

# Management's Discussion & Analysis and Financial Statements

---

June 30, 2015

# TABLE OF CONTENTS

---

1. EXECUTIVE SUMMARY .....	2
2. DEVELOPMENT ACTIVITIES .....	4
3. FUNDING SOURCES .....	8
4. CAPITAL MANAGEMENT .....	9
5. INVESTMENT MANAGEMENT .....	11
6. RISK MANAGEMENT .....	12
7. CRITICAL ACCOUNTING POLICIES .....	14
8. RESULTS OF OPERATIONS .....	15
9. CORPORATE GOVERNANCE AND CONTROL.....	18

## BOXES

---

Box 1. Key Financial Indicators, Fiscal Years 2011 - 2015.....	1
Box 2. MIGA's Product Line Up .....	5

## FIGURES

---

Figure 1. MIGA Financial Model.....	3
Figure 2. Guarantee Portfolio Exposure (\$M).....	6
Figure 3. Portfolio Composition of MIGA's Investment Portfolio (as of June 30, 2015).....	11
Figure 4. Operating Capital and Operating Income Growth (FY11-FY15, \$M) .....	15
Figure 5. Effective Premium Rate (FY12 – FY15) .....	17

## TABLES

---

Table 1. Cumulative Guarantees Issued in Member Countries .....	5
Table 2. New Guarantees Issued by Priority Area by Fiscal Year (Project Count) .....	6
Table 3. Regional Distribution of Gross and Net Exposure (\$M).....	7
Table 4. Sector Distribution of Gross and Net Exposure (\$M).....	7
Table 5. Capital Stock (\$M) – June 30, 2015.....	8
Table 6. Current Underwriting Capacity (\$M) – June 30, 2015 .....	9
Table 7. Capital Adequacy Summary (FY13-15, \$M) .....	10
Table 8. Investment Income by Asset Class (\$M) .....	12
Table 9. Top Ten Countries by Net Exposure (\$M).....	13
Table 10. Analysis of Operating Income and Net Income (Loss) (\$M).....	16

**Box 1. Key Financial Indicators, Fiscal Years 2011 - 2015**

As of and for the fiscal years ended June 30

*US\$ millions, unless otherwise stated*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Guarantee Activities (See Section 2. Development Activities)</b>					
New business	2,828	3,155	2,781	2,657	2,099
Portfolio Run-off	2,699	1,505	2,368	1,432	700
Gross guarantee exposure	12,538	12,409	10,758	10,346	9,122
Net guarantee exposure	7,708	7,113	6,410	6,262	5,239
<b>Results of Operations (See Section 8. Results of Operations)</b>					
Operating income <sup>1</sup>	34.1	26.9	19.2	17.8	9.7
Net (loss) income	(10.8)	70.0	(4.3)	5.9	43.1
<b>Investing Activities (See Section 5. Investment Management)</b>					
Net investment portfolio	1,323	1,282	1,157	1,090	1,036
Investment income	24.1	53.4	33.6	36.9	13.9
Return on investments (%)	2.0%	4.4%	3.1%	3.6%	1.4%
<b>Capital Measures (See Section 4. Capital Management)</b>					
Total shareholders' equity	971	974	911	905	924
Operating capital <sup>2</sup>	1,312	1,262	1,178	1,125	1,099
Total economic capital <sup>3</sup>	705	620	572	508	414
Total economic capital/operating capital (%)	54%	49%	49%	45%	38%
<p><i>1. Net premium income less Administrative and Pension and Other Post Retirement Benefit Plan expenses.</i></p> <p><i>2. Operating capital is comprised of Paid-in capital, Retained earnings/Accumulated Other Comprehensive Income and Insurance Portfolio Reserve, net.</i></p> <p><i>3. Amount of capital utilized in support of the guarantee portfolio as well as investment and operational risks.</i></p>					

# 1. EXECUTIVE SUMMARY

## *Overview*

Established in 1988, the Multilateral Investment Guarantee Agency (MIGA or “the Agency”) is a member of the World Bank Group (WBG)<sup>1</sup> 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 IBRD.

MIGA contributes to the WBG’s two goals of ending extreme poverty and promoting shared prosperity by facilitating foreign direct investments (FDI) into developing countries to support economic growth, reduce poverty, and improve people’s lives. To this end, the Agency acts as a risk mitigator, 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. In addition, as part of its mandate, the Agency may carry out complementary activities such as dispute resolution in support of FDI, as well as research and knowledge services.

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 \$36 billion of guarantees, in support of 791 projects in 109 of its member countries. The Agency has also supported multiple programs at regional and global levels in member countries.

MIGA’s business revenue base is represented by net premium income from its guarantee portfolio which is comprised of gross premium income less, premiums ceded to its reinsurers net of ceding commission, and less brokerage costs. Operating income, which is one of the Agency’s measures of financial sustainability, represents the coverage of operating expenses by the net premium income. Operating income combined with earnings from its investment portfolio, and after providing for expected losses and a prudential level of unexpected losses on its guarantee portfolio, enables MIGA to retain capital resources in the form of retained earnings and insurance portfolio reserves to strengthen its ability to support existing guarantee exposures and new business (See Figure 1).

The inherent volatility in the Agency’s net income is driven primarily by the provision for guarantee claims (of which the increase in the insurance portfolio reserve is a key component), and the performance of its investment portfolio. Being a component of MIGA’s operating capital, any increase in the insurance portfolio reserve by way of a charge through the Statement of Operations, and consequently retained earnings, has no effect on the overall operating capital. MIGA manages its investment portfolio with the objective of providing liquidity to pay for claims and to contribute to the long term capital growth.

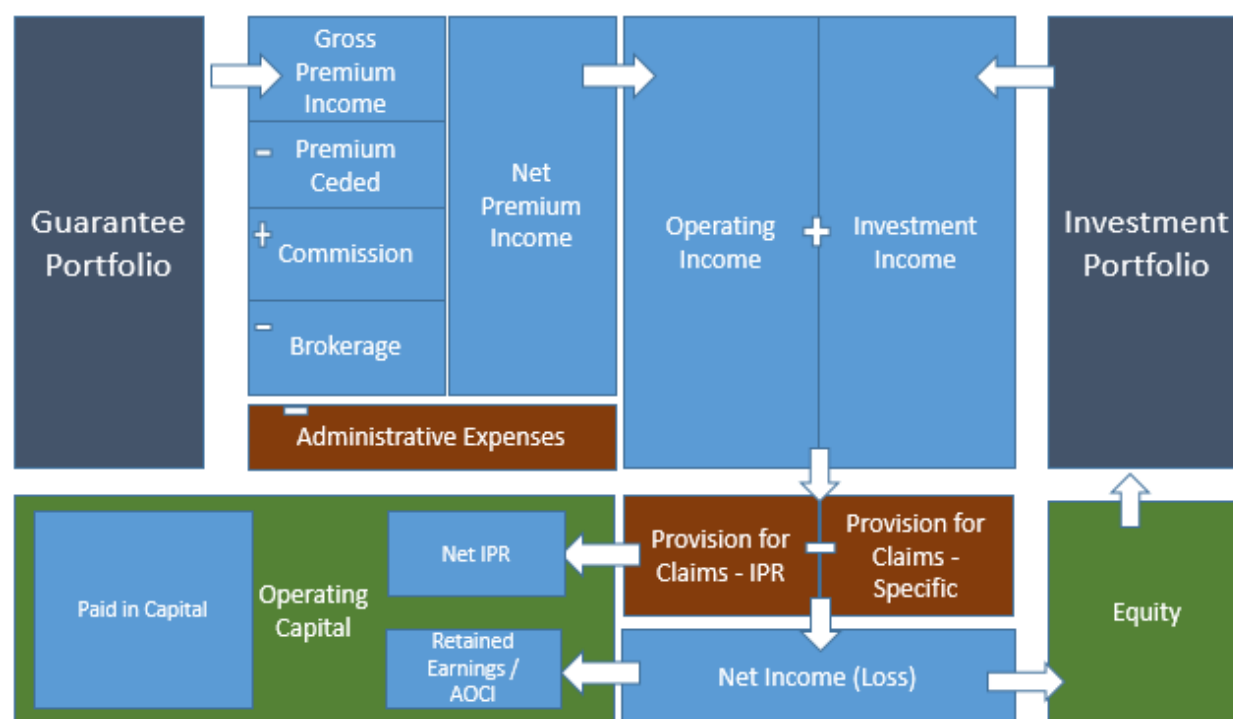
In addition to operating income, Management believes that operating capital and capital adequacy position, represented by the operating capital utilization, are the Agency’s key measures of financial sustainability.

---

<sup>1</sup> 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).

The following is a graphical illustration of MIGA's financial model.

**Figure 1. MIGA Financial Model**



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

During the FY15-17 period, working in collaboration with the other WBG entities and optimizing the opportunities presented by its expanded product line (PRI and credit enhancing products) and broader client base, MIGA plans to focus primarily on high risk countries (IDA and fragile and conflict-affected states), and supporting innovative projects. While demand for PRI and credit enhancing products can fluctuate from year to year, MIGA's strategy focuses on growth with the goal of achieving 50% increase in annual volume by FY17 compared to the new business issued in FY13.

### ***Basis of Reporting***

MIGA prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as well as International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## ***Financial Results***

### ***New Business***

During FY15, new guarantee commitments totaled \$2.8 billion, compared to \$3.2 billion in FY14. Of the total new issuance in FY15, \$0.8 billion (27% of total) was ceded to reinsurers compared to \$1.5 billion (46%) in FY14, with the decline in ceded exposure primarily due to 64% of the FY15 new business written as smaller sized traditional PRI guarantees requiring less or no reinsurance in some cases. Coupled with an overall portfolio run-off of \$2.7 billion, as of June 30, 2015, MIGA's gross and net guarantee exposures stood at \$12.5 billion and \$7.7 billion, respectively, and reflected a continued upward trend in these measures.

### ***Operating Income***

The Agency's operating income was \$34.1 million during FY15 compared to \$26.9 million in the prior fiscal year, an increase of \$7.2 million or 27%. The increase was primarily due to the higher net premium income resulting from a higher average gross exposure and a higher effective portfolio premium rate.

### ***Net Loss***

MIGA recorded a net loss of \$10.8 million during FY15 compared to a net income \$70.0 million in the prior year, mainly due to the significantly higher provision for claims and lower investment income.

### ***Operating Capital***

Operating capital increased by \$50 million to \$1,312 million as of June 30, 2015. This primarily reflects the impact of the operating income (\$34.1 million) and investment income (\$24.1 million).

## ***Capital and Financial Risk Management***

MIGA is financially self-sustaining, and its activities are supported by a strong capital base and a comprehensive risk management framework. To this end, MIGA uses an Economic Capital-based framework to assess its capital adequacy and risk-bearing capacity on an ongoing basis. A key component of this is the capital utilization ratio, defined as Total Economic Capital/Operating Capital which stood at 54% as of June 30, 2015, well below the 70%-80% target range viewed by management as acceptable.

## **2. DEVELOPMENT ACTIVITIES**

### **Business Segments**

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

### ***Non-Commercial Risk Insurance***

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 financial obligation by a state-owned enterprise. Investors may choose any combination of these covers<sup>2</sup> (see **Box 2**). MIGA

---

<sup>2</sup> 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.

insures new and existing cross-border investments originating in any MIGA member country, destined for any developing member country. Types of investments that can be covered include equity, shareholder and non-shareholder loans, and loan guarantees (provided the loans have a minimum maturity of more than one year). Other forms of investments—such as technical assistance and management contracts, or franchising and licensing agreements—may also be eligible.

## 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** – covers the risk of partial or total loss of the insured investment as a result of acts by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment.
- **War and civil disturbance** – 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 fails to honor an unconditional financial payment obligation or guarantee, where the underlying project meets all of MIGA's eligibility requirements. Unlike MIGA's breach of contract coverage, this credit enhancement coverage does not require a final arbitral award or court decision as a condition of payment of a claim. Sub-sovereign entities can also be covered.
- **Non-honoring of financial obligation by a state-owned enterprise (NHFO-SOE)** – covers the risk that a state-owned enterprise fails to honor an unconditional financial 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 of payment of a claim.

During FY15, MIGA issued guarantees for a total of \$2.8 billion in support of 40 projects, which resulted in cumulative guarantees issued of \$36 billion, from MIGA's inception in 1988, through June 30, 2015. Table 1 contains a summary of cumulative guarantees issued in member countries.

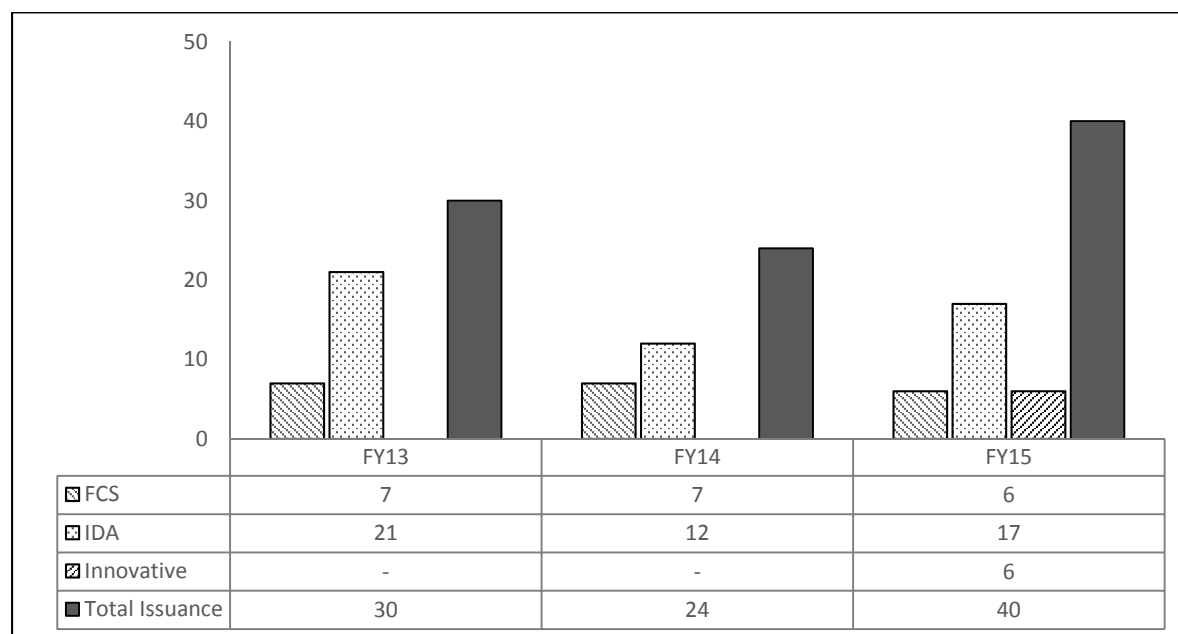
**Table 1. Cumulative Guarantees Issued in Member Countries**

	FY15	FY14	FY13	FY12	FY11
Cumulative Guarantees Issued (\$B)*	36.0	33.2	30.0	27.2	24.5
Host Countries	109	109	108	105	104

