value Measurements on a Recurring Basis As of June 30, 2017 | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| **ASSETS:** | | | | |
| Time deposits | $109,004 | $ 754,626 | $ - | $ 863,630 |
| Government and agency obligations | 276,394 | 185,349 | - | 461,743 |
| Asset backed securities | - | 189,748 | - | 189,748 |
| Total investments - Trading | 385,398 | 1,129,723 | - | 1,515,121 |
| Derivative assets | | | | |
| Currency forward contracts | - | 145,592 | - | 145,592 |
| Others[a] | 30 | 201 | - | 231 |
| Total derivative assets | 30 | 145,793 | - | 145,823 |
| Total | $385,428 | $1,275,516 | $ - | $1,660,944 |
| **LIABILITIES:** | | | | |
| Securities sold under repurchase agreements | $ - | $ 13,040 | $ - | $ 13,040 |
| Derivative liabilities | | | | |
| Currency forward contracts | $ - | $ 150,095 | $ - | $ 150,095 |
| Others[a] | - | 293 | - | 293 |
| Total derivative liabilities | - | 150,388 | - | 150,388 |
| Total | $ - | $ 163,428 | $ - | $ 163,428 |

*a. These relate to TBA securities and futures contracts.*

# Notes to Financial Statements

*In thousands of US dollars*

| | *Fair Value Measurements on a Recurring Basis As of June 30, 2016* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| **ASSETS:** | | | | |
| Government and agency obligations | $506,845 | $ 120,285 | $ - | $ 627,130 |
| Time deposits | 35,148 | 316,346 | - | 351,494 |
| Asset backed securities | - | 370,075 | - | 370,075 |
| Total investments - Trading | 541,993 | 806,706 | - | 1,348,699 |
| Securities purchased under resale agreements | 42,001 | - | - | 42,001 |
| Derivative assets | | | | |
| Currency forward contracts | - | 332,353 | - | 332,353 |
| Others[a] | - | 355 | - | 355 |
| Total derivative assets | - | 332,708 | - | 332,708 |
| Total | $583,994 | $1,139,414 | $ - | $1,723,408 |
| **LIABILITIES:** | | | | |
| Securities sold under repurchase agreements | $ - | $ 2,691 | $ - | $ 2,691 |
| Derivative liabilities | | | | |
| Currency forward contracts | - | 348,223 | - | 348,223 |
| Others[a] | 293 | 15 | - | 308 |
| Total derivative liabilities | 293 | 348,238 | - | 348,531 |
| Total | $ 293 | $ 350,929 | $ - | $ 351,222 |

*a. These relate to TBA securities and futures contracts.*

***Inter-Level Transfers:***

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.

There were no inter-level transfers during the fiscal year ended June 30, 2017 and June 30, 2016.

***Securities Lending, Borrowing and Repurchases:***

MIGA may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resale) of government and agency obligations and asset-backed securities. These transactions are conducted under legally enforceable master netting arrangements, which allow MIGA to reduce its gross credit exposure related to these transactions. For Balance Sheets presentation purposes, MIGA presents its securities lending and repurchases, as well as re-sales, on a gross basis. As of June 30, 2017 and June 30, 2016, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements.

# Notes to Financial Statements

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*

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Securities transferred under repurchase agreements | $ 13,028 | $ 2,718 |
| Liabilities relating to securities transferred under repurchase agreements | $ 13,040 | $ 2,691 |

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 re-pledge these securities until the repurchase date.

Securities lending and repurchase agreements expose MIGA to several risks, including counterparty risk, reinvestment risk, and risk of a collateral gap (increase or decrease in the fair value of collateral pledged). MIGA has procedures in place to ensure that all repurchase agreement trading activity and balances are always below predefined counterparty and maturity limits, and to actively monitor all net counterparty exposure, after collateral, through daily mark-to-market. Whenever the collateral pledged by MIGA related to its borrowings under repurchase agreements and securities lending agreements declines in value, the transaction is re-priced as appropriate by pledging additional collateral.

The following tables present the disaggregation of the gross obligation by class of collateral pledged and the remaining contractual maturities for repurchase agreements that are accounted for as secured borrowings as of June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | June 30, 2017 | | |
|---|---|---|---|
| | Remaining contractual maturity of the agreements | | |
| | Overnight and continuous | Up to 30 days | Total |
| **Repurchase or security lending agreements** | | | |
| Government and agency obligations | $ 13,040 | $ - | $ 13,040 |
| **Total liabilities relating to securities transferred under repurchase or security lending agreements** | $ 13,040 | $ - | $ 13,040 |

# Notes to Financial Statements

*In thousands of US dollars*

| | June 30, 2016 | | |
|---|---|---|---|
| | Remaining contractual maturity of the agreements | | |
| | Overnight and continuous | Up to 30 days | Total |
| **Repurchase or security lending agreements** | | | |
| Government and agency obligations[a] | $ 2,691 | $ - | $ 2,691 |
| **Total liabilities relating to securities transferred under repurchase or security lending agreements** | $ 2,691 | $ - | $ 2,691 |

In the case of resale agreements, MIGA receives collateral in the form of liquid securities and is permitted to re-pledge 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, 2017, MIGA has received securities with a fair value of $Nil ($42,095,615 - June 30, 2016) under resale agreements.

***Credit Exposure:***
The maximum credit exposure of investments closely approximates the fair values of the financial instruments.

ABS holdings are investment grade, and therefore, do not pose a significant concentration risk or credit risk to MIGA as of June 30, 2017. However, market deterioration could cause this to change in future periods.

***Derivative Instruments:***
MIGA uses currency forward contracts to enhance the returns from and manage the currency risk in the investment portfolio.

