Management's Discussion & Analysis
and
Financial Statements

June 30, 2018

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1. EXECUTIVE SUMMARY

This document provides Management's analysis of the financial condition and results of operations for the Multilateral Investment Guarantee Agency (MIGA or "the Agency") for the fiscal year ended June 30, 2018 (FY18). Key financial indicators for the past five years are provided in **Box 1**.

FY18 Operational Results

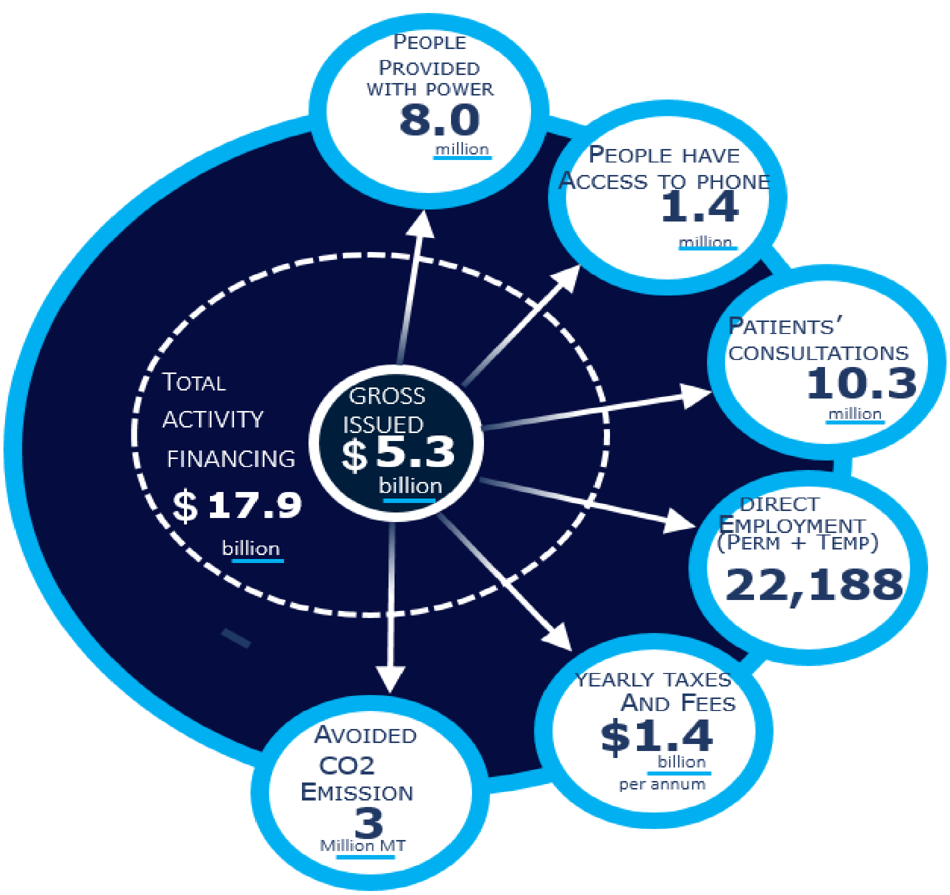
New Business

For FY18, new guarantee business reached a record high of $5.3 billion in support of 39 projects and reflects an 8% growth over FY17 new business volume of $4.8 billion, and nearly double FY13 level of $2.8 billion. Since inception, the Agency has issued more than $50 billion of guarantees and supported over 845 projects.

Of the 39 projects supported during FY18, 33% were in IDA-eligible countries, 15% were in Fragile and Conflict-Affected Situations (FCS) and 59% were projects related to Energy Efficiency and Climate Change (EECC), with all three being strategic priority areas for MIGA.