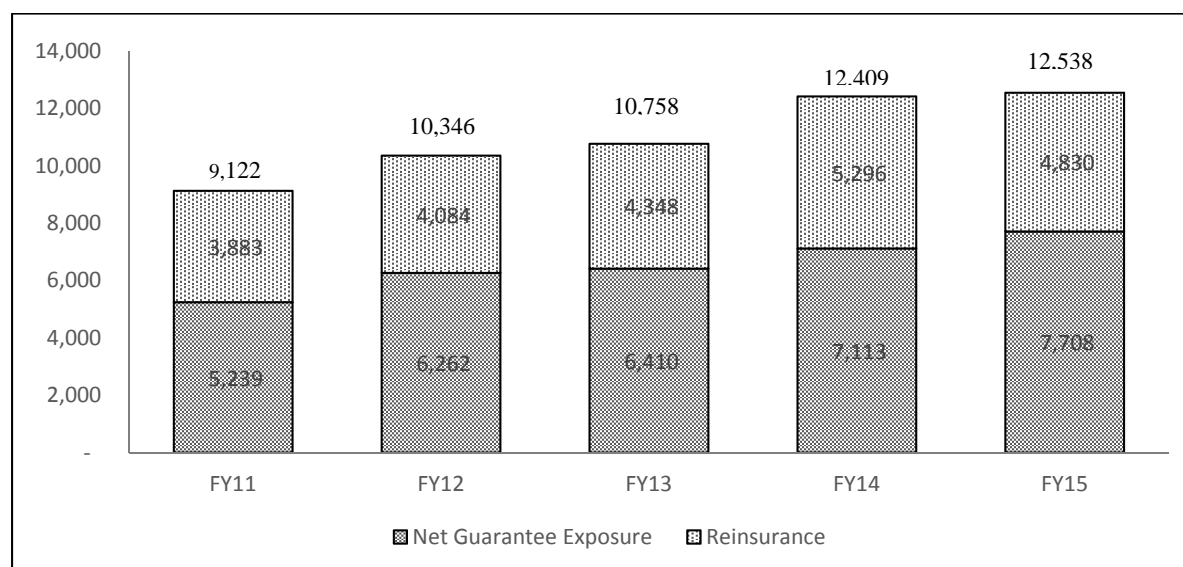
\* Includes amounts from Cooperative Underwriting Program issued prior to FY11.

Of the new guarantees issued, 24 projects were in one or more priority areas under the Agency's current three-year business strategy. This includes guarantees issued in support of 17 projects in IDA-eligible countries, six projects in fragile and conflict-affected countries, and six projects considered to be innovative<sup>3</sup>, collectively representing 60% of the 40 projects supported in FY15. **Table 2** details the issuance of guarantees in priority areas over each of the past three fiscal years.

<sup>3</sup> Innovative projects include public-private blend financing, state owned enterprises, sub-sovereign guarantees and new industries.

**Table 2. New Guarantees Issued by Priority Area by Fiscal Year (Project Count)**

As of June 30, 2015, the total gross and net exposures amounted to \$12.5 billion and \$7.7 billion compared to \$12.4 billion and \$7.1 billion, respectively, at June 30, 2014. **Figure 2** below indicates the growth in the guarantee portfolio over the last five fiscal years. Reinsurance on the overall portfolio declined to \$4.8 billion (38%) as of June 30, 2015, compared to \$5.3 billion (43%) as of June 30, 2014, and is primarily a result of the lower reinsurance on new business written in FY15 coupled with the FY15 runoff on guarantees carrying higher ceded percentages.

**Figure 2. Guarantee Portfolio Exposure (\$M)**



With Europe & Central Asia accounting for more than half of the FY15 new issuances, the region remains the highest concentration of MIGA's guarantee portfolio, and reflects the burgeoning demand for non-honoring products and other financial sector related guarantees. The recent surge in the Agency's exposure to Latin America and the Caribbean also reflects its increasing support to infrastructure projects in the region. **Table 3** details the regional distribution of MIGA's gross and net guarantee exposures at the end of each of the past three fiscal years.

**Table 3. Regional Distribution of Gross and Net Exposure (\$M)**

	Gross			Net			% of Total Net Exposure		
	FY15	FY14	FY13	FY15	FY14	FY13	FY15	FY14	FY13
Sub Saharan Africa	3,000	3,154	2,777	1,832	1,890	1,628	23.8	26.6	25.4
East Asia and Pacific	1,014	973	822	503	408	483	6.5	5.7	7.5
South Asia	795	795	799	484	474	471	6.3	6.7	7.3
Europe & Central Asia	5,086	5,252	4,408	2,947	2,875	2,583	38.2	40.4	40.3
Latin America & the Caribbean	1,869	1,413	1,069	1,422	930	673	18.4	13.1	10.5
Middle East & North Africa	774	822	883	520	536	572	6.8	7.5	8.9
<b>Total</b>	<b>12,538</b>	<b>12,409</b>	<b>10,758</b>	<b>7,708</b>	<b>7,113</b>	<b>6,410</b>	<b>100</b>	<b>100</b>	<b>100</b>

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

Infrastructure remains a key sector of focus with the highest portfolio concentration as of June 30, 2015, followed by the financial sector. **Table 4** shows the sector distribution of MIGA's gross and net guarantee exposures at the end of each of the past three fiscal years.

**Table 4. Sector Distribution of Gross and Net Exposure (\$M)**

	Gross			Net			% of Total Net Exposure		
	FY15	FY14	FY13	FY15	FY14	FY13	FY15	FY14	FY13
Agribusiness	194	138	212	194	137	208	2.5	1.9	3.2
Financial	4,199	4,380	3,430	2,484	2,343	1,988	32.2	32.9	31.0
Infrastructure	6,031	5,500	4,719	3,657	3,204	2,757	47.5	45.0	43.0
Manufacturing	737	973	999	595	623	641	7.7	8.8	10.0
Mining	90	218	239	63	153	170	0.8	2.2	2.7
Oil & Gas	915	927	931	378	381	420	4.9	5.4	6.6
Tourism, Retail & Services	372	273	228	338	272	226	4.4	3.8	3.5
<b>Total</b>	<b>12,538</b>	<b>12,409</b>	<b>10,758</b>	<b>7,708</b>	<b>7,113</b>	<b>6,410</b>	<b>100</b>	<b>100</b>	<b>100</b>

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

### ***Investment Dispute Resolution***

Consistent with Article 23 of the MIGA Convention, the Agency seeks both to remove impediments to the flow of investment to developing member countries and to encourage the settlement of disputes between investors and host governments. MIGA actively pursues the resolution of disputes affecting MIGA-supported projects. In some cases, these efforts focus on situations in which either a claim has been or may be filed. During FY15, MIGA engaged with investors or governments in relation to projects located in Albania, Argentina, Bulgaria, Burkina Faso, Central African Republic, Cote d'Ivoire, Djibouti, Lebanon, Libya, Mali, Niger, Russian Federation, Rwanda, and Uganda. These discussions do not necessarily imply that a claim was imminent.

### 3. FUNDING SOURCES

#### *Capital Stock*

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

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. During FY15, the total authorized shares increased to 186,587 as of June 30, 2015, equivalent to \$2,018.9 million. Bhutan completed its membership requirements during FY15, bringing the total number of member countries to 181 as of June 30, 2015. **Table 5** provides a summary of the capital stock as of June 30, 2015.

**Table 5. Capital Stock (\$M) – June 30, 2015**

	<b>Initial Capital</b>	<b>Capital Increase</b>	<b>Total</b>
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, 2015, \$109.9 million of paid-in capital is in the form of nonnegotiable, non-interest bearing demand obligations (promissory notes). The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. Since inception, MIGA has not encashed any of the promissory notes.

Any calls on unpaid subscriptions are uniform on all shares. If the amount received by MIGA on a call is insufficient to meet the obligations which necessitated the call, MIGA may make further calls until the amounts received are sufficient to meet such obligations. The liability of a member on a call or calls is limited to the unpaid balance of its capital subscription. Since its inception, no call has been made on MIGA's callable capital.

#### *Equity*

Total shareholders' equity as of June 30, 2015 was \$971.2 million compared with \$974.2 million as of June 30, 2014. The decrease of \$3.2 million primarily reflects the \$10.8 million FY15 net loss, partially offset by the \$7.6 million decrease in accumulated other comprehensive loss on account of reduction in actuarial losses on the pension and post-retirement benefit plans.

## 4. CAPITAL MANAGEMENT

### *Underwriting Capacity*

MIGA's equity base ensures the financial sustainability of the Agency over both the short-term and long-term. The subscribed capital and retained earnings determine the Agency's statutory underwriting capacity. The Council of Governors and the Board of Directors have set the maximum amount of contingent liability that may be assumed by MIGA as 350 percent of the sum of its unimpaired subscribed capital and reserves and retained earnings, and 100 percent of the ceded exposure. In other words, the maximum amount of net guarantee exposure is determined by the amount of available capital, and the statutory underwriting capacity is expressed on a gross exposure basis by adding the current amount of portfolio reinsurance. As of June 30, 2015, MIGA's underwriting capacity was \$14,853 million, as detailed in **Table 6** below.

**Table 6. Current Underwriting Capacity (\$M) – June 30, 2015**

Subscribed Capital	1,919
Retained Earnings	627
Accumulated Other Comprehensive Loss	(22)
Insurance Portfolio Reserve (net)	341
Total	<u>2,865</u>
350% of Subscribed Capital, Retained Earnings, Accumulated Other Comprehensive Loss and Insurance Portfolio Reserve, net	10,027
100% of Exposure Ceded <sup>4</sup>	<u>4,826</u>
Statutory Underwriting Capacity - June 30, 2015	<u><b>14,853</b></u>

As of June 30, 2015, MIGA's gross exposure was \$12,538 million, representing 84 percent of MIGA's statutory underwriting capacity.

### *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 in the Agency and the risk of loss in the investment portfolio.

Total economic capital, defined as capital consumption from the guarantee portfolio and estimated capital required for operational risk<sup>5</sup> and investment risk, represents a broader measure of MIGA's capital adequacy. As of June 30, 2015, the economic capital consumed by the guarantee portfolio amounted to \$644 million and the total economic capital for the Agency amounted to \$705 million, compared to \$561 million and \$620 million, respectively, as of June 30, 2014. The \$83 million increase in guarantee economic capital primarily reflects (i) the volume growth and changes in the composition of MIGA's guarantee portfolio with increasing focus on complex transactions in strategic priority areas and non-honoring business, and (ii) host country rating downgrades recognized during the year.

<sup>4</sup> For the purposes of calculation of the underwriting capacity, exposure ceded excludes adjustments relating to the exposure exchange agreement with IBRD, which as of June 30, 2015 stood at \$4.6 million.

<sup>5</sup> Operational risk capital is based on the Basel II methodology for calculating operational risk capital as a percentage of gross revenues and amounted to \$41 million as of June 30, 2015.

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 through an annual exercise, 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 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, and changes to the product mix.

MIGA's management monitors the level and utilization of available operating capital, which is comprised of paid-in-capital, retained earnings, and the insurance portfolio reserve, net of the corresponding reinsurance recoverable. MIGA management's objective is to have sufficient operating capital to sustain losses associated with claims and to support the ongoing business without facing a significant risk of having to avail itself of the callable capital. As measures of the current utilization of this capital, by the guarantee portfolio and by the Agency as a whole, **Table 7** shows the ratios of guarantee portfolio and total economic capital to operating capital over the past three years. These ratios stood at 49.1 percent and 53.7 percent, respectively, as of June 30, 2015 compared with 44.5 percent and 49.1 percent as of June 30, 2014. The June 30, 2015 ratios are well below the 70-80 percent range which management considers acceptable.

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, 2015, this ratio stood at 8.4 percent compared to 7.9 percent at end-FY14. The above ratios indicate a strong and stable capital position for the Agency at the end of FY15.

**Table 7. Capital Adequacy Summary (FY13-15, \$M)**

	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
Guarantee Portfolio Economic Capital	<b>644</b>	<b>561</b>	<b>519</b>
Total Economic Capital	<b>705</b>	<b>620</b>	<b>572</b>
Insurance Portfolio Reserve (net)	341	288	267
Retained Earnings and Accumulated Other Comprehensive Loss	605	608	545
Paid-in Capital	366	366	366
Operating Capital	<b>1,312</b>	<b>1,262</b>	<b>1,178</b>
Net Exposure	<b>7,708</b>	<b>7,113</b>	<b>6,410</b>
Guarantee Portfolio Economic Capital / Operating Capital	<b>49.1%</b>	<b>44.5%</b>	<b>44.0%</b>
Total Economic Capital / Operating Capital	<b>53.7%</b>	<b>49.1%</b>	<b>48.5%</b>
Guarantee Portfolio Economic Capital / Net Exposure	<b>8.4%</b>	<b>7.9%</b>	<b>8.1%</b>

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

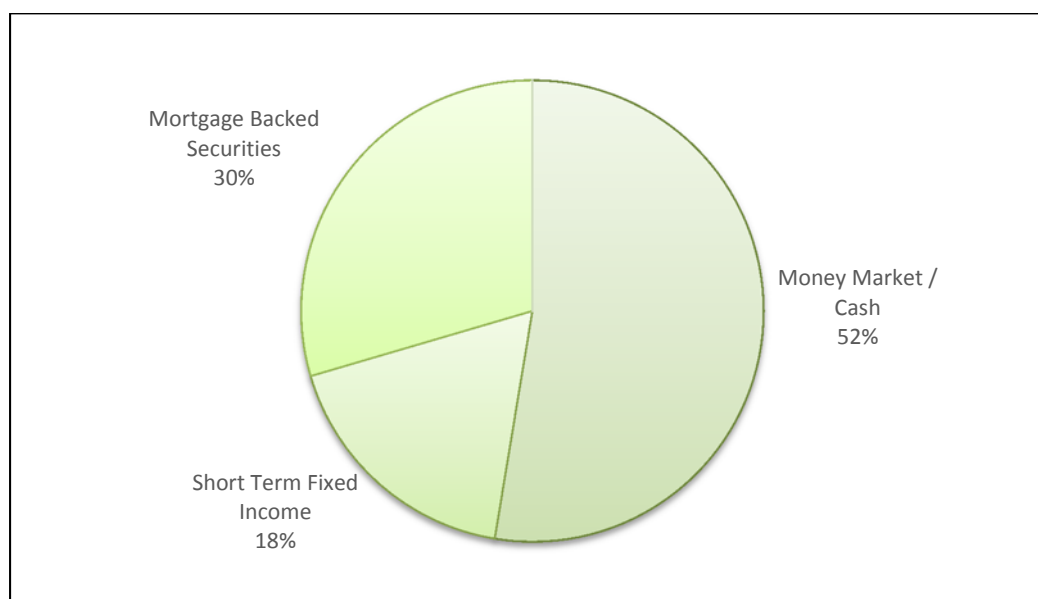
## 5. INVESTMENT MANAGEMENT

MIGA's investment policy sets the objectives and constraints for managing MIGA's investment assets. As claims arise, MIGA's invested assets will be liquidated to pay claims on a pre-recovery basis. The portfolio consists of two tranches. Tranche 1 is managed with target duration between 1 to 2 years to support potential claims, and consists of investments in cash, treasury securities, agency securities, mortgage-backed securities (MBS), asset-backed securities (ABS) and sovereign securities. Tranche 2 (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.