*Notional Amounts and Credit Exposures of the Derivative Instruments*

The following table provides information on the credit exposure and notional amounts of the derivative instruments as of June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| Type of contracts | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Currency forward contracts | | |
| Credit exposure | $ - | $ 244 |
| Exchange traded options and futures[a] | | |
| Notional long position | 56,000 | 12,400 |
| Notional short position | 28,000 | 173,600 |
| Others[b] | | |
| Notional long position | 80,000 | 84,000 |
| Notional short position | 49,000 | 5,000 |
| Credit exposure | 201 | 355 |

*a. Exchange traded instruments are generally subject to daily margin requirements and deemed to have no material credit risk. All options and futures contracts are interest rate contracts.*

*b. These relate to TBA securities.*

*Offsetting Assets and Liabilities*

MIGA enters into master netting agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give MIGA the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty.

The presentation of derivative instruments is consistent with the manner in which these instruments are settled, with currency forward contracts settled on a gross basis.

# Notes to Financial Statements

The following tables summarize information on derivative receivables and payables (before and after netting adjustments) that are reflected on MIGA's Balance Sheet as of June 30, 2017 and June 30, 2016. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. The net derivative asset positions have been further reduced by the cash collateral received.

| | June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Derivative Assets | | | Derivative Liabilities | | |
| | Gross Amounts Recognized | Gross Amounts Offset | Net Amounts Presented | Gross Amounts Recognized | Gross Amounts Offset | Net Amounts Presented |
| Currency forward contracts | $ 145,592 | $ - | $ 145,592 | $ 150,095 | $ - | $ 150,095 |
| Others[a] | 252 | (21) | 231 | 293 | - | 293 |
| | $ 145,844 | $ (21) | $ 145,823 | $ 150,388 | $ - | $ 150,388 |
| Amounts subject to legally enforcable master netting agreement | | | (145,773) | | | (145,773) |
| **Net derivative positions at counterparty level** | | | $ 50 | | | $ 4,615 |

*a. These relate to TBA securities and futures contracts.*

| | June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Derivative Assets | | | Derivative Liabilities | | |
| | Gross Amounts Recognized | Gross Amounts Offset | Net Amounts Presented | Gross Amounts Recognized | Gross Amounts Offset | Net Amounts Presented |
| Currency forward contracts | $ 332,353 | $ - | $ 332,353 | $ 348,223 | $ - | $ 348,223 |
| Others[a] | 355 | - | 355 | 389 | (81) | 308 |
| | $ 332,708 | $ - | $ 332,708 | $ 348,612 | $ (81) | $ 348,531 |
| Amounts subject to legally enforcable master netting agreement | | | (332,361) | | | (332,361) |
| **Net derivative positions at counterparty level** | | | $ 347 | | | $ 16,170 |

*a. These relate to TBA securities and futures contracts.*

# Notes to Financial Statements

**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. 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.

At June 30, 2017, MIGA's authorized capital stock comprised 186,587 (186,587 – June 30, 2016) shares, of which 177,331 (177,331 – June 30, 2016) 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 as of June 30, 2017, $366,122,000 ($366,122,000 – June 30, 2016) has been paid in; and the remaining $1,552,599,000 ($1,552,599,000 - June 30, 2016) is subject to call.

At June 30, 2017, MIGA had $109,763,000 ($110,292,000 – June 30, 2016) in the form of non-negotiable, non-interest bearing demand obligations (promissory notes), relating to the initial capital subscriptions.

# Notes to Financial Statements

A summary of the changes in MIGA's authorized, subscribed and paid-in capital during the fiscal years ended June 30, 2017 and June 30, 2016 is as follows:

| | Initial Capital | | Capital Increase | | Total | |
|---|---|---|---|---|---|---|
| | Shares | (US$000) | Shares | (US$000) | Shares | (US$000) |
| **At June 30, 2017** | | | | | | |
| Authorized: | | | | | | |
| At beginning of fiscal year | 108,028 | $1,168,863 | 78,559 | $850,008 | 186,587 | $2,018,871 |
| New membership | - | - | - | - | - | - |
| At end of fiscal year | 108,028 | $1,168,863 | 78,559 | $850,008 | 186,587 | $2,018,871 |
| Subscribed: | | | | | | |
| At beginning of fiscal year | 108,028 | $1,168,863 | 69,303 | $749,858 | 177,331 | $1,918,721 |
| New membership | - | - | - | - | - | - |
| At end of fiscal year | 108,028 | $1,168,863 | 69,303 | $749,858 | 177,331 | $1,918,721 |
| Uncalled portion of the Subscription | | (935,091) | | (617,508) | | (1,552,599) |
| Paid-in Capital | | $ 233,772 | | $132,350 | | $ 366,122 |
| **At June 30, 2016** | | | | | | |
| Authorized: | | | | | | |
| At beginning of fiscal year | 108,028 | $1,168,863 | 78,559 | $850,008 | 186,587 | $2,018,871 |
| New membership | - | - | - | - | - | - |
| At end of fiscal year | 108,028 | $1,168,863 | 78,559 | $850,008 | 186,587 | $2,018,871 |
| Subscribed: | | | | | | |
| At beginning of fiscal year | 108,028 | $1,168,863 | 69,303 | $749,858 | 177,331 | $1,918,721 |
| New membership | - | - | - | - | - | - |
| At end of fiscal year | 108,028 | $1,168,863 | 69,303 | $749,858 | 177,331 | $1,918,721 |
| Uncalled portion of the Subscription | | (935,091) | | (617,508) | | (1,552,599) |
| Paid-in Capital | | $ 233,772 | | $132,350 | | $ 366,122 |

## Note D: Guarantees

***Guarantee Program***

MIGA offers guarantees or insurance against loss caused by non-commercial risks to eligible investors and lenders on qualified investments in developing member countries. MIGA insures investments for up to 20 years against six different categories of risk: currency inconvertibility and transfer restriction, expropriation, war and civil disturbance, breach of contract, non-honoring of a sovereign financial obligation, and non-honoring of a financial obligation by a state-owned enterprise.

# Notes to Financial Statements

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.