These guarantees are expected to provide power to 8 million people, better access to telephone service to 1.4 million people, increase patients' consultation to 10.3 million people, create over 22,000 jobs, generate $1.4 billion in taxes and fee revenue to the host governments per year, and avoid 3 million metric tons of CO2 emission. (**See Figure 1**)

Figure 1. Expected Development Results from Guarantees Issued in FY18



Guarantee Portfolio

The growth of the outstanding gross guarantee portfolio also continued, reaching a record high of $21.2 billion as of June 30, 2018, a 19% increase from June 30, 2017, and nearly double the $10.8 billion level as of end-FY13. The increase is attributable to the combination of new business volume and the low portfolio run-off during FY18. Of the gross outstanding exposure as of end-FY18, 31% is to IDA-eligible countries, 9% is to FCS and 22% is related to EECC, reflecting MIGA's strong commitment to these strategic priority areas.

The Agency continued to leverage reinsurance during FY18, and with 63% of the outstanding gross portfolio reinsured, net guarantee exposure increased to a record level of $7.9 billion as of end-FY18, up 16% from $6.8 billion as of end-FY17.

As of June 30, 2018, the top five host countries made up 24% of MIGA's total net guarantee exposure and the top ten host countries made up 40%.

FY18 Financial Results

Gross Premium Income

FY18 gross premium income increased by 17% to $210 million from $180 million in FY17, reflecting the significantly higher average gross exposure, partially offset by the lower effective portfolio premium rate. In comparison to the FY13 level of $97 million, gross premium income has more than doubled.

Net Premium Income

FY18 net premium income increased by 12% to $104 million from 93 million in FY17, relative to the 17% increase in gross premium income. Contributing to this increase is the ceding commission impact of the enhanced use of reinsurance for portfolio concentration management and prudent capital management implemented by the Agency over the past few fiscal years.

Operating Income

Operating income, defined as net premium income minus administrative expenses, increased by 25% from $41.9 million in FY17 to $52.5 million in FY18. Consequently, the Administrative Expenses-to-Net Premium Income ratio, one of MIGA's key measures of financial sustainability, also decreased to 50% from 55% in FY17.

Reserve for Claims

The Agency recorded an increase in reserve for claims of $27.6 million in FY18, compared to a decrease in reserve for claims of $154.3 million in FY17. Included in the FY17 decrease in reserve for claims is a reduction in the net Insurance Portfolio Reserve (IPR), representing a one-time change in accounting estimate of $164.3 million, resulting from the implementation of the new Economic Capital (EC) model.

Net Income

For FY18, MIGA recorded net income of $40.9 million compared to $200.2 million in the prior year. Excluding the one-time effect of the new EC model implementation in FY17, the FY17 net income would have been $35.9 million, or $5.0 million lower than FY18 net income.

Capital Management

As of June 30, 2018, the guarantee portfolio EC was $605 million while the Total EC was $685 million, with MIGA's capital utilization ratio (defined as Total EC / Operating Capital[1]) increasing to 47% from 42% as of June 30, 2017, reflecting the changes in the portfolio risk composition and the increase in net guarantee portfolio during FY18.

The current level of capital utilization is well within the range where the Agency is comfortable to continue growing MIGA's business.

[1] Operating Capital is defined as the sum of paid-in-capital, retained earnings, accumulated other comprehensive income (AOCI) and the insurance portfolio reserve, net of the corresponding reinsurance recoverable.