In response to the sustained volatility in global equity markets, in March 2015, MIGA de-risked the remaining global equity portfolio holdings, thereby locking in the related mark-to-market gains. Consequently, as of June 30, 2015, MIGA had no Tranche 2 investment holdings. MIGA is considering various alternatives to reinstate the Tranche 2 investment holdings.

As of June 30, 2015, the net investment portfolio totaled \$1,323 million comprised of cash, treasury securities, agency securities, MBS, ABS, sovereign and government guaranteed securities, and derivatives (see **Figure 3**). Although primarily USD-denominated, the portfolio also held cash and government securities denominated in currencies other than USD totaling \$133 million or 10.1%.

**Figure 3. Portfolio Composition of MIGA's Investment Portfolio (as of June 30, 2015)**



MIGA's investment portfolio had an annual portfolio yield of 2.0 percent in FY15 versus 4.4 percent in FY14. **Table 8** provides details on the investment income by asset class over the past three fiscal years.

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

Asset Class	FY15	FY14	FY13
Money Market / Cash	1.2	1.0	0.8
US Short Term (0-3 Year)	1.8	2.8	2.0
Mortgage Backed Securities	10.1	11.4	(1.7)
US Long Term (5-10 Year)	-	-	(1.3)
LTIP - Global Equities	11.0	38.2	33.8
<b>Total Investment Income</b>	<b>24.1</b>	<b>53.4</b>	<b>33.6</b>
<b>Total Portfolio Return</b>	<b>2.0%</b>	<b>4.4%</b>	<b>3.1%</b>

## 6. 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 manage its risk. Below is a description of risk management systems of the important risks for MIGA.

#### *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 upon the extent to which claims experience is consistent with assumptions used in setting prices for products and establishing technical provisions and liabilities for claims. If actual claims experience of the Agency is less favorable than underlying assumptions, then income would be reduced. MIGA monitors claim activities and provisions for pending claims. In addition, claims reserves for the guarantee portfolio are calculated, using MIGA's Economic Capital Model.

#### *Portfolio Risk*

For portfolio risk management purposes, MIGA currently utilizes an Economic Capital (EC)<sup>6</sup> Model, based on best practices applied in risk modeling. Under the EC Model, MIGA defines its economic capital as the 99.99th percentile of the aggregate loss distribution over a one year horizon, minus the mean of the loss distribution, which is in line with industry practice. The model helps evaluate concentration risk in the

<sup>6</sup> 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.

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. Additionally, in order to prevent excessive risk concentration, MIGA uses the EC model to set maximum net guarantee exposure limits per country and per project, which as of June 30, 2015 stood at \$820 million and \$250 million, respectively.

As of June 30, 2015, the top ten largest exposure countries are shown below in **Table 9**, and accounted for 46% of the total net guarantee portfolio.

**Table 9. Top Ten Countries by Net Exposure (\$M)**

Host Country	Gross Exposure	Net Exposure	Share of Net Exposure (%)
Serbia	855	564	7.3%
Turkey	1,135	503	6.5%
Russian Federation	716	383	5.0%
Honduras	327	323	4.2%
Pakistan	389	298	3.9%
Brazil	355	296	3.8%
Cote d'Ivoire	831	295	3.8%
Panama	587	290	3.8%
Ghana	319	288	3.7%
Ukraine	440	283	3.7%
<b>Top Ten Host Countries</b>	<b>5,953</b>	<b>3,525</b>	<b>45.7%</b>

### *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. During the fiscal year ended June 30, 2015, the Agency paid three claims, bringing the cumulative number of claims paid since inception to eight, excluding trust fund related claim payments.

### *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, pertaining to the effectiveness of key controls over external financial reporting, 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.

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.

## **7. CRITICAL ACCOUNTING POLICIES**

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 both U.S. GAAP and IFRS. Accounting estimates generally involve the establishment of parameters by management based on judgments about the probable outcome of future conditions, transactions, or events. Because these are projections, actual results may differ from those estimates in a variety of areas. The area which management deems most critical with respect to the application of estimates and assumptions is the establishment of 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.<sup>7</sup>

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*.

---

<sup>7</sup> The Insurance Portfolio Reserve is calculated as the 95<sup>th</sup> percentile loss less the mean loss from the Economic Capital Model.



### ***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.

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.

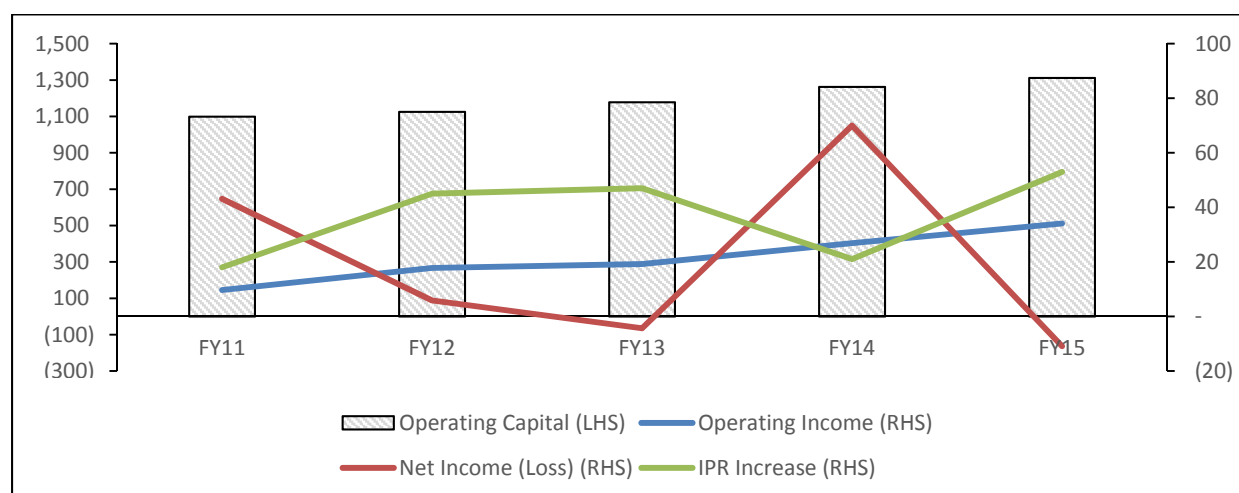
In cases where Management relies on instrument valuations supplied by external pricing vendors, procedures are in place to validate the appropriateness of the models used, as well as the inputs applied in determining those values.

## **8. RESULTS OF OPERATIONS**

MIGA's operating income is defined as the excess of net premium income over the administrative expenses and pension and post-retirement benefit plan expenses incurred over the fiscal year while the net income is arrived at after considering the investment earnings and the provisions of claims and any translation gains and losses.

While operating income is a more predictable measure of financial performance, the Agency's net income is inherently volatile, primarily due to the impact of claims loss provisioning, of which the changes in the estimate of the insurance portfolio reserve is a key component. An increase in the insurance portfolio reserve is a charge against income translating into a reduction in retained earnings. Since both the insurance portfolio reserve and the retained earnings are components of the operating capital, the latter remains unaffected by any changes in the estimate of the insurance portfolio reserve. As can be seen below in **Figure 4**, operating capital has continued to grow, unaffected by the volatility in the net income (loss) over the last five fiscal years. This is primarily due to the inverse relationship shared with the increase in the claims provisioning effect on the Statement of Operations.

**Figure 4. Operating Capital and Operating Income Growth (FY11-FY15, \$M)**



**Table 10** below shows the breakdown of MIGA's operating income and net (loss) income over the past five years.

**Table 10. Analysis of Operating Income and Net (Loss) Income (\$M)**

	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>	<b>FY12</b>	<b>FY11</b>
Total Guarantees Issued	2,828	3,155	2,781	2,657	2,099
Gross Exposure	12,538	12,409	10,758	10,346	9,122
Net Exposure	7,708	7,113	6,410	6,262	5,239
Premium Income	128.1	115.6	97.2	89.2	75.2
Premium Ceded	(56.6)	(50.1)	(37.7)	(33.7)	(30.6)
Ceding Commission	12.6	10.9	8.5	7.9	7.1
Brokerage and Other Charges	(5.1)	(4.0)	(1.7)	(1.7)	(0.8)
<b>Net Premium Income</b>	<b>79.0</b>	<b>72.5</b>	<b>66.3</b>	<b>61.7</b>	<b>50.8</b>
Administrative Expenses	(39.0)	(39.9)	(41.2)	(41.1)	(37.5)
Pension and Post Retirement Benefit Plan Expense	(5.9)	(5.6)	(5.9)	(2.8)	(3.6)
<b>Operating Income<sup>(1)</sup></b>	<b>34.1</b>	<b>26.9</b>	<b>19.2</b>	<b>17.8</b>	<b>9.7</b>
Income from Investments	24.1	53.4	33.6	36.9	13.9
Translation (Losses) Gains	(18.1)	2.8	(0.3)	(11.5)	17.8
(Provision for) Release of Claims and Other Exposures <sup>(2)</sup>	(50.9)	(13.1)	(56.7)	(37.3)	1.7
<b>Net (Loss) Income</b>	<b>(10.8)</b>	<b>70.0</b>	<b>(4.3)</b>	<b>5.9</b>	<b>43.1</b>
<b>Operating Capital</b>	<b>1,312</b>	<b>1,262</b>	<b>1,178</b>	<b>1,125</b>	<b>1,099</b>
Guarantee Portfolio Economic Capital (EC)	644	561	519	459	374
<b>ROOC<sup>(3)</sup> (before provisions)</b>	<b>3.0%</b>	<b>6.6%</b>	<b>4.5%</b>	<b>3.8%</b>	<b>3.8%</b>
<b>ROOC (after provisions)</b>	<b>-0.8%</b>	<b>5.5%</b>	<b>-0.4%</b>	<b>0.5%</b>	<b>3.9%</b>
<b>ROCU<sup>(4)</sup></b>	<b>5.3%</b>	<b>4.8%</b>	<b>3.7%</b>	<b>3.9%</b>	<b>2.6%</b>

Note: numbers may not add up due to rounding.

<sup>(1)</sup> Operating Income = Net Premium Income less Administrative and Pension and Post Retirement Benefit Plan Expenses

<sup>(2)</sup> Provisions are net of currency translation effect

<sup>(3)</sup> Return on Operating Capital = Net Income/Operating Capital

<sup>(4)</sup> Return on Capital Utilized = (Net Premium Income-Administrative and Other Expenses)/Economic Capital Utilized by the Guarantee Portfolio

### ***FY15 versus FY14***

The factors contributing to the higher operating income and net loss in FY15 are discussed further below.

### ***Operating Income***

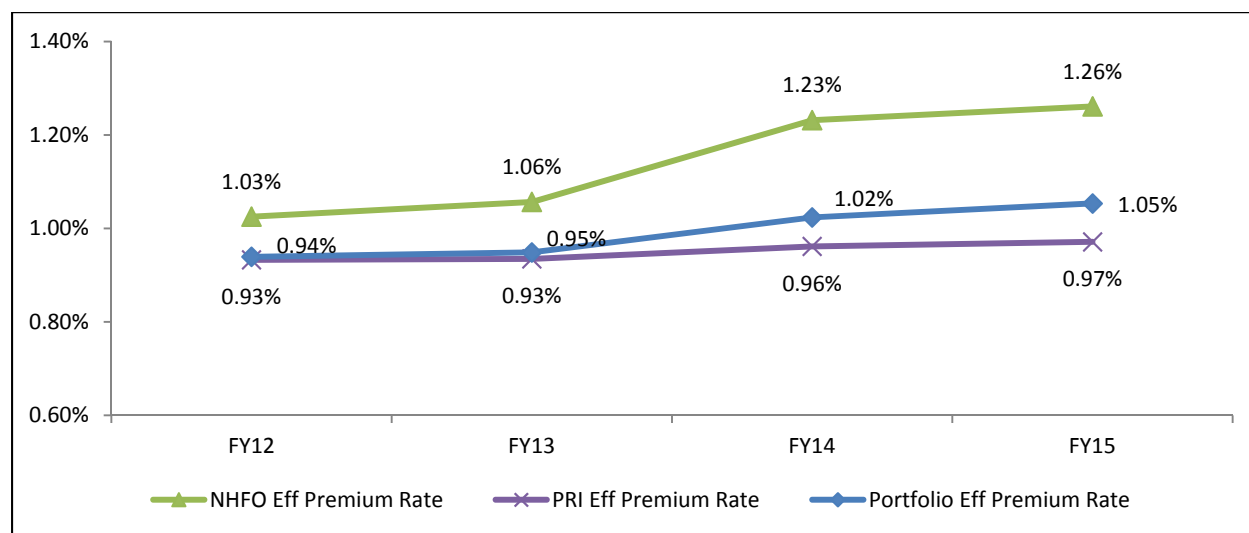
MIGA had an operating income of \$34.1 million in FY15 compared to \$26.9 million in FY14, an increase of \$7.2 million or 27%. The key drivers for the growth are the increase in net premium income and the lower administrative expenses.

### ***Net Premium Income***

The Agency's net premium income in FY15 was \$79.0 million compared to \$72.5 million in FY14, an increase of \$6.5 million or 9%, attributable to the following:

- *Average Gross Exposure:* The average gross exposure has increased to \$12.2 billion in FY15 compared to \$11.3 billion in FY14, an increase of \$0.9 billion or 8%.
- *Effective Premium Rate:* The effective premium rate on the overall portfolio increased to 1.05% as of June 30, 2015 from 1.02% as of June 30, 2014. This was largely driven by the increased proportion of the non-honoring product in the overall portfolio which earns on average a higher premium rate than traditional PRI products. The effective rate for the non-honoring product increased from 1.26% as of June 30, 2015 compared to 1.23% as of June 30, 2014 while the effective rate on traditional PRI increased marginally to 0.97% as of June 30, 2015 from 0.96% as of June 30, 2014.

**Figure 5. Effective Premium Rate (FY12 – FY15)**



*Administrative Expenses (including Pension and Post Retirement Benefit Plan Expenses)*

MIGA's administrative expenses, on a combined basis, decreased in FY15 to \$44.9 million compared to \$45.5 million in FY14. The decrease was primarily due to lower fixed costs associated with vacancies in senior staff positions and return of field based senior staff to headquarters. In addition, lower travel expenses and delays in contractual services contributed to the overall decrease in the FY15 administrative expenses.

*Net Loss / Income*

FY15 net loss of \$10.8 million represented a significant decrease of \$80.8 million compared to net income of \$70.0 million in FY14 and is primarily due to the following:

*Income from Investments*

MIGA's investment portfolio generated \$24.1 million of investment income in FY15, compared with \$53.4 million in FY14. The yield was 2.0 percent in FY15 compared with 4.4 percent in FY14, with the returns from global equities significantly contributing to the investment income in both years. As noted in Section 5, Investment Management, MIGA fully de-risked its Global Equity holdings in March 2015.