***Contingent Liability***

The maximum amount of contingent liability (gross exposure) of MIGA under guarantees issued and outstanding at June 30, 2017 totaled $17,777,533,000 ($14,187,021,000 – June 30, 2016). 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, standby and future interest. 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 and future interest coverage for which MIGA is committed but not currently at risk. At June 30, 2017, MIGA's actual exposure to insurance claims, exclusive of standby and future interest coverage is $13,635,830,000 ($11,069,996,000 – June 30, 2016).

***Trust Fund Activities***

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 and outstanding as of June 30, 2017, totaled $22,815,093 ($30,820,480 – June 30, 2016).

In addition, MIGA administers the Conflict Affected and Fragile Economies Facility (CAFEF), a donor partner-funded trust fund established in April 2013. Under the CAFEF reinsurance structure, MIGA issues guarantees and cedes to the CAFEF an initial first loss layer, for eligible projects. As of June 30, 2017, out of $366,744,000 ($174,926,000 – June 30, 2016) in gross exposure under this arrangement on MIGA’s own account, amounts ceded to CAFEF under the initial first loss layer totaled $26,195,000 ($24,192,000 – June 30, 2016).

***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). The minimum rating required for private reinsurers is A by S&P or Fitch, A2 by Moody’s and A- by A.M. Best. 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. As of June 30, 2017, the project limit states that MIGA may cede no more than 90 percent of any individual project. Similarly, the portfolio limit states that MIGA may not reinsure more than 70 percent of its aggregate gross exposure.

# Notes to Financial Statements

Of the $17,777,533,000 outstanding contingent liability (gross exposure) as at June 30, 2017 ($14,187,021,000 – June 30, 2016), $10,969,771,000 ($7,495,065,000 – June 30, 2016) was ceded through contracts of reinsurance and $26,195,000 ($24,192,000 – June 30, 2016) was ceded to CAFEF. After adjusting for the impact of the Exposure Exchange Agreement with IBRD (See Note G, Transactions with Affiliated Organizations) of $1,190,000 ($2,500,000 – June 30, 2016) the net exposure amounted to $6,780,377,000 as at June 30, 2017 ($6,665,264,000 – June 30, 2016).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2017, total insurance assumed by MIGA, primarily with official investment insurers, amounted to $210,302,000 ($200,610,000 – June 30, 2016).

Premiums, fees and commission relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2017 and June 30, 2016 were as follows:

*In thousands of US dollars*

| | Fiscal Year Ended | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| Premiums written | | |
| Direct | $ 276,440 | $ 183,664 |
| Assumed | 2,005 | 2,047 |
| Ceded | (195,564) | (113,142) |
| | 82,881 | 72,569 |
| Premium income | | |
| Direct | 177,641 | 137,613 |
| Assumed | 2,018 | 2,188 |
| | $ 179,659 | $ 139,801 |
| Premium ceded | (105,277) | (64,089) |
| Ceding commission and other fees | 25,508 | 15,603 |
| Brokerage and other charges | (6,666) | (4,922) |
| Income from guarantees | $ 93,224 | $ 86,393 |

***Portfolio Risk Management***

Controlled acceptance of non-commercial 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 non-commercial risk event in developing countries. Non-commercial risk assessment forms an integral part of MIGA's underwriting process and includes the analysis of both country-related and project-related risks.

# Notes to Financial Statements

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 reserve 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 or approval by the Board of Directors. For insurance contracts that are issued under the Small Investment Program (SIP), the Board has delegated approval to MIGA's senior management. In order to avoid excessive risk concentration, MIGA sets exposure limits per country and per project. As of June 30, 2017, the maximum net exposure which may be assumed by MIGA is $820 million ($820 million – June 30, 2016) in each host country and $250 million ($250 million – June 30, 2016) for each project.

Effective November 11, 2016, 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 500 percent (350 percent – June 30, 2016) of the sum of MIGA's unimpaired subscribed capital, retained earnings, accumulated other comprehensive income (loss) and net insurance portfolio reserve plus 100 percent of gross exposure ceded by MIGA through contracts of reinsurance. Accordingly, at June 30, 2017, the maximum level of guarantees outstanding (including reinsurance) may not exceed $25,721,471,000 ($17,581,348,000 – June 30, 2016).

***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, 2017 and June 30, 2016 are as follows:

*In thousands of US dollars*

| | June 30, 2017 | | June 30, 2016 | |
|---|---|---|---|---|
| | Exposure in Top Five Countries | Exposure in Top Ten Countries | Exposure in Top Five Countries | Exposure in Top Ten Countries |
| Gross Exposure | $ 6,753,653 | $ 9,994,280 | $ 5,029,036 | $ 7,629,847 |
| % of Total Gross Exposure | 38.0 | 56.2 | 35.4 | 53.8 |
| Net Exposure | $ 1,745,952 | $ 2,934,791 | $ 1,651,670 | $ 2,809,156 |
| % of Total Net Exposure | 25.8 | 43.3 | 24.8 | 42.1 |

# Notes to Financial Statements

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, 2017 and June 30, 2016 are as follows:

*In thousands of US dollars*

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Gross Exposure | Net Exposure | % of Total Net Exposure | Gross Exposure | Net Exposure | % of Total Net Exposure |
| East Asia & Pacific | $ 2,422,523 | $ 578,028 | 8.5 | $ 1,975,232 | $ 513,826 | 7.7 |
| Europe & Central Asia | 5,854,850 | 2,172,134 | 32.0 | 4,037,936 | 1,996,550 | 30.0 |
| Latin America & Caribbean | 2,893,696 | 1,292,398 | 19.1 | 2,200,961 | 1,268,737 | 19.0 |
| Middle East & North Africa | 876,898 | 495,375 | 7.3 | 730,084 | 506,227 | 7.6 |
| South Asia | 991,484 | 479,909 | 7.1 | 822,414 | 453,614 | 6.8 |
| Sub-Saharan Africa | 4,738,082 | 1,762,533 | 26.0 | 4,420,394 | 1,926,310 | 28.9 |
| | $ 17,777,533 | $ 6,780,377 | 100.0 | $ 14,187,021 | $ 6,665,264 | 100.0 |