Box 1. Key Financial Indicators, Fiscal Years 2014 - 2018

As of and for the fiscal years ended June 30

US$ millions, unless otherwise stated

	2018	2017	2016	2015	2014
Guarantee Activities (See Section 4. Business Performance)					
New business	5,251	4,842	4,258	2,828	3,155
Cumulative new business (since inception)[1]	50,203	44,952	40,110	35,852	33,024
Portfolio run-off (including cancellations)	1,813	1,252	2,609	2,699	1,505
Gross guarantee exposure	21,216	17,778	14,187	12,538	12,409
Net guarantee exposure	7,878	6,780	6,665	7,708	7,113
Guarantee portfolio reinsurance rate[2]	63%	62%	53%	38%	43%
Financial Results (See Section 3. Financial Performance)					
Gross premium income	210.1	179.7	139.8	128.1	115.6
Net premium income	104.1	93.2	86.4	79.0	72.5
Operating income[3]	52.5	41.9	38.3	34.1	26.9
Net income (loss)	40.9	200.2	56.8	(10.8)	70.0
Administrative Expense / Net Premium Income Ratio (%)	50%	55%	56%	57%	63%
Cumulative Loss Ratio[4] (%)	1.5%	1.7%	1.6%	1.7%	1.5%
Investing Activities (See Section 8. Investment Management)					
Net investment portfolio	1,548	1,516	1,376	1,323	1,282
Investment income	15.5	4.8	22.9	24.1	53.4
Return on investments (%)	1.0%	0.3%	1.7%	2.0%	4.4%
Portfolio Risk Measures (See Section 9. Financial Risk Management)					
Top five host country concentrations[5]	23.8%	25.8%	24.8%	26.9%	30.2%
Top ten host country concentrations[5]	40.4%	43.3%	42.2%	46.7%	50.7%
Capital Measures (See Section 7. Capital Management)					
Total shareholders' equity	1,261	1,213	989	971	974
Operating capital[6]	1,471	1,398	1,329	1,312	1,262
Total economic capital[7,8]	685	592	663	705	620
Total economic capital/operating capital (%)[8]	47%	42%	50%	54%	49%

1. Includes amount leveraged through the Cooperative Underwriting Program (CUP).

2. Guarantee portfolio reinsurance rate is inclusive of public and private reinsurance but excludes amounts ceded to IDA and Conflict Affected and Fragile Economies Facility (CAFEF).

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

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

5. Net exposure host country concentrations .

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

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

8. Total EC and total EC/OC ratios from FY17 onwards ar based on the new EC model commissioned in December FY17, and are not comparable to EC amounts and ratios relating to fiscal years prior to FY17, that are based on the old EC model.

2. OVERVIEW

Introduction

MIGA is a member of the World Bank Group (WBG)[2] and is a legal entity separate and distinct from the other WBG entities with its own charter, as amended (the "Convention"), share capital, financial structure, management and staff. Membership in the Agency, which currently stands at 181 countries, is open to all members of the International Bank for Reconstruction and Development (IBRD).

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

MIGA is committed to promoting projects that are economically, environmentally and socially sustainable and that promise a strong development impact. Since its inception, MIGA has issued over $50 billion of guarantees, in support of over 845 projects in 111 of its 181 member countries (inclusive of developed countries). The Agency has also supported multiple programs at regional and global levels in member countries.

MIGA's Outlook and Strategic Focus

In April 2017, MIGA's Board of Directors endorsed the Agency's FY18-20 Strategy, "**MIGA2020#impact@scale**". This strategy addresses the WBG twin goals and Forward Look through mobilizing more foreign direct investment while prioritizing IDA-eligible countries, FCS and Climate Finance and aiming to increase annual guarantees by 40% by FY20 from the FY16 level. MIGA plans to achieve these goals by growing core business, innovating applications, creating projects for impact, and working with the World Bank and IFC to create markets.

Non-Commercial Risk Insurance

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

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

[2] 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).
[3] 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.

investments—such as technical assistance and management contracts, or franchising and licensing agreements—may also be eligible.

Box 2. MIGA's Product Line Up

Political Risk Insurance

- **Transfer restriction and inconvertibility –** provides coverage for the risk of inconvertibility of local currency into foreign exchange for transfer outside the host country. Currency depreciation is not covered.
- **Expropriation** – protects against losses attributable to measures taken or approved by the host government that deprive the insured of its ownership or control over all or a substantial portion of its investment.
- **War and civil disturbance** – covers the risk of damage to, or the destruction or disappearance of, tangible covered assets caused by politically motivated acts of war or civil disturbance in the host country, including revolution, insurrection, coups d'état, sabotage and terrorism.
- **Breach of contract** – covers the risk of being unable to obtain or enforce an arbitral or judicial decision recognizing the breach of an obligation by the host government or a state-owned enterprise.