*Provision for Claims*

MIGA recorded an increase in net reserves for claims of \$50.9 million in FY15 compared to \$13.1 million in FY14. The higher charge in FY15 primarily reflects the effect of changes in the portfolio size and composition, and net country risk rating downgrades compared to net upgrades in the prior year.

## **9. CORPORATE 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*

Effective March 1, 2015, Mr. Santiago Assalini was appointed Director, Corporate Risk.

Subsequent to the reporting date, effective July 1, 2015, Ms. Karin Finkelston was appointed as Vice President and Chief Operating Officer.

## ***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.

*Access to Resources and to Management*

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](http://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 managers are required to complete an annual financial disclosure statement with the Office of Ethics and Business Conduct.

Guidance for staff is also provided through programs, training materials, and other resources. Managers are responsible for ensuring that internal systems, policies, and procedures are consistently aligned with MIGA's business conduct framework. The following World Bank Group units assist in communicating business conduct expectations to staff:

- The Office of Ethics and Business Conduct (EBC) provides leadership, management and oversight for MIGA's ethics infrastructure including the Ethics HelpLine, a consolidated conflicts of interest disclosure/resolution system, financial disclosure, ongoing training to both internal and external audiences, and communication resources. This office has the mandate to review and assist in the resolution of allegations of staff misconduct.
- The Integrity Vice Presidency (INT) is charged with investigating allegations of fraud and corruption in projects benefiting from World Bank Group funding or guarantees. It also trains and educates staff and clients in detecting and reporting fraud and corruption.

Both EBC and INT report directly to the President and 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 and International Standards on Auditing. In keeping with these standards, significant formal communications include:

- Quarterly and annual financial statement reporting
- Annual appointment of the external auditors
- Presentation of the external audit plan
- Presentation of control recommendations and discussion of the Internal Control over Financial Reporting (ICFR) attestation and report
- Presentation of a statement regarding independence

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

### ***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* recently issued by The Committee of the Sponsoring Organizations of the Treadway Commission (COSO)<sup>8</sup> on May 14, 2013. The 2013 Framework supersedes the 1992 Framework and clarifies internal control concepts simplifying their use and application.

Concurrently, MIGA's external auditor provides an attestation report on whether Management's assertion regarding the effectiveness of internal control over external financial reporting is fairly stated in all material respects.

---

<sup>8</sup> 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. Revisions to the original framework were subsequently effected in May 2013 and will be effective for MIGA from FY15.

---

## Table of Contents

June 30, 2015

---

Management's Report Regarding Effectiveness of Internal Control over External Financial Reporting.....	22-23
Independent Auditor's Report on Management's Assertion Regarding Effectiveness of Internal Control over External Financial Reporting.....	24-25
Independent Auditor's Report.....	26-27
Balance Sheet .....	28
Statement of Operations.....	29
Statement of Comprehensive Income.....	30
Statement of Changes in Shareholders' Equity.....	30
Statement of Cash Flows.....	31
Statement of Subscription to Capital Stock and Voting Power.....	32-35
Statement of Guarantees Outstanding.....	36-37
Notes to Financial Statements.....	38-76



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

August 6, 2015

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

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

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

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

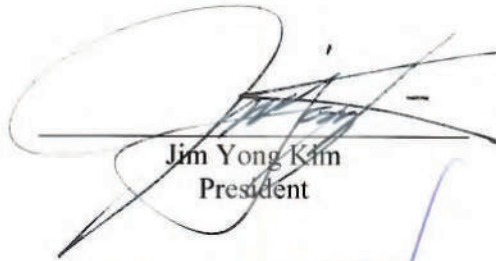
MIGA assessed its internal control over external financial reporting for financial statement presentation in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards as of June 30, 2015. This assessment was based on 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



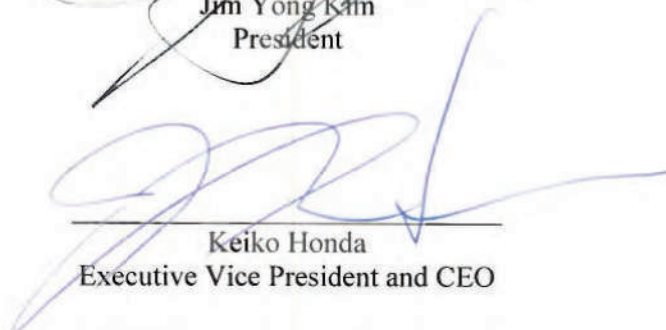
August 6, 2015

financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards as issued by the International Accounting Standards Board as of June 30, 2015. The independent audit firm that audited the financial statements has issued an attestation report on management's assertion on MIGA's internal control over external financial reporting.

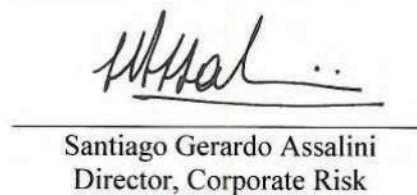
The Board of Directors of MIGA has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of MIGA. The Audit Committee is comprised entirely of Directors who are independent of MIGA's management. The Audit Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of MIGA in addition to reviewing MIGA's financial reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over external financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.



Jim Yong Kim  
President



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 examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the Multilateral Investment Guarantee Agency (MIGA) maintained effective internal control over financial reporting as of June 30, 2015, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). MIGA's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

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

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

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



In our opinion, management's assertion that MIGA maintained effective internal control over financial reporting as of June 30, 2015 is fairly stated, in all material respects, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the financial statements of MIGA, which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and our report dated August 6, 2015 expressed an unqualified opinion on those financial statements.

KPMG LLP

Washington, D.C.  
August 6, 2015



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

## **Independent Auditors' Report**

President and Board of Directors  
 Multilateral Investment Guarantee Agency:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Multilateral Investment Guarantee Agency (MIGA), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of operations, 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 accounting principles generally accepted in the United States of America and International Financial Reporting Standards as issued by the International Accounting Standards Board; 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 and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards as issued by the International Accounting Standards Board.

***Other Matters***

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, 2015 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 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 and International Standards on Auditing. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that MIGA maintained effective internal control over financial reporting as of June 30, 2015, 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 6, 2015 expressed an unqualified opinion on management's assertion.

KPMG LLP

Washington, D.C.  
August 6, 2015

**Balance Sheet****June 30, 2015 and June 30, 2014****Expressed in thousands of US dollars**

	2015	2014
<b>Assets</b>		
CASH.....	\$ 9,710	\$ 26,886
INVESTMENTS - Trading (including securities transferred under repurchase agreements) - Note B.....	1,376,179	1,342,158
Derivative assets - Note B.....	271,517	203,008
NONNEGOTIABLE, NON INTEREST - BEARING DEMAND OBLIGATIONS - Note C.....	109,891	113,434
<b>OTHER ASSETS</b>		
Receivable for investment securities sold - Note B.....	5,634	11,546
Estimated reinsurance recoverable - Note E.....	124,670	127,300
Prepaid premium ceded to reinsurers.....	136,874	148,252
Net assets under retirement benefit plans - Note F.....	17,601	15,324
Miscellaneous assets - Note G.....	15,565	19,641
	<u>300,344</u>	<u>322,063</u>
<b>TOTAL ASSETS.....</b>	<u><u>\$ 2,067,641</u></u>	<u><u>\$ 2,007,549</u></u>
<b>Liabilities and Shareholders' Equity</b>		
<b>LIABILITIES</b>		
Payable for investment securities purchased - Note B.....	\$ 34,697	\$ 23,976
Securities sold under repurchase agreements and payable for cash collateral received - Note B.....	27,869	66,967
Derivative liabilities - Note B.....	270,494	202,611
Accounts payable and accrued expenses - Notes F and G.....	50,437	54,942
Unearned premiums and commitment fees.....	247,261	262,435
Reserve for claims - Note E		
Specific reserves for claims.....	-	9,700
Insurance portfolio reserve.....	465,710	412,700
Reserve for claims - gross.....	<u>465,710</u>	<u>422,400</u>
Total liabilities.....	<u>1,096,468</u>	<u>1,033,331</u>
<b>CONTINGENT LIABILITIES - Note D</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock - Note C		
Authorized capital (186,587 shares - June 30, 2015; 186,537 shares - June 30, 2014)		
Subscribed capital (177,331 shares - June 30, 2015; 177,281 shares - June 30, 2014)	1,918,721	1,918,180
Less uncalled portion of subscriptions.....	<u>1,552,599</u>	<u>1,552,166</u>
	366,122	366,014
Retained earnings.....	627,210	638,032
Accumulated other comprehensive loss, Note H.....	<u>(22,159)</u>	<u>(29,828)</u>
Total shareholders' equity.....	<u>971,173</u>	<u>974,218</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....</b>	<u><u>\$ 2,067,641</u></u>	<u><u>\$ 2,007,549</u></u>

See accompanying notes to the financial statements

## Statement of Operations

For the fiscal years ended June 30, 2015 and June 30, 2014

Expressed in thousands of US dollars

	2015	2014
<b>INCOME</b>		
Income from guarantees		
Premium income - Note D.....	\$ 128,142	\$ 115,631
Premium ceded - Note D.....	(56,580)	(50,081)
Ceding commission and other fees - Note D.....	12,553	10,862
Brokerage and other charges - Note D.....	(5,084)	(3,962)
Total.....	<u>79,031</u>	<u>72,450</u>
Income from investments - Note B.....	24,122	53,432
Total income.....	<u>103,153</u>	<u>125,882</u>
<b>EXPENSES</b>		
Provision for claims and other exposures - Note E		
Increase in net reserves, excluding translation (gains) losses.....	65,479	9,800
Translation (gains) losses.....	<u>(14,600)</u>	<u>3,300</u>
Provision for claims and other exposures, net.....	50,879	13,100
Administrative expenses.....	38,977	39,921
Expenses from pension and other post retirement benefit plans - Note F.....	<u>5,941</u>	<u>5,645</u>
Total expenses.....	95,797	58,666
Translation (losses) gains - Investments and other assets.....	<u>(18,178)</u>	<u>2,824</u>
<b>NET (LOSS) INCOME.....</b>	<u><u>\$ (10,822)</u></u>	<u><u>\$ 70,040</u></u>



## Statement of Comprehensive Income

For the fiscal years ended June 30, 2015 and June 30, 2014

Expressed in thousands of US dollars

	2015	2014
NET (LOSS) INCOME.....	\$ (10,822)	\$ 70,040
OTHER COMPREHENSIVE INCOME (LOSS) - Note H		
Net actuarial gains (losses) on benefit plans.....	7,433	(6,268)
Prior service credits (costs) on benefit plans.....	236	(594)
Total other comprehensive income (loss).....	7,669	(6,862)
COMPREHENSIVE (LOSS) INCOME.....	\$ (3,153)	\$ 63,178

## Statement of Changes in Shareholders' Equity

For the fiscal years ended June 30, 2015 and June 30, 2014

Expressed in thousands of US dollars

	2015	2014
CAPITAL STOCK		
Balance at beginning of the fiscal year.....	\$ 366,014	\$ 365,629
Paid-in subscriptions.....	108	385
Ending Balance.....	366,122	366,014
RETAINED EARNINGS		
Balance at beginning of the fiscal year.....	638,032	567,992
Net (loss) income.....	(10,822)	70,040
Ending Balance.....	627,210	638,032
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of the fiscal year.....	(29,828)	(22,966)
Other comprehensive income (loss) .....	7,669	(6,862)
Ending Balance.....	(22,159)	(29,828)
TOTAL SHAREHOLDERS' EQUITY	\$ 971,173	\$ 974,218

## Statement of Cash Flows

For the fiscal years ended June 30, 2015 and June 30, 2014

Expressed in thousands of US dollars

	2015	2014
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net (loss) income.....	\$ (10,822)	\$ 70,040
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Provision for claims and other exposures, net.....	50,879	13,100
Translation losses (gains) - Investments and other assets	18,178	(2,824)
Net change in:		
Investments - Trading, net.....	(78,529)	(105,944)
Other assets.....	(12,621)	(98,019)
Accounts payable and accrued expenses.....	4,326	4,427
Unearned premiums and commitment fees.....	16,273	133,817
Net cash (used in) provided by operating activities	<u>(12,316)</u>	<u>14,597</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Capital subscription payments	<u>54</u>	<u>183</u>
Net cash provided by financing activities	<u>54</u>	<u>183</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH.....</b>	<u>(4,914)</u>	<u>265</u>
Net (decrease) increase in cash.....	(17,176)	15,045
Cash at beginning of the fiscal year.....	<u>26,886</u>	<u>11,841</u>
<b>CASH AT END OF THE FISCAL YEAR</b>	<u><u>\$ 9,710</u></u>	<u><u>\$ 26,886</u></u>

# Statement of Subscriptions to Capital Stock and Voting Power

As of June 30, 2015

Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (NOTE C)				VOTING POWER	
	Shares <sup>1</sup>	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

See accompanying notes to the financial statements

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

As of June 30, 2015

Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (NOTE C)				VOTING POWER	
	Shares <sup>1</sup>	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

See accompanying notes to the financial statements

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

As of June 30, 2015

Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (NOTE C)				VOTING POWER	
	Shares <sup>1</sup>	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

See accompanying notes to the financial statements

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

As of June 30, 2015

Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (NOTE C)				VOTING POWER	
	Shares <sup>1</sup>	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	446	1,783	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	479	2,042	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	3,088	12,352	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 - June 30, 2015 <sup>2</sup>	177,331	\$ 1,918,721	\$ 366,122	\$ 1,552,599	218,237	100.00
Total - June 30, 2014	177,281	\$ 1,918,180	\$ 366,014	\$ 1,552,166	218,321	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, 2015