The sectoral distribution of MIGA's portfolio at June 30, 2017 and June 30, 2016 are shown in the following table:

*In thousands of US dollars*

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| **Sector** | Gross Exposure | Net Exposure | % of Total Net Exposure | Gross Exposure | Net Exposure | % of Total Net Exposure |
| Agribusiness | $ 74,709 | $ 74,412 | 1.1 | $ 118,203 | $ 117,906 | 1.7 |
| Financial | 5,905,097 | 2,016,773 | 29.7 | 3,822,790 | 1,771,011 | 26.6 |
| Infrastructure | 8,504,159 | 3,389,322 | 50.0 | 7,254,963 | 3,436,119 | 51.6 |
| Manufacturing | 500,179 | 409,601 | 6.0 | 534,507 | 442,650 | 6.6 |
| Mining | 965,570 | 147,249 | 2.2 | 1,000,000 | 152,500 | 2.3 |
| Oil and Gas | 964,665 | 339,458 | 5.0 | 1,088,189 | 477,609 | 7.2 |
| Tourism, Retail and Services | 863,154 | 403,562 | 6.0 | 368,369 | 267,469 | 4.0 |
| | $ 17,777,533 | $ 6,780,377 | 100.0 | $ 14,187,021 | $ 6,665,264 | 100.0 |

### Note E: Reserve for Claims and other Exposures

As discussed under Note A, Summary of Significant Accounting and Related Policies, during the quarter ended December 31, 2016, with a subsequent refinement in the fourth quarter, MIGA implemented a new Economic Capital model and associated core parameters for the purpose of calculating the Agency's insurance portfolio reserve (IPR), as well as for pricing and assessing capital adequacy. Consequently, MIGA's gross reserve for claims and other exposures at June 30, 2017 amounted to $400,213,000 ($545,501,000 - June 30, 2016) and the related reinsurance recoverables amounted to $223,770,000 ($216,139,000 - June 30, 2016), with the reduction largely reflecting the impact of the introduction of the new Economic Capital model, also used for provisioning.

The following table provides an analysis of the changes in the gross reserve for claims and other exposures for the fiscal years ended June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Gross reserve balance | $ 545,501 | $ 465,710 |
| Less: Reinsurance recoverables | (200,353) | (124,670) |
| Net reserve balance, beginning of the year | 345,148 | 341,040 |
| (Decrease) increase in reserves before translation gains | (152,298) | 4,954 |
| Foreign currency translation gains | (2,038) | (846) |
| (Decrease) increase in reserves, net of reinsurance | (154,336) | 4,108 |
| Less: Claims paid | (4,780) | - |
| Net reserve balance[a] | 186,032 | 345,148 |
| Add: Reinsurance recoverables[b] | 214,181 | 200,353 |
| Gross reserve balance, end of the period[c] | $ 400,213 | $ 545,501 |

*a. As of June 30, 2017 represents 2.7% of Total Net Exposure (June 30, 2016 - 5.2%).*

*b. As of June 30, 2017, excludes $9,589K (June 30, 2016 - $15,786K) reinsurance recoverables associated with retroactive reinsurance contracts which is included in the Reinsurance recoverables on the Balance Sheet.*

*c. As of June 30, 2017 represents 2.3% of Total Gross Exposure (June 30, 2016 - 3.8%).*

# Notes to Financial Statements

The net (decrease) increase in reserves for claims for the fiscal years ended June 30, 2017 and June 30, 2016 reflected the following changes in the Insurance portfolio reserve and Specific reserve for claims:

*In thousands of US dollars*

| | Fiscal Year Ended | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| *(Decrease) increase in Net Reserves:* | | |
| Insurance portfolio reserve | $ (153,786) | $ 496 |
| Specific reserve for claims | 1,488 | 4,458 |
| (Decrease) increase in reserves, before translation gains | (152,298) | 4,954 |
| Foreign currency translation gains | (2,038) | (846) |
| (Decrease) increase, net | $ (154,336) | $ 4,108 |

As noted previously, included in the decrease in reserves, before translation gains during the fiscal year ended June 30, 2017 of $152,298,000 was the impact of the change in accounting estimate totaling $164,300,000, which decreased the Insurance Portfolio Reserve associated with the introduction of the new Economic Capital model during the fiscal year.

The foreign currency translation adjustment reflects the impact on MIGA's claim reserve arising from the revaluation of guarantee contracts denominated in currencies other than US dollar. The foreign currency translation impact on claim reserve is effectively managed through MIGA's system for managing exposures to foreign currencies by holding equivalent amounts in the investment portfolio. The amount by which the reserve increases (decreases) as a result of translation adjustment is offset by the translation gains (losses) on MIGA's investment portfolio and other assets, reported on the Statements of Income.

***Reinsurance Recoverables***

The following table provides an analysis of the composition of reinsurance recoverables at June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Prospective reinsurance | $ 214,181 | $ 200,353 |
| Retroactive reinsurance[a] | 9,589 | 15,786 |
| | $ 223,770 | $ 216,139 |

*a. This amount is included in Reinsurance recoverables on the Balance Sheet.*

As of June 30, 2017, the deferred gains reflecting the shortfall between the retroactive reinsurance contracts associated reserves and the related premium ceded totaled $5,013,500 ($12,126,000 – June 30, 2016) and is reported under Other Liabilities on the Balance Sheet.

### *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 on a quarterly basis for each contract for which a reserve is created or maintained. At June 30, 2017, the specific reserves amounted to $1,488,000 ($4,458,000 – June 30, 2016).