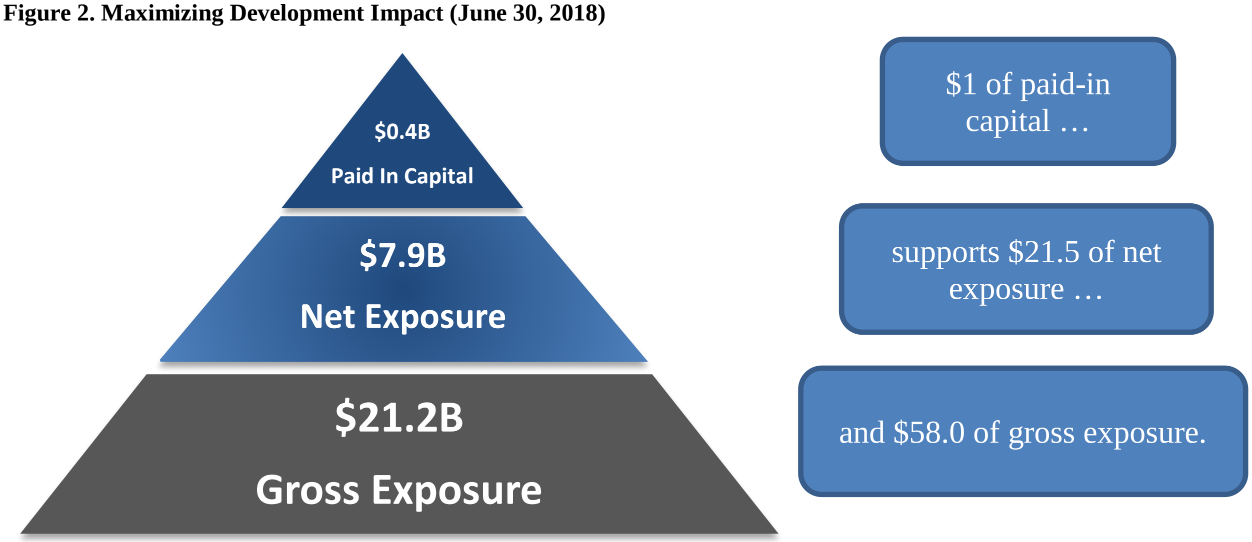
Non-Honoring of Financial Obligations

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

Business and Operating Model

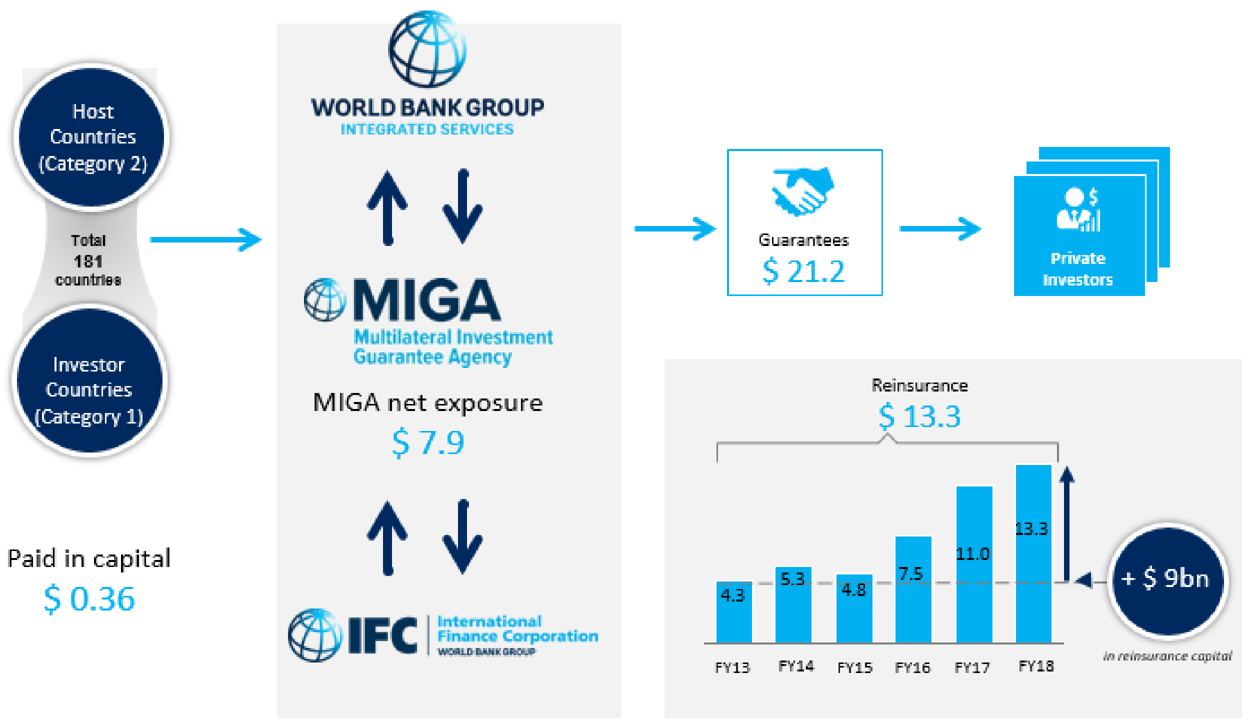
MIGA is financially self-sustaining and its activities are supported by a strong capital base and a comprehensive risk management framework. In the context of its statutory underwriting capacity, the Agency is able to support significant amounts of gross exposure and to contain risk, through the use of reinsurance in order to manage net guarantee exposure and the related capital utilization. **Figure 2** below illustrates how MIGA is able to utilize its paid-in capital base, coupled with reinsurance capacity, to maximize its development reach. As of June 30, 2018, each $1 of paid-in capital supported $58.0 of gross guarantee exposure.