Expressed in thousands of US dollars

Host Country	Gross Exposure (Note D)				Reinsurance (Other)	Net Exposure
	US Dollars	Euro	Swiss Franc	Total		
Afghanistan	\$152,760	\$1,502		\$154,262	\$48,676	\$105,586
Albania		261,052		261,052	61,756	199,297
Angola	69,993	420,864		490,857	366,644	124,213
Armenia		3,187		3,187		3,187
Bangladesh	251,372			251,372	171,500	79,872
Belarus		58,434		58,434		58,434
Benin	1,026	6,593		7,619	103	7,516
Bolivia	17,559			17,559		17,559
Bosnia and Herzegovina		174,300		174,300	9,776	164,524
Brazil	354,855			354,855	58,434	296,421
Bulgaria		66,383		66,383	33,192	33,192
Burundi		6,945		6,945		6,945
Cameroon	180,000	90,618		270,618	60,000	210,618
China	18,814			18,814		18,814
Colombia	95,000	2,231		97,231		97,231
Congo, Democratic Republic of	146,909	7,381		154,290	20,886	133,404
Costa Rica	108,497			108,497	63,520	44,977
Cote d'Ivoire	768,954	61,569		830,522	535,136	295,387
Croatia		521,416		521,416	270,884	250,531
Djibouti	112,802			112,802	66,133	46,669
Dominican Republic	89,320			89,320	13,398	75,922
Ecuador	9,658			9,658		9,658
Egypt, Arab Republic of	199,825	8,912		208,737	62,100	146,637
El Salvador	134,087			134,087		134,087
Ethiopia	13,960			13,960		13,960
Gabon		6,258		6,258		6,258
Georgia	94,044			94,044		94,044
Ghana	318,998			318,998	30,926	288,072
Guinea		44,387		44,387	4,439	39,949
Guinea-Bissau		9,691		9,691	969	8,722
Honduras	326,946			326,946	4,250	322,696
Hungary		461,096		461,096	314,879	146,217
Indonesia	280,000			280,000	23,188	256,812
Iran, Islamic Republic of	63,934			63,934	6,393	57,541
Iraq	8,687			8,687		8,687
Jamaica	48,693			48,693	9,739	38,955
Jordan	228,492			228,492	79,800	148,692
Kenya	192,602	67,574		260,176	34,784	225,392
Kosovo		91,510		91,510		91,510
Lao People's Democratic Republic	55,138			55,138	27,569	27,569
Lebanon	35,460			35,460		35,460
Libya		8,499		8,499		8,499
Macedonia, former Yugoslav Republic of		127,492		127,492	19,609	107,883
Madagascar		1,434		1,434		1,434
Mali	11,419			11,419	1,142	10,277
Mauritania	5,400			5,400	540	4,860
Moldova		20,276		20,276		20,276
Mozambique	28,537			28,537	9,516	19,020
Nicaragua	88,972			88,972		88,972
Niger		5,244		5,244		5,244

See accompanying notes to the financial statements

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

As of June 30, 2015

Expressed in thousands of US dollars

Host Country	Gross Exposure (Note D)				Reinsurance (Other)	Net Exposure
	US Dollars	Euro	Swiss Franc	Total		
Nigeria	\$1,009			\$1,009		\$1,009
Pakistan	303,167		86,063	389,230	90,799	298,431
Panama	586,931			586,931	296,451	290,481
Peru	6,156			6,156	1,231	4,925
Poland		111		111		111
Russian Federation	349,350	367,067		716,417	333,615	382,802
Rwanda	95,378			95,378	15,378	80,000
Senegal	99,000	26,855		125,855	21,624	104,231
Serbia		854,998		854,998	291,004	563,994
Sierra Leone		5,593		5,593		5,593
South Africa	13,205		12,103	25,308		25,308
Swaziland	10,464			10,464	5,232	5,232
Tanzania	28,890			28,890		28,890
Thailand	50,138			50,138	25,069	25,069
Togo		3,563		3,563		3,563
Tunisia		107,737		107,737	39,592	68,145
Turkey	228,471	906,036		1,134,506	631,058	503,449
Turkmenistan	11,477			11,477		11,477
Uganda	146,226	149		146,375	66,425	79,950
Ukraine	431,771	8,181		439,951	156,722	283,229
Uzbekistan	49,029			49,029	16,206	32,823
Vietnam	660,010			660,010	460,448	199,562
Zambia	102,242			102,242		102,242
	7,685,627	4,815,138	98,166	12,598,930	4,860,734	7,738,196
Adjustment for Dual-Country Contracts <sup>1</sup>						
Lao PDR/Thailand	(50,138)			(50,138)	(25,069)	(25,069)
Mozambique/Swaziland	(10,464)			(10,464)	(5,232)	(5,232)
	(60,602)			(60,602)	(30,301)	(30,301)
Total - June 30, 2015 <sup>2</sup>	\$7,625,025	\$4,815,138	\$98,166	\$12,538,328	\$4,830,433	\$7,707,895
Total - June 30, 2014	\$7,173,237	\$5,133,040	\$102,494	\$12,408,770	\$5,296,105	\$7,112,665

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

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

3. Reinsurance reflects amounts ceded to Conflict affected and Fragile Economies Facility (CAFEF) and off-balance sheet amount relating to exposure exchange agreement with IBRD (Note D).

4. Net exposure to Panama reduced by \$113 million on account of exposure exchange agreement with IBRD, treated as Reinsurance (Note D).

5. Net exposure to Brazil increased by \$109 million on account of exposure exchange agreement with IBRD, treated as Financial Guarantee (Note D).



---

## 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 International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting principles generally accepted in the United States of America (U.S. GAAP). The policy adopted is that considered most appropriate to the circumstances of MIGA having regard to its legal requirements and to the practices of other international insurance entities.

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

Certain reclassifications of the prior year's information have been made to conform with the current year's presentation. In particular, effective July 1, 2014, Translation (losses) gains – Investments and other assets line item, that was previously included under Income on the Statement of Operations has been reclassified and is now disclosed separately below Expenses.

On August 6, 2015, the Directors approved these 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 global equity securities, time deposits, mortgage /asset-backed securities (ABS) and government and agency obligations based on its investment authorization approved by the Board. Government and agency obligations include highly rated fixed-rate bonds, notes, bills and other obligations issued or unconditionally guaranteed by governments of countries or other official entities, including government agencies or by multilateral organizations.

---

## Notes to Financial Statements

---

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 (Other Assets) 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, dividend income and interest income.

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

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

### ***Impairment of Reinsurance Assets***

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

### ***Reserve for Claims***

MIGA's reserve 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. The Insurance Portfolio Reserve is calculated based on the long-term historical experiences of the non-commercial risk insurance industry.

Assumptions and parameters used in the calculations are intended to serve as the basis for an objective reserve for probable claims. Key assumptions, including frequency of claim, severity, and expected recovery have been quantitatively derived from the non-commercial risk insurance industry's historical claims data. The principal sources of data used as inputs for the assumptions include the Berne Union and the Overseas Private Investment Corporation (OPIC). The historical analysis of the data from those sources is further augmented by an internal econometric scoring analysis in order to derive risk-differentiated parameters with term structure effects over time. The historical and econometric analyses cover periods that are over 30 years, and the derived parameters are considered stable in the short term; however the parameters are reviewed periodically. Short-term risk changes are captured by changes in internal risk ratings for countries and contracts on a quarterly basis. For the purpose of claims provisioning, MIGA factors in the time value of money of potential cash flows, using representative risk-free interest rates as the discount rates.

---

## Notes to Financial Statements

---

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

### ***Currency Translation***

Assets and liabilities denominated in foreign currencies are translated at market exchange rates in effect at the end of the 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 Statement of Operations.

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 expenses on a pro rata basis over the contract period.

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

### ***Financial Guarantees***

Financial guarantees are commitments issued by MIGA to guarantee payment performance to a third party. Financial guarantees are regarded as outstanding when the underlying financial obligation of the debtor is incurred, and called when a guaranteed party demands payment under the guarantee. MIGA would be required to perform under its financial guarantees if the payments guaranteed were not made by the debtor and the guaranteed party called the guarantee by demanding payment from MIGA in accordance with the terms of the guarantee.

Where applicable, MIGA records the fair value of the obligation to stand ready, and a corresponding asset in the financial statements. Guarantee fee income, is deferred and amortized over the life of the

---

## Notes to Financial Statements

---

guarantee. MIGA also records a contingent liability for the probable losses related to guarantees outstanding.

### ***Statement of Cash Flows***

For the purpose of MIGA's Statement 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* and IFRS 7, *Financial Instruments: Disclosures*, define fair value, establish a consistent framework for measuring fair value, establish a fair value hierarchy based on the quality of inputs used to measure fair value and expand disclosure requirements about fair value measurements.

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

For financial instruments for which quoted market prices are not readily available, fair values are determined using model-based valuation techniques, whether internally generated or vendor supplied, that include the standard 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.

### ***Fair Value Hierarchy***

ASC 820-10 and IFRS 7 establish a three-level fair value hierarchy under which financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable and unobservable. Additionally, ASC 820-10 requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

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

---

## Notes to Financial Statements

---

### Accounting and Reporting Developments

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The ASU requires repurchase-to-maturity transactions and some repurchase financing arrangements to be accounted for as secured borrowings. It also requires additional disclosures about certain transactions accounted for as sales and about the nature of collateral pledged for transactions accounted for as secured borrowings. For MIGA, the ASU became effective from the quarter ended March 31, 2015 but did not have any impact on MIGA's financial statements since all repurchase agreements are already accounted for as secured borrowings. Additional disclosures required by the ASU have been included in the financial statements for the year ending June 30, 2015 under *Note B, Investments*.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements (Subtopic 205-40): Going Concern – Disclosure of Uncertainties 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 for the related financial statement disclosures. Until now guidance related to this topic was provided under U.S. auditing standards, which do not govern management's disclosures. Under this ASU, for each reporting period, management would be 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 one year after the date in which the financial statements are issued. For MIGA, the ASU will be effective beginning with the fiscal year ending June 30, 2017. MIGA is currently evaluating the impact of this ASU on its financial statements but does not expect the ASU to have a significant impact.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This ASU makes amendments to the current consolidation guidance focusing on targeted areas for certain types of entities. For non-public entities, the ASU will become effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017, with early adoption permitted. MIGA is currently evaluating the impact of this ASU on its financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU eliminates the requirement to categorize within the fair value hierarchy investments for which fair values are measured at net asset value (NAV) using the practical expedient included in the guidance for fair value measurements of Topic 820. For non-public business entities, the ASU is effective for fiscal years beginning after December 31, 2016, and interim periods within those fiscal years. MIGA has elected to early adopt the ASU for the fiscal year ending June 30, 2015, as permitted by the ASU. As permitted by the ASU, MIGA has excluded from the fair value hierarchy investments measured using NAV in Note F – Pension and Other Post Retirement Benefits.

In May 2015, the FASB issued ASU 2015-09, *Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts*. The ASU makes certain improvements to the disclosure requirements on short-duration insurance contracts and focuses on providing users of financial statements with more transparent information about an insurance entity's (1) initial claim estimates and subsequent adjustments to those estimates, (2) methodologies and judgments in estimating claims, and (3) timing, frequency and uncertainty of future cash flows related to the insurance liabilities. For non-public entities, the ASU will become effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. MIGA is currently evaluating the impact of this ASU on its financial statements.

## Notes to Financial Statements

### Differences between U.S. GAAP and IFRS

MIGA's accounting policy on pension accounting is to follow The Compensation Retirement Benefits Topic of the FASB Accounting Standards Codification (ASC) 715-30, which requires employers to recognize on their balance sheets the funded status of their defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the projected benefit obligation. Actuarial gains or losses and prior service costs or credits that arise during the period are recognized as part of Other Comprehensive Income to the extent they are not recognized as components of the net periodic benefit cost. Additionally, ASC 715-30 requires unrecognized net actuarial gains or losses and unrecognized prior service costs to be recognized in the ending balance of Accumulated Other Comprehensive Income. These amounts are adjusted as they are subsequently recognized as components of net periodic benefit cost.

MIGA's accounting policy under IAS 19, *Employee Benefits*, is to immediately recognize all actuarial gains and losses "in a statement of changes in shareholder's equity" through Other Comprehensive Income in the period in which they occur.

The salient differences between ASC 715-30 (MIGA policy) and IAS 19 as applied by MIGA pertain to the following: (a) *Unrecognized actuarial gains (losses)*: ASC 715-30 requires that unrecognized actuarial gains (losses) in Equity be amortized through the income statement while IAS 19 prohibits recycling; (b) *Recognition of prior service cost*: IAS 19 requires immediate recognition of prior service cost while ASC 715-30 requires straight-line basis recognition over the remaining vesting period; (c) *Net interest cost (income) computation*: Computation under ASC 715-30 is based on separate computation of interest cost and expected return on plan assets, while under IAS 19 it is based on the plan funded status and the discount rate used to measure the defined benefit obligations; and (d) *Funded status recognition*: ASC 715-30 and IAS 19 primarily differ on the basis of net asset recognized relating to the post-retirement plans. MIGA does not believe the differences are material.

### Note B: Investments

The investment securities held by MIGA are carried and reported at fair value, or at face value which approximates fair value. As of June 30, 2015, the majority of the Investments – Trading is comprised of government and agency obligations and time deposits (39.9% and 33.5%, 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, 2015 and June 30, 2014 are as follows:

*In thousands of US dollars*

	<i>Fair Value</i>	
	<i>June 30, 2015</i>	<i>June 30, 2014</i>
Equity securities - US	\$ -	\$ 60,585
Equity securities - non US	-	63,390
Comingled funds	-	8,712
Government and agency obligations	548,930	329,107
Time deposits	460,659	562,932
Asset-backed securities	366,590	317,432
Total investments - Trading	<u>\$ 1,376,179</u>	<u>\$ 1,342,158</u>

## Notes to Financial Statements

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2015 and June 30, 2014:

*In thousands of US dollars*

	<i>Fair Value</i>	
	<i>June 30, 2015</i>	<i>June 30, 2014</i>
Investment - Trading	\$ 1,376,179	\$ 1,342,158
Cash held in investment portfolio <sup>a</sup>	2,545	18,666
Receivable for investment securities sold	5,634	11,546
	<u>1,384,358</u>	<u>1,372,370</u>
Derivative assets		
Currency forward contracts	271,258	201,866
Others <sup>b</sup>	259	1,142
	<u>271,517</u>	<u>203,008</u>
Derivative liabilities		
Currency forward contracts	(270,265)	(202,443)
Others <sup>b</sup>	(229)	(168)
	<u>(270,494)</u>	<u>(202,611)</u>
Payable for investment securities purchased	(34,697)	(23,976)
Securities sold under repurchase agreement and payable for cash collateral received	(27,869)	(66,967)
Net investment portfolio	<u>\$ 1,322,815</u>	<u>\$ 1,281,824</u>

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

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

As of June 30, 2015, investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 10.1 percent (11.3 percent – June 30, 2014) of the portfolio, of which the Euro-denominated instruments accounted for 9.8 percent (11.0 percent – June 30, 2014) of the total portfolio.

MIGA classifies all investment securities as trading securities. Investments classified as trading securities are reported at fair value with unrealized gains or losses included in income from investments.