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

**Specific Reserve development**

*In thousands of US dollars*

| Reporting Period | Up to FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative - claims: | | | | | | | | | | |
| At end of reporting period | 55,900 | 13 | 30,300 | 5,000 | 4,200 | 5,200 | - | 403 | 4,458 | 1,810 |
| One year later | 25,691 | 13 | 2,900 | - | 9,100 | 268 | - | - | - | |
| Two years later | 9,991 | 13 | - | - | 5,932 | 273 | - | - | | |
| Three years later | 9,900 | 13 | - | - | 4,781 | - | - | | | |
| Four years later | 4,691 | 13 | - | - | - | - | | | | |
| Five years later | 4,591 | 13 | - | - | - | | | | | |
| Six years later | 1,191 | 13 | - | - | | | | | | |
| Seven years later | - | - | - | | | | | | | |
| Eight years later | - | - | | | | | | | | |
| Nine years later | - | | | | | | | | | |

**Specific reserves at June 30, 2017**

| Reporting Period | Up to FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at July 1 | 1,191 | 13 | - | - | 4,781 | 273 | - | 403 | 4,458 | 1,810 | 12,929 |
| Cumulative payments | (1,191) | (13) | - | - | (4,781) | (273) | - | (403) | - | (4,780) | (11,441) |
| **Specific reserves at June 30, 2017** | - | - | - | - | - | - | - | - | 4,458 | (2,970) | 1,488 |

# Notes to Financial Statements

**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 regular pension benefit component provides a final salary guaranteed benefit or equivalent annuity, while the cash balance plan provides benefits equal to the amounts contributed by both the employer and the employee plus investment returns, or equivalent annuity. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

Responsibility for governance of the plans, including overseeing all aspects of the plans including investment decisions and contribution rates, lies with the IBRD's Pension Financial Committee.

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

The following table summarizes MIGA's respective share of the costs associated with the SRP, RSBP, and PEBP for the fiscal years ended June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | Fiscal Year Ended June 30, 2017 | | | | Fiscal Year Ended June 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **Benefit Cost** | SRP | RSBP | PEBP | Total | SRP | RSBP | PEBP | Total |
| Service cost | $ 6,564 | $ 1,426 | $1,157 | $ 9,147 | $ 5,407 | $ 1,186 | $ 913 | $ 7,506 |
| Interest cost | 6,445 | 1,032 | 758 | 8,235 | 6,657 | 1,054 | 694 | 8,405 |
| Expected return on plan assets | (10,119) | (1,296) | - | (11,415) | (10,912) | (1,363) | - | (12,275) |
| Amortization of prior service cost[a] | 61 | 174 | 23 | 258 | 61 | 151 | 23 | 235 |
| Amortization of unrecognized net loss[a] | 2,756 | 226 | 983 | 3,965 | 748 | - | 635 | 1,383 |
| **Net periodic pension cost** | $ 5,707 | $ 1,562 | $2,921 | $10,190 | $ 1,961 | $ 1,028 | $2,265 | $ 5,254 |

*a. Amounts reclassified into net income (See Note H - Accumulated Other Comprehensive Loss.*

# Notes to Financial Statements

The following table summarizes the projected benefit obligation, fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for MIGA for the fiscal years ended June 30, 2017 and June 30, 2016. While contributions made to SRP and RSBP are irrevocable, contributions made to PEBP are revocable. As a result, the assets for PEBP do not qualify for off-balance sheet accounting and are included in IBRD's investment portfolio, with MIGA's portion reflected in receivable from IBRD under Note G (Transactions with Affiliated Organizations). The assets of the PEBP are invested in fixed- income and equity instruments.

*In thousands of US dollars*

| | Fiscal Year Ended June 30, 2017 | | | | Fiscal Year Ended June 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | SRP | RSBP | PEBP | Total | SRP | RSBP | PEBP | Total |
| **Projected Benefit Obligation** | | | | | | | | |
| Beginning of year | $ 191,553 | $ 28,554 | $ 21,858 | $ 241,965 | $ 158,894 | $ 23,774 | $ 16,258 | $ 198,926 |
| Service cost | 6,564 | 1,426 | 1,157 | 9,147 | 5,407 | 1,186 | 913 | 7,506 |
| Interest cost | 6,445 | 1,032 | 758 | 8,235 | 6,657 | 1,054 | 694 | 8,405 |
| Net entity transfers | 3,915 | 615 | n.a. | 4,530 | 70 | (295) | n.a. | (225) |
| Participant contributions | 2,037 | 153 | 100 | 2,290 | 1,984 | 149 | 384 | 2,517 |
| Federal subsidy received | n.a. | - | n.a. | - | n.a. | 19 | n.a. | 19 |
| Plan amendments | - | - | - | - | - | 293 | - | 293 |
| Benefits paid | (7,045) | (567) | (549) | (8,161) | (6,692) | (546) | (548) | (7,786) |
| Actuarial (gains) loss | (6,318) | (1,708) | 477 | (7,549) | 25,233 | 2,920 | 4,157 | 32,310 |
| **End of Year** | **$ 197,151** | **$ 29,505** | **$ 23,801** | **$ 250,457** | **$ 191,553** | **$ 28,554** | **$ 21,858** | **$ 241,965** |
| **Fair value of plan assets** | | | | | | | | |
| Beginning of year | $ 178,076 | $ 22,436 | | $ 200,512 | $ 176,495 | $ 21,679 | | $ 198,174 |
| Net entity transfers | 3,915 | 615 | | 4,530 | 70 | (295) | | (225) |
| Participant contributions | 2,037 | 153 | | 2,190 | 1,984 | 149 | | 2,133 |
| Actual return on assets | 21,304 | 2,818 | | 24,122 | 3,370 | 410 | | 3,780 |
| Employer contributions | 2,907 | 1,035 | | 3,942 | 2,849 | 1,039 | | 3,888 |
| Benefits paid | (7,045) | (567) | | (7,612) | (6,692) | (546) | | (7,238) |
| **End of Year** | **$ 201,194** | **$ 26,490** | | **$ 227,684** | **$ 178,076** | **$ 22,436** | | **$ 200,512** |
| **Funded Status**[a] | **$ 4,043** | **$ (3,015)** | **$ (23,801)** | **$ (22,773)** | **$ (13,477)** | **$ (6,118)** | **$ (21,858)** | **$ (41,453)** |
| **Accumulated Benefit Obligation** | **$ 175,947** | **$ 29,505** | **$ 20,124** | **$ 225,576** | **$ 167,854** | **$ 28,554** | **$ 18,794** | **$ 215,202** |

*a. Positive funded status is reported as Net assets under retirement benefits plans; negative funded status is included under Other liabilities on the Balance Sheet.*

During the fiscal year ended June 30, 2017, there were no plan amendments impacting the projected benefit obligation.