Figure 2. Maximizing Development Impact (June 30, 2018)



MIGA's operating model leverages the entire World Bank Group (WBG), and mobilizes private and public reinsurers, multiplying the impact of its member countries investments. **Figure 3** below is a graphic depiction of the Agency's operating model. Over the last five years, MIGA has secured about $9 billion in additional reinsurance capital, allowing it to support its growth trajectory through increased guarantee capacity, without the need for additional capital from its shareholders.

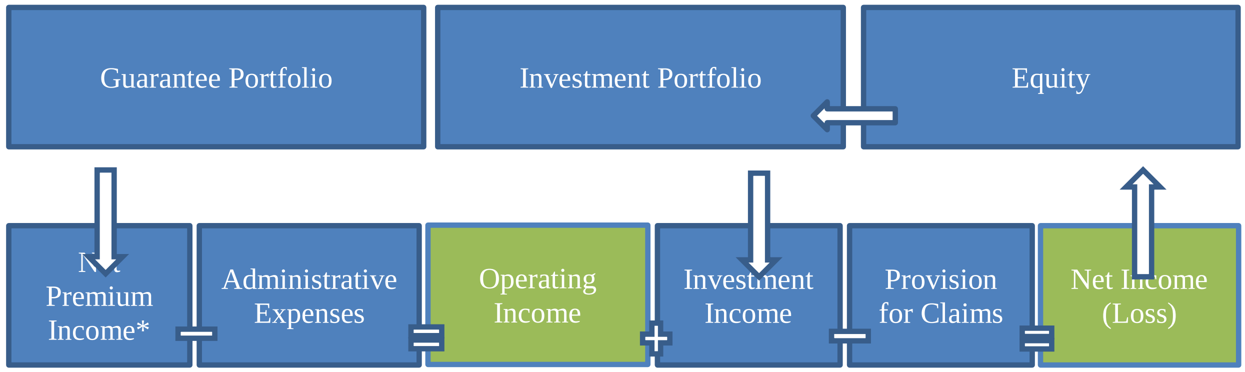
Figure 3. MIGA Operating Model (June 30, 2018) ($B)