## Notes to Financial Statements

The following table summarizes MIGA's Income from investments during the fiscal year ended June 30, 2015 and June 30, 2014:

*In thousands of US dollars*

	<i>Fiscal Year Ended</i>	
	<i>June 30, 2015</i>	<i>June 30, 2014</i>
Interest income	\$ 14,201	\$ 9,913
Dividend income	2,063	6,198
Realized - gains	10,244	26,071
Unrealized - (losses) gains	(2,386)	11,250
	<u>\$ 24,122</u>	<u>\$ 53,432</u>

The following table summarizes MIGA's Income from derivative instruments, reported as part of Investment Income, which mainly relates to interest rate futures, options, and covered forwards for the fiscal year ended June 30, 2015 and June 30, 2014:

*In thousands of US dollars*

	<i>Fiscal Year Ended</i>	
	<i>June 30, 2015</i>	<i>June 30, 2014</i>
Interest income	\$ 499	\$ 181
Realized - (losses) gains	(649)	87
Unrealized - (losses)	(103)	(262)
	<u>\$ (253)</u>	<u>\$ 6</u>



## 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, 2015 and June 30, 2014:

*In thousands of US dollars*

	<i>Fair Value Measurements on a Recurring Basis</i>			
	<i>As of June 30, 2015</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>ASSETS:</b>				
Government and agency obligations	\$ 433,863	\$ 115,067	\$ -	\$ 548,930
Time deposits	41,351	419,308	-	460,659
Asset backed securities	-	366,590	-	366,590
Total investments - Trading	<u>475,214</u>	<u>900,965</u>	<u>-</u>	<u>1,376,179</u>
Derivative assets				
Currency forward contracts	-	271,258	-	271,258
Others <sup>a</sup>	-	259	-	259
Total derivative assets	<u>-</u>	<u>271,517</u>	<u>-</u>	<u>271,517</u>
Total	<u>\$ 475,214</u>	<u>\$ 1,172,482</u>	<u>\$ -</u>	<u>\$ 1,647,696</u>
<b>LIABILITIES:</b>				
Securities sold under repurchase agreements <sup>b</sup>	\$ -	\$ 27,825	\$ -	\$ 27,825
Derivative liabilities				
Currency forward contracts	-	270,265	-	270,265
Others <sup>a</sup>	221	8	-	229
Total derivative liabilities	<u>221</u>	<u>270,273</u>	<u>-</u>	<u>270,494</u>
Total	<u>\$ 221</u>	<u>\$ 298,098</u>	<u>\$ -</u>	<u>\$ 298,319</u>

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

*b. Excludes \$44K relating to payable for cash collateral received.*

## Notes to Financial Statements

*In thousands of US dollars*

	Fair Value Measurements on a Recurring Basis				
	As of June 30, 2014				
	Level 1	Level 2	Level 3	Not classified <sup>a</sup>	Total
<b>ASSETS:</b>					
Equity securities - US	\$ 60,585	\$ -	\$ -	\$ -	\$ 60,585
Equity securities - non US	63,390	-	-	-	63,390
Comingled funds	-	-	-	8,712	8,712
Government and agency obligations	182,899	146,208	-	-	329,107
Time deposits	68,696	494,236	-	-	562,932
Asset backed securities	-	317,432	-	-	317,432
Total investments - Trading	375,570	957,876	-	8,712	1,342,158
Derivative assets					
Currency forward contracts	-	201,866	-	-	201,866
Others <sup>b</sup>	1	1,141	-	-	1,142
Total derivative assets	1	203,007	-	-	203,008
Total	\$ 375,571	\$ 1,160,883	\$ -	\$ 8,712	\$ 1,545,166
<b>LIABILITIES:</b>					
Securities sold under repurchase agreements <sup>c</sup>	\$ -	\$ 66,373	\$ -	-	\$ 66,373
Derivative liabilities					
Currency forward contracts	-	202,443	-	-	202,443
Others <sup>b</sup>	150	18	-	-	168
Total derivative liabilities	150	202,461	-	-	202,611
Total	\$ 150	\$ 268,834	\$ -	\$ -	\$ 268,984

a. In accordance with FASB guidance on fair value measurement, certain investments measured at fair value using net asset value, have not been classified under the fair value hierarchy.

b. These relate to TBA securities and futures.

c. Excludes \$594K relating to payable for cash collateral received.

### **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, 2015 and June 30, 2014.

### **Securities Lending:**

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 Sheet presentation purposes, MIGA presents its securities lending and repurchases, as well as re-sales, on a gross basis. As of June 30, 2015 and June 30, 2014, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements.

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.

## 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*

	<i>June 30, 2015</i>	<i>June 30, 2014</i>
Securities transferred under repurchase agreements	\$ 27,840	\$ 66,385
Liabilities relating to securities transferred under repurchase agreements	\$ 27,825	\$ 66,379

As of June 30, 2015 and June 30, 2014, there were no liabilities relating to securities transferred under repurchase or securities lending agreements that had not settled at that 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, 2015 and June 30, 2014:

*In thousands of US dollars*

	<i>June 30, 2015</i>		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	Up to 30 days	Total
<b>Repurchase agreements</b>			
U.S. Treasury and agency securities <sup>a</sup>	\$ 27,825	\$ -	\$ 27,825
Total repurchase agreements	27,825	-	27,825
<b>Total liabilities relating to securities transferred under repurchase agreements</b>	\$ 27,825	\$ -	\$ 27,825

*a. Excludes \$44K relating to payable for cash collateral received.*

## Notes to Financial Statements

*In thousands of US dollars*

	June 30, 2014		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	Up to 30 days	Total
<b>Repurchase agreements</b>			
U.S. Treasury and agency securities <sup>a</sup>	\$ 66,379	\$ -	\$ 66,379
Total repurchase agreements	66,379	-	66,379
<b>Total liabilities relating to securities transferred under repurchase agreements</b>	\$ 66,379	\$ -	\$ 66,379

*a. Excludes \$594K relating to payable for cash collateral received.*

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, 2015, MIGA had not received any securities under resale agreements (\$Nil - June 30, 2014).

### ***Credit Exposure:***

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

Asset backed securities (ABS) are diversified among credit cards, student loans, home equity loans and mortgage backed securities. Since these holdings are investment grade, neither concentration risk nor credit risk represents a significant risk to MIGA as of June 30, 2015. 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.

## Notes to Financial Statements

### *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, 2015 and June 30, 2014:

*In thousands of US dollars*

Type of contracts	June 30, 2015	June 30, 2014
Carry forward contracts		
Credit exposure	\$ 2,994	\$ 24
Exchange traded options and futures <sup>a</sup>		
Notional long position	20,800	1,591
Notional short position	685,000	711,300
Others <sup>b</sup>		
Notional long position	85,000	144,000
Notional short position	1,000	2,000
Credit exposure	259	1,141

*a. Exchange traded instruments are generally subject to daily margin requirements and or deemed to have no material credit risk. All options and futures contracts are interest 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; currency forward contracts are 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, 2015 and June 30, 2014. 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, 2015						
	Derivative Assets			Derivative Liabilities		
	Gross Amounts of Recognized Assets on the Balance Sheet	Gross Amounts offset on the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts of Recognized Liabilities on the Balance Sheet	Gross Amounts offset on the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet
Currency forward contracts	\$ 271,258	\$ -	\$ 271,258	\$ 270,265	\$ -	\$ 270,265
Others <sup>a</sup>	259	-	259	382	(153)	229
	<u>\$ 271,517</u>	<u>\$ -</u>	<u>\$ 271,517</u>	<u>\$ 270,647</u>	<u>\$ (153)</u>	<u>\$ 270,494</u>
Amounts subject to legally enforceable master netting agreement			(269,939)			(269,939)
<b>Net Derivative Positions at counterparty level before collateral</b>			<u>\$ 1,578</u>			<u>\$ 555</u>
Less:						
Cash collateral received <sup>b</sup>			(44)			
<b>Net derivative exposure after collateral</b>			<u>\$ 1,534</u>			

*a. These relate to TBA securities.*

*b. Does not include excess collateral received.*

## Notes to Financial Statements

June 30, 2014						
	Derivative Assets			Derivative Liabilities		
	Gross Amounts of Recognized Assets on the Balance Sheet	Gross Amounts offset on the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts of Recognized Liabilities on the Balance Sheet	Gross Amounts offset on the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet
Currency forward contracts	\$ 201,866	\$ -	\$ 201,866	\$ 202,443	\$ -	\$ 202,443
Others <sup>a</sup>	1,154	(12)	1,142	192	(24)	168
	<u>\$ 203,020</u>	<u>\$ (12)</u>	<u>\$ 203,008</u>	<u>\$ 202,635</u>	<u>\$ (24)</u>	<u>\$ 202,611</u>
Amounts subject to legally enforceable master netting agreement			(201,866)			(201,866)
<b>Net Derivative Positions at counterparty level before collateral</b>			<u>\$ 1,142</u>			<u>\$ 745</u>
Less:						
Cash collateral received <sup>b</sup>			(594)			
<b>Net derivative exposure after collateral</b>			<u><u>\$ 548</u></u>			

a. These relate to TBA securities.

b. Does not include excess collateral received.

### 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

## Notes to Financial Statements

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, 2015, MIGA's authorized capital stock comprised 186,587 (186,537 – June 30, 2014) shares, of which 177,331 (177,281 – June 30, 2014) 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, 2015, \$366,122,000 (\$366,014,000 – June 30, 2014) has been paid in; and the remaining \$1,552,599,000 (\$1,552,166,000 – June 30, 2014) is subject to call. At June 30, 2015, MIGA had \$109,891,000 (\$113,434,000 – June 30, 2014) in the form of non-negotiable, non-interest bearing demand obligations (promissory notes), relating to the initial capital subscriptions.

A summary of the changes in MIGA's authorized, subscribed and paid-in capital during the fiscal years ended June 30, 2015 and June 30, 2014 is as follows:

	Initial Capital		Capital Increase		Total	
	Shares	(US\$000)	Shares	(US\$000)	Shares	(US\$000)
<b>At June 30, 2015</b>						
Authorized:						
At beginning of fiscal year	107,978	\$ 1,168,322	78,559	\$ 850,008	186,537	\$ 2,018,330
New membership	50	541	-	-	50	541
At end of fiscal year	<u>108,028</u>	<u>\$ 1,168,863</u>	<u>78,559</u>	<u>\$ 850,008</u>	<u>186,587</u>	<u>\$ 2,018,871</u>
Subscribed:						
At beginning of fiscal year	107,978	\$ 1,168,322	69,303	\$ 749,858	177,281	\$ 1,918,180
New membership	50	541	-	-	50	541
At end of fiscal year	<u>108,028</u>	<u>\$ 1,168,863</u>	<u>69,303</u>	<u>\$ 749,858</u>	<u>177,331</u>	<u>\$ 1,918,721</u>
Uncalled portion of the Subscription		(935,091)		(617,508)		(1,552,599)
Paid-in Capital		<u>\$ 233,772</u>		<u>\$ 132,350</u>		<u>\$ 366,122</u>
<b>At June 30, 2014</b>						
Authorized:						
At beginning of fiscal year	107,800	\$ 1,166,396	78,559	\$ 850,008	186,359	\$ 2,016,404
New membership	178	1,926	-	-	178	1,926
At end of fiscal year	<u>107,978</u>	<u>\$ 1,168,322</u>	<u>78,559</u>	<u>\$ 850,008</u>	<u>186,537</u>	<u>\$ 2,018,330</u>
Subscribed:						
At beginning of fiscal year	107,800	\$ 1,166,396	69,303	\$ 749,858	177,103	\$ 1,916,254
New membership	178	1,926	-	-	178	1,926
At end of fiscal year	<u>107,978</u>	<u>\$ 1,168,322</u>	<u>69,303</u>	<u>\$ 749,858</u>	<u>177,281</u>	<u>\$ 1,918,180</u>
Uncalled portion of the Subscription		(934,658)		(617,508)		(1,552,166)
Paid-in Capital		<u>\$ 233,664</u>		<u>\$ 132,350</u>		<u>\$ 366,014</u>



---

## Notes to Financial Statements

---

### *Membership:*

On October 21, 2014, Bhutan became the 181<sup>st</sup> member of MIGA, with a subscription of 50 shares.

### **Note D: Guarantees**

#### *Guarantee Program*

MIGA offers guarantees or insurance against loss caused by non-commercial risks to eligible investors 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 financial obligation by a state-owned enterprise.

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, 2015 totaled \$12,538,328,000 (\$12,408,770,000 – June 30, 2014). A contract of guarantee issued by MIGA may permit the guarantee holder, at the start of each contract period, to elect coverage and place amounts both on current and standby. MIGA is currently at risk for amounts placed on current. The maximum amount of contingent liability is MIGA's maximum exposure to insurance claims, which includes "standby" coverage for which MIGA is committed but not currently at risk. At June 30, 2015, MIGA's actual exposure to insurance claims, exclusive of standby coverage is \$9,394,398,000 (\$9,727,068,000 – June 30, 2014).

#### *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 as of June 30, 2015, totaled \$21,209,800 (\$20,259,400 – June 30, 2014).

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 loss layer of which MIGA shares a portion, for eligible projects. As of June 30, 2015, amounts ceded to CAFEF under this type of structure, totaled \$20,886,000 (\$5,250,000 – June 30, 2014).

#### *Reinsurance*

MIGA obtains treaty and facultative reinsurance (both public and private) to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio, and not for speculative reasons. All reinsurance contracts are ceded on a proportionate basis. However, MIGA is exposed to reinsurance non-performance risk in the event that reinsurers fail to pay their proportionate share of the loss in case of a claim. MIGA manages this risk by requiring that private sector reinsurers be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that such ratings be above a minimum threshold. In

## Notes to Financial Statements

addition, MIGA may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments and with multilateral agencies that represent an acceptable counterparty risk. MIGA has established limits, at both the project and portfolio levels, which restrict the amount of reinsurance that may be ceded. The project limit states that MIGA may cede no more than 90 percent of any individual project. The portfolio limit states that MIGA may not reinsure more than 50 percent of its aggregate gross exposure.

Of the \$12,538,328,000 outstanding contingent liability (gross exposure) as at June 30, 2015 (\$12,408,770,000– June 30, 2014), \$4,804,973,000 (\$5,290,855,000 – June 30, 2014) was ceded through contracts of reinsurance and \$20,886,000 (\$5,250,000 – June 30, 2014) was ceded to CAFEF. After adjusting for the impact of the Exposure Exchange Agreement with IBRD (See Note G, Transactions with Affiliated Organizations) of \$4,574,000 (\$Nil – June 30, 2014), the net exposure amounted to \$7,707,895,000 as at June 30, 2015 (\$7,112,665,000 – June 30, 2014).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2015, total insurance assumed by MIGA, primarily with official investment insurers, amounted to \$241,659,000 (\$263,118,000 – June 30, 2014).

Premiums, fees and commission relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2015 and June 30, 2014 were as follows:

*In thousands of US dollars*

	<i>Fiscal Year Ended</i>	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Premiums written		
Direct	\$ 111,637	\$ 230,082
Assumed	2,038	2,210
Ceded	(45,202)	(146,043)
	<u>68,473</u>	<u>86,249</u>
Premium Income		
Direct	125,934	113,424
Assumed	2,208	2,207
	<u>\$ 128,142</u>	<u>\$ 115,631</u>
Premium Ceded	(56,580)	(50,081)
Brokerage and other charges	(5,084)	(3,962)
Ceding commission and other fees	12,553	10,862
Income from guarantees	<u>\$ 79,031</u>	<u>\$ 72,450</u>

---

## Notes to Financial Statements

---

### *Portfolio Risk Management*

Prudent 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.

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

Project-specific risk assessment is performed by a cross-functional team. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings of a specific coverage. The decision to issue an insurance contract is subject to approval by MIGA's senior management and concurrence 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, 2015, the maximum net exposure which may be assumed by MIGA is \$820 million (\$720 million – June 30, 2014) in each host country and \$250 million (\$220 million – June 30, 2014) for each project.