During the fiscal year ended June 30, 2016, the pension plans were amended to reflect the increase in the mandatory retirement age from 62 to 67 for the life insurance benefits. The effect of that change was a $293,000 increase to the projected benefit obligations at June 30, 2016.

The following tables present the amounts included in Accumulated Other Comprehensive Loss relating to Pension and Other Post Retirement Benefits:

**Amounts included in Accumulated Other Comprehensive Loss at June 30, 2017**

*In thousands of US dollars*

| | SRP | RSBP | PEBP | Total |
|---|---|---|---|---|
| Net actuarial loss | $ 26,862 | $ 816 | $ 11,173 | $ 38,851 |
| Prior service cost | 409 | 1,153 | 183 | 1,745 |
| Net amount recognized in Accumulated Other Comprehensive Loss | $ 27,271 | $ 1,969 | $ 11,356 | $ 40,596 |

**Amounts included in Accumulated Other Comprehensive Loss at June 30, 2016**

*In thousands of US dollars*

| | SRP | RSBP | PEBP | Total |
|---|---|---|---|---|
| Net actuarial loss | $ 47,120 | $ 4,272 | $ 11,679 | $ 63,071 |
| Prior service cost | 470 | 1,327 | 206 | 2,003 |
| Net amount recognized in Accumulated Other Comprehensive Loss | $ 47,590 | $ 5,599 | $ 11,885 | $ 65,074 |

The estimated amounts that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost in the fiscal year ending June 30, 2018 are as follows:

*In thousands of US dollars*

| | SRP | RSBP | PEBP | Total |
|---|---|---|---|---|
| Net actuarial loss | $ 844 | $ - | $ 931 | $ 1,775 |
| Prior service cost | 61 | 174 | 23 | 258 |
| Net amount recognized in Accumulated Other Comprehensive Loss | $ 905 | $ 174 | $ 954 | $ 2,033 |

## Actuarial 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, change in yields 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 yield of AA corporate bonds.

## Notes to Financial Statements

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, 2017 and June 30, 2016:

*In percent*

| | SRP | | RSBP | | PEBP | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Weighted average assumptions used to determine projected benefit obligations** | | | | | | |
| Discount rate | 3.70 | 3.40 | 3.90 | 3.60 | 3.80 | 3.50 |
| Rate of compensation increase | 5.20 | 5.30 | | | 5.20 | 5.30 |
| Health care growth rates-at end of fiscal year | | | 5.50 | 5.30 | | |
| Ultimate health care growth rate | | | 4.00 | 4.00 | | |
| Year in which ultimate rate is reached | | | 2030 | 2030 | | |
| **Weighted average assumptions used to determine net periodic pension cost** | | | | | | |
| Discount rate | 3.40 | 4.30 | 3.60 | 4.50 | 3.50 | 4.36 |
| Expected return on plan assets | 5.70 | 6.20 | 5.70 | 6.20 | | |
| Rate of compensation increase | 5.30 | 5.40 | | | 5.30 | 5.40 |
| Health care growth rates-at end of fiscal year | | | 5.30 | 4.90 | | |
| Ultimate health care growth rate | | | 4.00 | 4.10 | | |
| Year in which ultimate rate is reached | | | 2030 | 2030 | | |

The medical cost trend rate can significantly affect the reported post-retirement 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 | 900 | (600) |
| Effect on post-retirment benefit obligation | 8,600 | (6,000) |

**Investment Strategy**

The investment policies 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., policy 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 more frequent reviews and changes if and as needed based on market conditions.

The key long-term objective is to generate asset performance that is reasonable in relation to the growth rate of the underlying liabilities and the assumed sponsor contribution rates, without taking undue risks. 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 a globally diversified set of strategies including fixed income, public and private equity and real assets.

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 liquidity needs of the plans.

The following table presents the policy asset allocation at June 30, 2017 and the actual asset allocation at June 30, 2017 and June 30, 2016 by asset category for the SRP and RSBP:

*In Percent*

| | SRP | | | RSBP | | |
|---|---|---|---|---|---|---|
| | Policy Allocation 2017 | % of Plan Assets | | Policy Allocation 2017 | % of Plan Assets | |
| Asset Class | (%) | 2017 | 2016 | (%) | 2017 | 2016 |
| Fixed income & Cash | 26 | 19 | 20 | 26 | 21 | 22 |
| Public Equity | 33 | 35 | 34 | 33 | 34 | 34 |
| Private Equity[a] | 20 | 17 | 17 | 20 | 19 | 19 |
| Market Neutral Hedge Funds | 8 | 11 | 11 | 8 | 10 | 10 |
| Real Assets[b] | 13 | 14 | 14 | 13 | 12 | 12 |
| Other | - | 4 | 4 | - | 4 | 3 |
| **Total** | 100 | 100 | 100 | 100 | 100 | 100 |

*a.Includes investments that are outside the policy allocations such as directional hedge funds and long-term private debt funds.*
*b. Includes public and private real estates, 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 overall return volatility of the Plans. As of June 30, 2017, the largest exposure to a single counterparty was 6% and 5% of the plan assets in SRP and RSBP, respectively.

#### Risk management practices

Managing investment risk is an integral part of managing the assets of the Plans. Asset diversification and consideration of the characteristics of the liabilities are central to the overall investment strategy and risk management approach for the SRP. Absolute risk indicators such as the overall return volatility and drawdown of the Plans are the primary measures used to define the risk tolerance level and establish the overall level of investment risk. In addition, the level of active risk (defined as the annualized standard deviation of portfolio returns relative to those of the policy portfolio) is closely monitored and managed on ongoing basis.