Financial Model

In fulfilling its mandate, MIGA seeks to operate in a financially sustainable manner by generating sufficient revenue from its guarantee and investment portfolios to cover its operating and claims-related expenses and contribute to the growth of its capital base. MIGA's business revenue base is represented by net premium income from its guarantee portfolio which is comprised of gross premium income less premium ceded to reinsurers net of ceding commissions and less brokerage costs. Operating income, defined as net premium income less administrative expenses, combined with earnings from the investment portfolio and after claim loss provisioning, enables MIGA to increase capital resources in the form of retained earnings and insurance portfolio reserve to strengthen its ability to support existing and new guarantee exposures. (**See Figure 4**).

Figure 4. MIGA Financial Model



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

Basis of Reporting

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

3. FINANCIAL PERFORMANCE

MIGA's FY18 reported net income of $40.9 million is significantly lower than FY17 net income of $200.2 million by $159.3 million. This decline is primarily attributable to the effect of one-time reduction in the Insurance Portfolio Reserve (IPR) of $164.3 million during FY17, resulting from the implementation of the new Economic Capital (EC) model, which is also used for provisioning purposes. Excluding the effect of this one-time change in accounting estimate, FY18 net income of $40.9 million would have been $5.0 million higher than the adjusted FY17 net income.

Table 1 below shows the breakdown of MIGA's financial results over the past five years, followed by **Table 2** that provides an analysis of FY18 vs FY17 net income, with the FY17 net income adjusted to exclude, for illustrative purposes, the one-time impact of the new EC model introduction.

Table 1. Summary of Net Income and Key Financial Ratios (FY14-FY18) ($M)

As of and for the Year Ended June 30	2018	2017	2016	2015	2014
Gross Premium Income	210.1	179.7	139.8	128.1	115.6
Premium Ceded	(131.1)	(105.3)	(64.1)	(56.6)	(50.1)
Ceding Commissions and Fees	32.2	25.5	15.6	12.6	10.9
Brokerage and Other Charges	(7.1)	(6.7)	(4.9)	(5.1)	(4.0)
Net Premium Income	**104.1**	**93.2**	**86.4**	**79.0**	**72.5**
Administrative Expenses	(43.8)	(41.1)	(42.8)	(39.0)	(39.9)
Pension and Post Retirement Benefit Plan Expense	(7.8)	(10.2)	(5.3)	(5.9)	(5.6)
Operating Income(1)	**52.5**	**41.9**	**38.3**	**34.1**	**26.9**
Income from Investments	15.5	4.8	22.9	24.1	53.4
Miscellaneous Income	0.1	1.3	-	-	-
Translation (Losses) Gains	0.4	(2.0)	(0.3)	(18.1)	2.8
(Increase) Decrease in Reserves for Claims and Other Exposures(2)	(27.6)	154.3	(4.1)	(50.9)	(13.1)
Net Income (Loss)	**40.9**	**200.2**	**56.8**	**(10.8)**	**70.0**
Key Financial Ratios					
Administrative Expenses / Net Premium Income	50%	55%	56%	57%	63%

Note: numbers may not add up due to rounding.
(1) Operating Income = Net Premium Income less Administrative and Pension and Post Retirement Benefit Plan Expenses
(2) Provisions are net of currency translation effect