As approved by the Board of Directors and the Council of Governors, the maximum aggregate amount of contingent liabilities that may be assumed by MIGA is 350 percent of the sum of MIGA's unimpaired subscribed capital, retained earnings, accumulated other comprehensive income (loss) and insurance portfolio reserve plus 100 percent of gross exposure ceded by MIGA through contracts of reinsurance. Accordingly, at June 30, 2015, the maximum level of guarantees outstanding (including reinsurance) may not exceed \$14,852,701,000 (\$15,145,581,000 – June 30, 2014).

## Notes to Financial Statements

### 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, 2015 and June 30, 2014 are as follows:

*In thousands of US dollars*

	June 30, 2015		June 30, 2014	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	\$ 4,196,454	\$ 6,696,704	\$ 4,299,076	\$ 7,167,867
% of Total Gross Exposure	33.5	53.4	34.7	57.8
Net Exposure	\$ 2,071,372	\$ 3,524,962	\$ 2,147,556	\$ 3,485,360
% of Total Net Exposure	26.9	45.7	30.2	49.0

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, 2015 and June 30, 2014 is as follows:

*In thousands of US dollars*

	June 30, 2015			June 30, 2014		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Africa	\$ 3,000,569	\$ 1,832,058	23.8	\$ 3,154,315	\$ 1,889,639	26.6
East Asia & Pacific	1,013,962	502,756	6.5	972,699	407,766	5.7
South Asia	794,864	483,888	6.3	794,587	473,987	6.7
Europe & Central Asia	5,085,678	2,946,978	38.2	5,251,563	2,874,564	40.4
Latin America & Caribbean	1,868,906	1,421,885	18.4	1,413,342	930,232	13.1
Middle East & North Africa	774,349	520,330	6.8	822,264	536,477	7.5
	<u>\$ 12,538,328</u>	<u>\$ 7,707,895</u>	<u>100.0</u>	<u>\$ 12,408,770</u>	<u>\$ 7,112,665</u>	<u>100.0</u>

## Notes to Financial Statements

The sectoral distribution of MIGA's portfolio at June 30, 2015 and June 30, 2014 is shown in the following table:

*In thousands of US dollars*

Sector	June 30, 2015			June 30, 2014		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Infrastructure	\$ 6,030,850	\$ 3,656,537	47.5	\$ 5,499,934	\$ 3,203,687	45.0
Financial	4,199,098	2,484,180	32.2	4,380,235	2,343,118	32.9
Tourism, Retail and Services	372,062	337,996	4.4	273,463	272,057	3.8
Manufacturing	736,889	594,947	7.7	972,678	622,630	8.8
Oil and Gas	915,145	377,720	4.9	926,585	380,649	5.4
Mining	89,726	62,647	0.8	217,632	153,379	2.2
Agribusiness	194,558	193,868	2.5	138,243	137,145	1.9
	<u>\$12,538,328</u>	<u>\$ 7,707,895</u>	<u>100.0</u>	<u>\$12,408,770</u>	<u>\$ 7,112,665</u>	<u>100.0</u>

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

MIGA's gross reserve for claims and other exposures at June 30, 2015 amounted to \$465,710,000 (\$422,400,000- June 30, 2014) and the related estimated reinsurance recoverables amounted to \$124,670,000 (\$127,300,000- June 30, 2014).

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, 2015 and June 30, 2014:

*In thousands of US dollars*

	June 30, 2015	June 30, 2014
Gross reserve balance	\$ 422,400	\$ 381,100
Less: Estimated reinsurance recoverables	(127,300)	(99,100)
Net reserve balance, beginning of the year	295,100	282,000
Increase to net reserves before translation adjustment	65,479	9,800
Foreign currency translation adjustment	(14,600)	3,300
Provision for claims, net of reinsurance	50,879	13,100
Less: Claims paid, net of reinsurance payments received	(4,939)	-
Net reserve balance <sup>a</sup>	341,040	295,100
Add: Estimated reinsurance receivables	124,670	127,300
Gross reserve balance, end of the year <sup>b</sup>	<u>\$ 465,710</u>	<u>\$ 422,400</u>

a. As of June 30, 2015 represents 4.4% of Total Net Exposure (June 30, 2014 - 4.1%).

b. As of June 30, 2015 represents 3.7% of Total Gross Exposure (June 30, 2014 - 3.4%).

## Notes to Financial Statements

The net increase in provision for claims for the fiscal year ended June 30, 2015 and June 30, 2014 reflected the following changes in the Insurance portfolio reserve and Specific reserve for claims:

*In thousands of US dollars*

	<i>Fiscal Year Ended</i>	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<i>Increase (decrease) in Net Reserves:</i>		
Insurance portfolio reserve	\$ 53,679	\$ 20,900
Specific reserve for claims	(2,800)	(7,800)
Increase, net	<u>\$ 50,879</u>	<u>\$ 13,100</u>

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 Statement of Operations.

### *Specific Reserve for Claims*

The specific reserve for claims is composed of reserves for pending claims and reserves for contracts where a claimable event, or events that may give rise to a claimable event, may have occurred, but in relation to which no claim has been filed, but where a loss is probable. The parameters used in calculating the specific reserves, i.e., claims probability, severity and expected recovery, are assessed on a quarterly basis for each contract for which a reserve is created or maintained. At June 30, 2015, the specific reserves amounted to \$Nil (\$9,700,000 – June 30, 2014) on a gross basis and \$Nil (\$7,400,000 – June 30, 2014), net of reinsurance.

## Notes to Financial Statements

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

<i>In thousands of US dollars</i>										
Reporting Period	Up to FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Estimate of cumulative										
- claims:										
At end of reporting period	58,839	-	2,800	13	30,300	5,000	4,200	5,200	-	403
One year later	59,100	-	1,491	13	2,900	-	9,100	268	-	
Two years later	53,100	-	2,291	13	-	-	5,932	273		
Three years later	24,200	-	2,500	13	-	-	4,781			
Four years later	7,700	-	491	13	-	-				
Five years later	7,400	-	491	13	-					
Six years later	4,200	-	491	13						
Seven years later	4,100	-	491							
Eight years later	700	-								
Nine years later	-									

### Specific reserves at June 30, 2015

Reporting Period	Up to FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	Total
Estimate of cumulative claims at July 1, 2014	700	-	491	13	-	-	4,781	273	-	403	6,661
Cumulative payments	(700)	-	(491)	(13)	-	-	(4,781)	(273)	-	(403)	(6,661)
<b>Specific reserves at June 30, 2015</b>	-	-	-	-	-	-	-	-	-	-	-

### Pending Claims

During the fiscal year ending June 30, 2015, MIGA received two new claims relating to War and Civil Disturbance in Burkina Faso and in Libya. The claim arising in Burkina Faso has been paid. The claim arising in Libya is pending, and based on management's assessment as of June 30, 2015, no reserve has been set for this claim. In addition, during the fiscal year ending June 30, 2015, MIGA paid claims relating to investment in Mali and the Central African Republic that were pending at the beginning of the fiscal year.

## 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. Cost allocated to IBRD are then shared between IBRD and IDA based on an agreed cost sharing ratio. 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, 2015 and June 30, 2014:

*In thousands of US dollars*

Benefit Cost	Fiscal Year Ended June 30, 2015				Fiscal Year Ended June 30, 2014			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Service cost	\$ 5,393	\$ 1,394	\$ 809	\$ 7,596	\$ 4,563	\$ 1,109	\$ 515	\$ 6,187
Interest cost	6,549	1,181	645	8,375	5,900	1,049	435	7,384
Expected return on plan assets	(11,001)	(1,297)	-	(12,298)	(8,711)	(1,018)	-	(9,729)
Amortization of prior service cost <sup>a</sup>	61	151	24	236	14	151	5	170
Amortization of unrecognized net loss <sup>a</sup>	1,065	244	723	2,032	1,022	204	407	1,633
<b>Net periodic pension cost</b>	<b>\$ 2,067</b>	<b>\$ 1,673</b>	<b>\$ 2,201</b>	<b>\$ 5,941</b>	<b>\$ 2,788</b>	<b>\$ 1,495</b>	<b>\$ 1,362</b>	<b>\$ 5,645</b>

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



## Notes to Financial Statements

The following table summarizes the projected benefit obligations, fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for MIGA for the fiscal years ended June 30, 2015 and June 30, 2014. 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, 2015				Fiscal Year Ended June 30, 2014			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
<b>Projected Benefit Obligation</b>								
Beginning of year	\$ 159,958	\$ 27,245	\$ 15,374	\$ 202,577	\$ 132,420	\$ 21,957	\$ 9,844	\$ 164,221
Service cost	5,393	1,394	809	7,596	4,563	1,109	515	6,187
Interest cost	6,549	1,181	645	8,375	5,900	1,049	435	7,384
Net entity transfers	(4,487)	(338)	n.a.	(4,825)	7,479	93	n.a.	7,572
Participant contributions	1,479	141	53	1,673	1,288	125	8	1,421
Federal subsidy received	n.a.	26	n.a.	26	n.a.	23	n.a.	23
Plan amendments	-	-	-	-	516	n.a.	248	764
Benefits paid	(6,127)	(536)	(564)	(7,227)	(5,851)	(424)	(372)	(6,647)
Remeasurements effects:								
Actuarial loss (gain) from change in demographic assumptions <sup>a</sup>	-	-	-	-	3,968	(90)	1,191	5,069
Actuarial loss (gain) from change in financial assumptions	(2,745)	(3,884)	(277)	(6,906)	13,522	2,469	1,112	17,103
Actuarial (gain) loss from change in experience assumptions	(1,126)	(1,455)	218	(2,363)	(3,847)	934	2,393	(520)
<b>End of Year</b>	<b>\$ 158,894</b>	<b>\$ 23,774</b>	<b>\$ 16,258</b>	<b>\$ 198,926</b>	<b>\$ 159,958</b>	<b>\$ 27,245</b>	<b>\$ 15,374</b>	<b>\$ 202,577</b>
<b>Fair value of plan assets</b>								
Beginning of year	\$ 175,282	\$ 20,171		\$ 195,453	\$ 148,120	\$ 16,551		\$ 164,671
Net entity transfers	(4,487)	(338)		(4,825)	7,479	93		7,572
Participant contributions	1,479	141		1,620	1,288	125		1,413
Actual return on assets	7,435	995		8,430	20,980	2,500		23,480
Employer contributions	2,913	1,246		4,159	3,266	1,326		4,592
Benefits paid	(6,127)	(536)		(6,663)	(5,851)	(424)		(6,275)
<b>End of Year</b>	<b>\$ 176,495</b>	<b>\$ 21,679</b>		<b>\$ 198,174</b>	<b>\$ 175,282</b>	<b>\$ 20,171</b>		<b>\$ 195,453</b>
<b>Funded Status<sup>b</sup></b>	<b>\$ 17,601</b>	<b>\$ (2,095)</b>	<b>\$ (16,258)</b>	<b>\$ (752)</b>	<b>\$ 15,324</b>	<b>\$ (7,074)</b>	<b>\$ (15,374)</b>	<b>\$ (7,124)</b>
<b>Accumulated Benefit Obligation</b>	<b>\$ 140,820</b>	<b>\$ 23,774</b>	<b>\$ 14,378</b>	<b>\$ 178,972</b>	<b>\$ 140,300</b>	<b>\$ 27,245</b>	<b>\$ 13,074</b>	<b>\$ 180,619</b>

*a. Changes in demographic assumption were approved by the Pension Finance Committee in FY14 and are reviewed every five years. Consequently for FY15, no actuarial gains / losses attributable to such changes have been recorded.*

*b. Positive funded status is reported as Net assets under retirement benefits plans; negative funded status is included under Accounts payable and accrued expenses on the Balance Sheet.*

## Notes to Financial Statements

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, 2015

*In thousands of US dollars*

	SRP	RSBP	PEBP	Total
Net actuarial loss	\$ 15,093	\$ 399	\$ 8,157	\$ 23,649
Prior service cost	531	1,185	229	1,945
Net amount recognized in Accumulated Other Comprehensive Loss	<u>\$ 15,624</u>	<u>\$ 1,584</u>	<u>\$ 8,386</u>	<u>\$ 25,594</u>

### Amounts included in Accumulated Other Comprehensive Loss at June 30, 2014

*In thousands of US dollars*

	SRP	RSBP	PEBP	Total
Net actuarial loss	\$ 16,463	\$ 5,680	\$ 8,939	\$ 31,082
Prior service cost	592	1,336	253	2,181
Net amount recognized in Accumulated Other Comprehensive Loss	<u>\$ 17,055</u>	<u>\$ 7,016</u>	<u>\$ 9,192</u>	<u>\$ 33,263</u>

The estimated amounts that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost in the fiscal year ending June 30, 2016 are as follows:

*In thousands of US dollars*

	SRP	RSBP	PEBP	Total
Net actuarial loss	\$ 748	\$ -	\$ 636	\$ 1,384
Prior service cost	61	151	23	235
Net amount recognized in Accumulated Other Comprehensive Loss	<u>\$ 809</u>	<u>\$ 151</u>	<u>\$ 659</u>	<u>\$ 1,619</u>

## Notes to Financial Statements

### 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. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end yields of AA corporate bonds.

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

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2015 and June 30, 2014:

*In percent*

	SRP		RSBP		PEBP	
	2015	2014	2015	2014	2015	2014
<b>Weighted average assumptions used to determine projected benefit obligations</b>						
Discount rate	4.30	4.20	4.50	4.40	4.40	4.30
Rate of compensation increase	5.40	5.40			5.40	5.40
Health care growth rates-at end of fiscal year			4.90	5.30		
Ultimate health care growth rate			4.10	4.10		
Year in which ultimate rate is reached			2030	2022		
<b>Weighted average assumptions used to determine net periodic pension cost</b>						
Discount rate	4.20	4.60	4.40	4.80	4.30	4.50
Expected return on plan assets	6.30	5.90	6.30	6.00		
Rate of compensation increase	5.40	5.70			5.40	5.70
Health care growth rates-at end of fiscal year			5.30	5.90		
Ultimate health care growth rate			4.10	3.90		
Year in which ultimate rate is reached			2022	2022		

## Notes to Financial Statements

The sensitivity of the projected benefit obligation to changes in assumptions relating to the discount rate and rate of composition increase are set out below:

<i>In thousands of US dollars</i>		<i>Impact on Projected Benefit Obligations</i>	
	<i>Increase in Assumption by 100 bps</i>	<i>Decrease in Assumption by 100 bps</i>	
<b><i>Discount Rate</i></b>			
SRP	\$ (21,730)	\$ 27,767	
RSBP	(4,255)	5,671	
PEBP	(2,193)	2,792	
	<u>\$ (28,178)</u>	<u>\$ 36,230</u>	
<b><i>Rate of Compensation Increase</i></b>			
SRP	\$ 3,925	\$ (3,864)	
RSBP	n.a.	n.a.	
PEBP	1,093	(663)	
	<u>\$ 5,018</u>	<u>\$ (4,527)</u>	

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the projected benefit obligations to variations in significant actuarial assumptions, the same method has been applied as for calculating the liability recognized in the statement of financial position.