Market 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 Plans. 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 credit 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.

The Plans mitigate operational risk by maintaining a system of internal control along with other checks and balances at various levels.

# Notes to Financial Statements

### 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, 2017 and June 30, 2016:

| *In thousands of US dollars* | Fair Value Measurements on a Recurring Basis as of June 30, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SRP | | | | RSBP | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Debt Securities** | | | | | | | | |
| Time deposits | $ 128 | $ - | $ - | $ 128 | $ 118 | $ - | $ - | $ 118 |
| Securities purchased under resale agreements | 1,738 | - | - | 1,738 | 376 | - | - | 376 |
| Government and agency securities | 22,836 | 5,561 | - | 28,397 | 3,423 | 1,049 | - | 4,472 |
| Corporate and convertible bonds | - | 4,045 | - | 4,045 | - | 545 | - | 545 |
| Asset backed securities | - | 2,135 | - | 2,135 | - | 270 | - | 270 |
| Mortgage backed securities | - | 2,769 | - | 2,769 | - | 347 | - | 347 |
| **Total Debt Securities** | 24,702 | 14,510 | - | 39,212 | 3,917 | 2,211 | - | 6,128 |
| **Equities** | | | | | | | | |
| US common stocks | 7,773 | - | - | 7,773 | 776 | - | - | 776 |
| Non-US common stocks | 36,330 | - | - | 36,330 | 4,367 | - | - | 4,367 |
| Mutual Funds | 1,113 | - | - | 1,113 | 164 | - | - | 164 |
| Real estate investments trusts (REITs) | 4,560 | - | - | 4,560 | 532 | - | - | 532 |
| **Total Equity Securities** | 49,776 | - | - | 49,776 | 5,839 | - | - | 5,839 |
| Other funds at NAV[a] | | | | | | | | |
| Commingled funds | - | - | - | 24,569 | - | - | - | 3,321 |
| Private equity | - | - | - | 41,939 | - | - | - | 6,006 |
| Real estate (including infrastructure and timber)[a] | - | - | - | 22,865 | - | - | - | 2,689 |
| Hedge funds | - | - | - | 22,711 | - | - | - | 2,708 |
| Derivative assets/liabilities | 14 | (78) | - | (64) | 2 | (12) | - | (10) |
| Other assets/liabilities, net[b] | - | - | - | 186 | - | - | - | (191) |
| **Total Assets** | $ 74,492 | $ 14,432 | $ - | $ 201,194 | $ 9,758 | $ 2,199 | $ - | $ 26,490 |

*a. Investments measured at fair value using NAV have not been included under the fair value hierarchy.*

*b. Includes receivables and payables carried at amounts that approximate fair value.*

# Notes to Financial Statements

| *In thousands of US dollars* | Fair Value Measurements on a Recurring Basis as of June 30, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | SRP | | | | RSBP | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Debt Securities** | | | | | | | | |
| Time deposits | $ 94 | $ - | $ - | $ 94 | $ 12 | $ - | $ - | $ 12 |
| Securities purchased under resale agreements | 2,572 | - | - | 2,572 | 343 | - | - | 343 |
| Government and agency securities | 20,971 | 5,538 | - | 26,509 | 3,199 | 809 | - | 4,008 |
| Corporate and convertible bonds | - | 3,088 | - | 3,088 | - | 413 | - | 413 |
| Asset backed securities | - | 1,383 | - | 1,383 | - | 167 | - | 167 |
| Mortgage backed securities | - | 2,683 | - | 2,683 | - | 322 | - | 322 |
| **Total Debt Securities** | 23,637 | 12,692 | - | 36,329 | 3,554 | 1,711 | - | 5,265 |
| **Equities** | | | | | | | | |
| US common stocks | 8,322 | - | - | 8,322 | 850 | - | - | 850 |
| Non-US common stocks | 29,091 | - | - | 29,091 | 3,382 | - | - | 3,382 |
| Mutual Funds | 2,809 | - | - | 2,809 | 346 | - | - | 346 |
| Real estate investments trusts (REITs) | 4,958 | - | - | 4,958 | 514 | - | - | 514 |
| **Total Equity Securities** | 45,180 | - | - | 45,180 | 5,092 | - | - | 5,092 |
| Other funds at NAV[a] | | | | | | | | |
| Commingled funds | - | - | - | 19,627 | - | - | - | 2,587 |
| Private equity | - | - | - | 34,801 | - | - | - | 4,752 |
| Real estate (including infrastructure and timber)[a] | - | - | - | 20,965 | - | - | - | 2,281 |
| Hedge funds | - | - | - | 21,231 | - | - | - | 2,459 |
| Derivative assets/liabilities | 12 | 45 | - | 57 | - | 7 | - | 7 |
| Other assets/liabilities, net[b] | - | - | - | (114) | - | - | - | (7) |
| **Total Assets** | $ 68,829 | $ 12,737 | $ - | $ 178,076 | $ 8,646 | $ 1,718 | $ - | $ 22,436 |

*a. Investments measured at fair value using NAV have not been included under the fair value hierarchy.*
*b. Includes receivables and payables carried at amounts that approximate fair value.*

**Valuation methods and assumptions**

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

**Debt securities**

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 ABS such as collateralized mortgage obligations and mortgage backed securities. These securities are valued by independent pricing vendors at quoted market prices for the same or similar securities, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Some debt securities are valued using techniques which require significant unobservable inputs. The selection of these inputs may involve some judgment. Management believes its estimates of fair value are reasonable given its processes for obtaining securities prices from multiple independent third-party vendors, ensuring that valuation models are reviewed and validated, and applying its approach consistently from period to period. Unless quoted prices are available, securities purchased under resale agreements are reported at face value which approximates fair value.