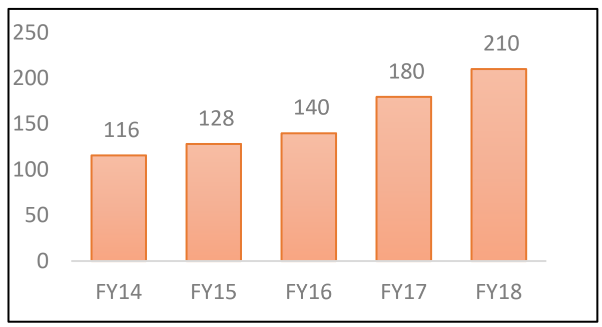
Table 2. FY18 vs FY17 Income Statement Variance Analysis ($M)

For the Year Ended June 30	2018	2017			YoY Variance	
	As reported	As reported	Impact of new EC Model	Adjusted	Total	% Change
Gross Premium Income	**210.1**	**179.7**		**179.7**	**30.4**	**17%**
Net Premium Income	**104.1**	**93.2**		**93.2**	**10.9**	**12%**
Administrative Expenses (Including Pension and Post Retirement Benefit Plans)	(51.6)	(51.3)		(51.3)	(0.3)	1%
Operating Income	**52.5**	**41.9**		**41.9**	**10.6**	**25%**
Income from Investments	15.5	4.8		4.8	10.7	224%
Miscellaneous Income	0.1	1.3		1.3	(1.1)	-90%
Translation Gains (Losses)	0.4	(2.0)		(2.0)	2.5	-120%
(Increase) Decrease in Reserves for Claims and Other Exposures	(27.6)	154.3	164.3	(10.0)	(17.6)	177%
Net Income (Loss)	**40.9**	**200.2**	**164.3**	**35.9**	**5.0**	**14%**

Following is a discussion of the key drivers of MIGA's financial performance in FY18 compared to FY17.

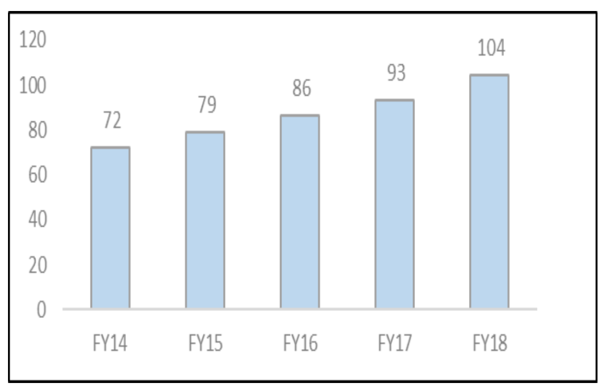
Gross Premium Income (GPI): FY18 gross premium income growth of 17% is largely attributable to the effect of the significantly higher average gross exposure, partially offset by the lower effective portfolio premium rate as reflected in **Figure 8**. **Figure 5** shows the growth of the Agency's gross premium income over the past five fiscal years, nearly doubling from the FY14 level of $116 million to $210 million in FY18. In addition, non-honoring guarantees have played a significant role in GPI growth over the past few fiscal years, with 45% of the FY18 GPI generated by non-honoring guarantees, up from 28% in FY14.

Figure 5. Gross Premium Income (FY14 – FY18) ($M)



Net Premium Income (NPI): FY18 net premium income reflects a growth of 12% compared to the 17% growth in gross premium income, also reflecting the impact of the Agency's enhanced reinsurance strategy. As a result of this strategy, out of $210.1 million GPI in FY18, the Agency ceded premiums to reinsurers totaling $131.1 million and earned ceding commissions of $30.8 million, compared to premiums ceded of $105.3 million and ceding commissions of $24 million in FY17. While premiums ceded in FY18 increased by $25.8 million (25%), ceding commissions, which are earnings that represent a relatively less risky exposure base (i.e. reinsurer counterparty exposure), increased by $6.8 million (28%).