The following table shows the expected benefits to be paid under the three pension plans on an undiscounted basis. It should be noted that the actual amounts may vary from expected amounts.

	<i>June 30, 2015</i>			<i>June 30, 2014</i>		
	SRP	RSBP	PEBP	SRP	RSBP	PEBP
Duration (years)	15.2	20.6	14.9	15.6	21.2	15.7

<i>In thousands of US dollars</i>	<i>June 30, 2015</i>			<i>June 30, 2014</i>		
	SRP	RSBP	PEBP	SRP	RSBP	PEBP
Maturity analysis of benefits expected to be paid						
< 1 year	5,779	389	640	5,594	439	492
1 to 5 years	24,874	1,989	2,636	24,430	2,202	2,352
5 to 10 years	38,201	3,973	3,928	36,694	4,241	3,501

## Notes to Financial Statements

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

*In thousands of US dollars*

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	800	(600)
Effect on postretirement benefit obligation	5,500	(4,200)

### 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 years, with more frequent reviews and changes if and as needed based on market conditions.

The key long-term objective is to seek 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 equity, private equity and real estate.

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

## Notes to Financial Statements

The following table presents the policy asset allocation at June 30, 2015 and the actual asset allocation at June 30, 2015 and June 30, 2014 by asset category for the SRP and RSBP.

*In Percent*

Asset Class	SRP			RSBP		
	Policy	% of Plan Assets		Policy	% of Plan Assets	
	Allocation 2015	2015	2014	Allocation 2015	2015	2014
	(%)			(%)		
Fixed income & Cash	26	23	23	26	27	25
Public Equity	33	34	35	33	32	35
Private Equity	20	18	18	20	20	19
Market Neutral Hedge Funds	8	12	9	8	11	9
Real Assets <sup>a</sup>	13	13	12	13	10	10
Other <sup>b</sup>	-	-	3	-	-	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*a. Includes public and private real estates, infrastructure and timber.*

*b. Includes investments that are outside the policy allocations such as directional hedge funds and long-term private debt funds.*

### 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.

### 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.

## Notes to Financial Statements

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.

### 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, 2015 and June 30, 2014:

In thousands of US dollars		Fair Value Measurements on a Recurring Basis as of June 30, 2015									
	SRP					RSBP					
	Level 1	Level 2	Level 3	Not classified <sup>a</sup>	Total	Level 1	Level 2	Level 3	Not classified <sup>a</sup>	Total	
Debt Securities											
Time deposits	\$ 118	\$ -	\$ -	\$ -	\$ 118	\$ 15	\$ -	\$ -	\$ -	\$ 15	
Securities purchased under resale agreements	1,850	-	-	-	1,850	412	-	-	-	412	
Government and agency securities	27,762	6,647	-	-	34,409	3,324	1,685	-	-	5,009	
Corporate and convertible bonds	-	1,849	-	-	1,849	-	228	-	-	228	
Asset backed securities	-	1,055	-	-	1,055	-	137	-	-	137	
Mortgage backed securities	-	1,500	-	-	1,500	-	152	-	-	152	
Total Debt Securities	29,730	11,051	-	-	40,781	3,751	2,202	-	-	5,953	
Equities											
US common stocks	5,849	-	-	-	5,849	553	-	-	-	553	
Non-US common stocks	30,493	-	-	-	30,493	3,561	-	-	-	3,561	
Mutual Funds	3,477	-	-	-	3,477	652	-	-	-	652	
Real estate investments trusts (REITs)	4,677	-	-	-	4,677	445	-	-	-	445	
Total Equity Securities	44,496	-	-	-	44,496	5,211	-	-	-	5,211	
Commingled funds	-	-	-	19,867	19,867	-	-	-	2,201	2,201	
Private equity <sup>a</sup>	-	-	-	31,678	31,678	-	-	-	4,224	4,224	
Real estate (including infrastructure and timber) <sup>a</sup>	-	-	-	18,591	18,591	-	-	-	1,895	1,895	
Hedge funds <sup>a</sup>	-	-	-	20,764	20,764	-	-	-	2,370	2,370	
Derivative assets/liabilities	(13)	107	-	-	94	(1)	20	-	-	19	
Other assets/liabilities, net <sup>b</sup>	-	-	-	224	224	-	-	-	(194)	(194)	
Total Assets	\$ 74,213	\$ 11,158	\$ -	\$ 91,124	\$ 176,495	\$ 8,961	\$ 2,222	\$ -	\$ 10,496	\$ 21,679	

a. In accordance with FASB guidance on fair value measurement, certain investments measured at fair value using net asset value, have not been classified under the fair value hierarchy.

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

## Notes to Financial Statements

<i>In thousands of US dollars</i>	Fair Value Measurements on a Recurring Basis as of June 30, 2014									
	SRP					RSBP				
	Level 1	Level 2	Level 3	Not classified <sup>a</sup>	Total	Level 1	Level 2	Level 3	Not classified <sup>a</sup>	Total
<b>Debt Securities</b>										
Time deposits	\$ -	\$ 25	\$ -	\$ -	\$ 25	\$ -	\$ 2	\$ -	\$ -	\$ 2
Securities purchased under resale agreements	635	-	-	-	635	157	-	-	-	157
Government and agency securities	28,647	6,080	-	-	34,727	2,160	2,580	-	-	4,740
Corporate and convertible bonds	-	1,484	-	-	1,484	-	19	-	-	19
Asset backed securities	-	724	-	-	724	-	-	-	-	-
Mortgage backed securities	-	1,692	-	-	1,692	-	17	-	-	17
<b>Total Debt Securities</b>	29,282	10,005	-	-	39,287	2,317	2,618	-	-	4,935
<b>Equities</b>										
US common stocks	6,657	-	-	-	6,657	535	-	-	-	535
Non-US common stocks	30,112	-	-	-	30,112	3,410	-	-	-	3,410
Mutual Funds	5,519	-	-	-	5,519	876	-	-	-	876
Real estate investments trusts (REITs)	4,023	-	-	-	4,023	360	-	-	-	360
<b>Total Equity Securities</b>	46,311	-	-	-	46,311	5,181	-	-	-	5,181
Commingled funds	-	-	-	19,510	19,510	-	-	-	2,219	2,219
Private equity <sup>a</sup>	-	-	-	31,271	31,271	-	-	-	3,966	3,966
Real estate (including infrastructure and timber) <sup>a</sup>	-	-	-	17,267	17,267	-	-	-	1,618	1,618
Hedge funds <sup>a</sup>	-	-	-	21,244	21,244	-	-	-	2,164	2,164
Derivative assets/liabilities	7	(45)	-	-	(38)	(1)	(10)	-	-	(11)
Other assets/liabilities, net <sup>b</sup>	-	-	-	-	430	-	-	-	-	99
<b>Total Assets</b>	\$ 75,600	\$ 9,960	\$ -	\$ 89,292	\$ 175,282	\$ 7,497	\$ 2,608	\$ -	\$ 9,967	\$ 20,171

a. In accordance with FASB guidance on fair value measurement, certain investments measured at fair value using net asset value, have not been classified 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 are different from the asset category allocation shown in the Investment Strategy section of the notes. Asset classes in the table above are grouped by the characteristics of the investments held. The asset class breakdown 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.



---

## Notes to Financial Statements

---

### 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 asset backed securities such as collateralized mortgage obligations and mortgage-backed securities. These securities are valued by independent pricing vendors at quoted market prices for the same or similar securities, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Some debt securities are valued using techniques 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, money market instruments and 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 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 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 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 provided by external managers or fund administrators (based on the valuations of underlying

## Notes to Financial Statements

investments) on a monthly basis, and reviewed by management, taking into consideration the latest audited financial statements of the funds.

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

### Investment in derivatives

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, 2015:

*In thousands of US dollars*

	SRP	RSBP		PEBP
		Before Federal Subsidy	Federal Subsidy	
July 1, 2015 - June 30, 2016	\$ 6,017	\$ 394	\$ 5	\$ 651
July 1, 2016 - June 30, 2017	6,278	429	-	677
July 1, 2017 - June 30, 2018	6,537	472	-	689
July 1, 2018 - June 30, 2019	7,027	524	-	730
July 1, 2019 - June 30, 2020	7,576	589	-	786
July 1, 2020 - June 30, 2025	46,296	4,199	-	4,791

### 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, 2015 is \$2,952,000 and \$1,005,000, respectively.

## Notes to Financial Statements

### 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 services on guarantee projects.

Total fees paid by MIGA for the fiscal year ended June 30, 2015 and June 30, 2014 are as follows:

*In thousands of US dollars*

	<i>Fiscal Year Ended</i>	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Fees charged by IBRD/IDA	\$ 10,452	\$ 11,667
Fees charged by IFC	2,907	4,094

At June 30, 2015 and June 30, 2014, MIGA had the following receivables from (payables to) its affiliated organizations with regard to administrative services and pension and other postretirement benefits:

*In thousands of US dollars*

	<u>June 30, 2015</u>			<u>June 30, 2014</u>		
	Administrative & Other Services <sup>a</sup>	Pension and Other Postretirement Benefits <sup>b</sup>	Total	Administrative & Other Services <sup>a</sup>	Pension and Other Postretirement Benefits <sup>b</sup>	Total
IBRD	\$ (4,104)	\$ 8,074	\$ 3,970	\$ (4,632)	\$ 7,591	\$ 2,959
IFC	(3,971)	-	(3,971)	(2,229)	-	(2,229)
	<u>\$ (8,075)</u>	<u>\$ 8,074</u>	<u>\$ (1)</u>	<u>\$ (6,861)</u>	<u>\$ 7,591</u>	<u>\$ 730</u>

a. This amount is included in Accounts payable and accrued expenses on the Balance Sheet.

b. This amount is included under Miscellaneous assets on the Balance Sheet.

## Notes to Financial Statements

### *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, 2015 and June 30, 2014, the outstanding off-balance sheet amounts relating to this exposure exchange agreement were as follows:

*In thousands of US dollars*

	<i>Fiscal Year Ended</i>	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
IBRD's exposure assumed by MIGA	\$ 108,786	\$ 120,000
MIGA's exposure assumed by IBRD	113,360	120,000
Net amount	<u>\$ (4,574)</u>	<u>\$ -</u>

As of June 30, 2015, the recorded liabilities related to MIGA's obligation under the existing exposure exchange agreement with IBRD amounted to \$4.3 million (\$1.8 million – June 30, 2014) and is included in Insurance portfolio reserve on the Balance Sheet.

### **Note H: Accumulated Other Comprehensive Income (Loss)**

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) for the fiscal years ended June 30, 2015 and June 30, 2014:

*In thousands of US dollars*

	<i>Fiscal Year Ended June 30, 2015</i>			
	<u>Cumulative Translation Adjustment<sup>a</sup></u>	<u>Unrecognized Net Actuarial Losses on Benefit Plans</u>	<u>Unrecognized Prior Service Costs on Benefit Plans</u>	<u>Total Accumulated Other Comprehensive Loss</u>
Balance, beginning of fiscal year	\$ 3,435	\$ (31,082)	\$ (2,181)	\$ (29,828)
Changes during the year:				
Changes in fair value AOCL	-	5,401	-	5,401
Amounts reclassified into net income <sup>b</sup>	-	2,032	236	2,268
Net change during the year	<u>-</u>	<u>7,433</u>	<u>236</u>	<u>7,669</u>
Balance, end of fiscal year	<u>\$ 3,435</u>	<u>\$ (23,649)</u>	<u>\$ (1,945)</u>	<u>\$ (22,159)</u>

*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.*

## Notes to Financial Statements

*In thousands of US dollars*

	Fiscal Year Ended June 30, 2014			
	Cumulative Translation Adjustment <sup>a</sup>	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	\$ (24,814)	\$ (1,587)	\$ (22,966)
Changes during the year:				
Changes in fair value AOCL	-	(7,901)	(764)	(8,665)
Amounts reclassified into net income <sup>b</sup>	-	1,633	170	1,803
Net change during the year	-	(6,268)	(594)	(6,862)
Balance, end of fiscal year	\$ 3,435	\$ (31,082)	\$ (2,181)	\$ (29,828)

*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.*

### Note I: Fair Value Measurement

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

### Note J: 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.

## Notes to Financial Statements

The description below provides information on the various risks to which MIGA is exposed, including a discussion on the related risk mitigants.

### *Risk Categories*

- *Credit Risk – Reinsurance Counterparts*

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

The following table summarizes the ceded exposure by counter-party rating as of June 30, 2015 and June 30, 2014:

<i>In thousands of US dollars</i>		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
AAA	-	100,000
AA	1,903,449	2,148,445
AA-	1,161,005	1,277,730
A+	1,538,542	1,625,788
A	179,609	111,591
BBB	-	27,301
BBB-	22,368	-
Total <sup>a</sup>	<u>4,804,973</u>	<u>5,290,855</u>

a. As of June 30, 2015, excludes \$20,886K relating to CAFEF (June 30, 2014 - \$5,250K)

- *Credit Risk – Investment Portfolio*

MIGA's investment portfolio does not have material credit risk exposure as the portfolio is currently invested in fixed-income securities with high credit quality. The Board's Investment Authorization stipulates that government or agency sponsored debt securities be AA-rated or above, time deposits be A-rated or above, and corporate debt securities be AAA-rated.

- *Interest Rate Risk*

Interest rate changes affect the market values of MIGA's invested assets. A need to liquidate assets to pay for claims in an unfavorable interest rate environment may generate trading losses and reduce investment income. Changes in interest rates will also affect prepayment speeds of mortgage and asset backed security holdings, which may affect the duration of the asset portfolio. A 100 basis point parallel shift in the yield curve would impact the net income for the fiscal year ended June 30, 2015, by approximately \$18.8 million (\$15.9 million – June 30, 2014). This interest rate sensitivity is illustrative only and is based on simplified scenarios. The impact of a parallel shift in interest rates is determined using market value weighted portfolio duration applied to invested asset balance at year end.

---

## Notes to Financial Statements

---

- *Foreign Exchange Rate Risk*

The majority of MIGA's assets and contingent liabilities are denominated in USD, but some guarantee contracts are issued in other currencies such as EUR. To the extent that a claim is made in a non-USD currency and requires payment in excess of MIGA's holdings of that currency, MIGA may face a foreign exchange related loss in converting to the needed currency to pay for a claim. A 10% change in the USD/Euro year end exchange rate would impact net income for the fiscal year ended June 30, 2015, by approximately \$15.5 million (\$16.6 million – fiscal year end June 30, 2014) and net guarantee exposure by approximately \$275.6 million (\$281.8 million – fiscal year end June 30, 2014). The impact on the net income is mitigated by an offsetting effect due to exchange rate movement on investment portfolio and other assets. This foreign exchange rate sensitivity is illustrative only and is based on simplified scenarios.