**Equity securities**

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**

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

**Private equity**

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 "as a practical expedient to Fair Value" 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**

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 "as a practical expedient to Fair Value" 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**

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 "as a practical expedient to Fair Value" 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 "as a practical expedent to Fair Value" 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**

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.

***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, 2017:

*In thousands of US dollars*

| | SRP | RSBP | | PEBP |
|---|---|---|---|---|
| | | Before Federal Subsidy | Federal Subsidy | |
| July 1, 2017 - June 30, 2018 | $ 6,983 | $ 442 | $ - | $ 729 |
| July 1, 2018 - June 30, 2019 | 7,360 | 489 | - | 772 |
| July 1, 2019 - June 30, 2020 | 7,889 | 549 | - | 839 |
| July 1, 2020 - June 30, 2021 | 8,710 | 624 | - | 903 |
| July 1, 2021 - June 30, 2022 | 9,108 | 705 | - | 959 |
| July 1, 2022 - June 30, 2027 | 53,678 | 4,754 | - | 6,279 |

***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, 2017 is $2,897,000 and $871,000, respectively.

**Note G: Transactions with Affiliated Organizations**

MIGA contributes its share of the World Bank Group's corporate costs. Payments for these services are made by MIGA to IBRD, International Development Association (IDA) and IFC based on negotiated fees, charge backs and allocated charges where charge back is not feasible. Transaction with IBRD and IFC also include brokerage fees paid for referral and due diligence services on guarantee projects.

Total fees paid by MIGA reflected in the Statements of Income for the fiscal year ended June 30, 2017 and June 30, 2016 are as follows:

*In thousands of US dollars*

| | Fiscal Year Ended | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| Fees charged by IBRD/IDA | $ 9,882 | $ 10,147 |
| Fees charged by IFC | 3,321 | 2,974 |

# Notes to Financial Statements

At June 30, 2017 and June 30, 2016, MIGA had the following (payables to) receivables from its affiliated organizations with regard to administrative and other services and pension and other postretirement benefits:

*In thousands of US dollars*

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Administrative & Other Services[a] | Pension and Other Postretirement Benefits[b] | Total | Administrative & Other Services[a] | Pension and Other Postretirement Benefits[b] | Total |
| IBRD | $ (11,891) | $ 10,760 | $ (1,131) | $ (5,367) | $ 8,594 | $ 3,227 |
| IFC | (6,363) | - | (6,363) | (4,793) | - | (4,793) |
| | $ (18,254) | $ 10,760 | $ (7,494) | $ (10,160) | $ 8,594 | $ (1,566) |

*a. This amount is included in Other liabilities on the Balance Sheet.*
*b. This amount is included under Other assets on the Balance Sheet.*

*Exposure Exchange with IBRD*

During FY14, MIGA entered into an exposure exchange agreement with IBRD under which MIGA and IBRD agreed to exchange $120 million each of notional amount of exposures on their respective balance sheets with one another. Under the agreement, IBRD provided a guarantee on principal and interest pertaining to MIGA's guarantee exposure under its Non-Honoring of Sovereign's Financial Obligation in exchange for MIGA's guarantee on IBRD's loan principal and interest exposure. As of June 30, 2017 and June 30, 2016, the outstanding off-balance sheet amounts relating to this exposure exchange agreement were as follows:

*In thousands of US dollars*

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| IBRD's exposure assumed by MIGA | $ 84,625 | $ 97,072 |
| MIGA's exposure assumed by IBRD | 85,815 | 99,572 |
| Net amount | $ (1,190) | $ (2,500) |

As of June 30, 2017, the recorded liabilities related to MIGA's obligation under the existing exposure exchange agreement with IBRD amounted to $0.6 million ($4.0 million – June 30, 2016) and is included in Insurance portfolio reserve on the Balance Sheet.

# Notes to Financial Statements

### Note H: Accumulated Other Comprehensive Loss

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) for the fiscal years ended June 30, 2017 and June 30, 2016:

*In thousands of US dollars*

| | Fiscal Year Ended June 30, 2017 | | | |
|---|---|---|---|---|
| | Cumulative Translation Adjustment[a] | Unrecognized Net Actuarial Losses on Benefit Plans | Unrecognized Prior Service Costs on Benefit Plans | Total Accumulated Other Comprehensive Loss |
| Balance, beginning of fiscal year | $ 3,435 | $ (63,071) | $ (2,003) | $ (61,639) |
| Changes during the year: | | | | |
| Changes in fair value AOCL | - | 20,255 | - | 20,255 |
| Amounts reclassified into net income[b] | - | 3,965 | 258 | 4,223 |
| Net change during the year | - | 24,220 | 258 | 24,478 |
| Balance, end of year | $ 3,435 | $ (38,851) | $ (1,745) | $ (37,161) |

*a. Until June 30, 2006, all the currencies of transactions were deemed functional and the related currency transaction adjustments were reflected in Equity through Other Comprehensive Income.*

*b. See Note F, Pension and Other Post Retirement Benefits.*

*In thousands of US dollars*

| | Fiscal Year Ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Cumulative Translation Adjustment[a] | Unrecognized Net Actuarial Losses on Benefit Plans | Unrecognized Prior Service Costs on Benefit Plans | Total Accumulated Other Comprehensive Loss |
| Balance, beginning of fiscal year | $ 3,435 | $ (23,649) | $ (1,945) | $ (22,159) |
| Changes during the year: | | | | |
| Changes in fair value AOCL | - | (40,805) | (293) | (41,098) |
| Amounts reclassified into net income[b] | - | 1,383 | 235 | 1,618 |
| Net change during the year | - | (39,422) | (58) | (39,480) |
| Balance, end of year | $ 3,435 | $ (63,071) | $ (2,003) | $ (61,639) |

*a. Until June 30, 2006, all the currencies of transactions were deemed functional and the related currency transaction adjustments were reflected in Equity through Other Comprehensive Income.*

*b. See Note F, Pension and Other Post Retirement Benefits.*