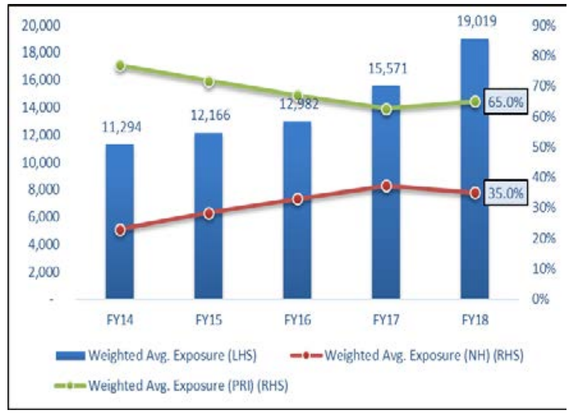
Figure 6. Net Premium Income (FY14 – FY18) ($M)



Primary Drivers for changes in Gross and Net Premium Income

Average Gross Exposure: One of the primary drivers for changes in premium revenue is the size of the portfolio. As of end-FY18, average gross exposure of the guarantee portfolio was $19.0 billion compared to $15.6 billion in FY17, reflecting an increase of $3.4 billion (22%). As noted earlier, the Agency has two distinct products in its portfolio – PRI and Credit Enhancement products (non-honoring). The average gross exposure of the PRI product increased to $12.4 billion as of end-FY18 from $9.8 billion as of end-FY17, an increase of $2.6 billion or 27%. Similarly, average gross exposure of the non-honoring product increased to $6.6 billion as of end-FY18, compared to $5.8 billion as of end-FY17, an increase of 15%. Given the inherent riskiness of the latter, premium rates for guarantees under this product type tend to be higher than those under the PRI product. The increased non-honoring portfolio size over the past five fiscal years has therefore contributed significantly to the increase in premium revenue with the latter contributing to almost 45% of the total premium revenue.

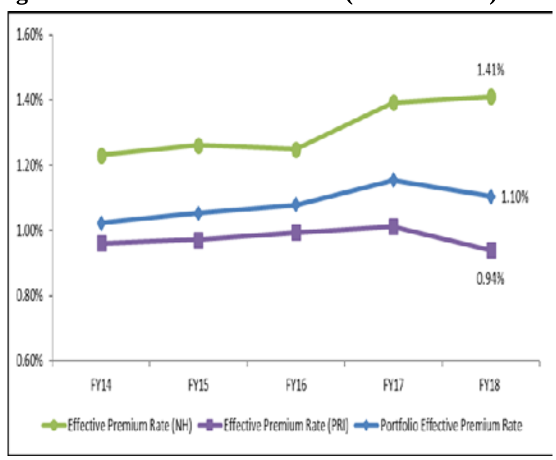
Figure 7. Average Gross Exposure (FY14 – FY18) ($M)



Effective Portfolio Premium Rate: Also instrumental in determining the premium revenue for the Agency, is the effective portfolio premium rate which decreased to 1.10% as of June 30, 2018 from 1.15% as of June 30, 2017. The decline was mainly driven by the increased proportion of the PRI product in the total average portfolio, earning a lower effective premium rate than the non-honoring guarantees, and an increase in single cover PRI transactions during the year.

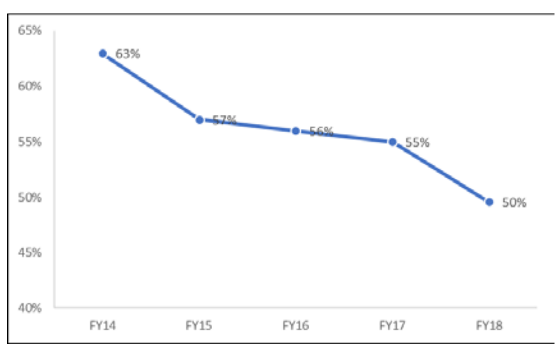
The effective rate for the non-honoring product increased to 1.41% as of June 30, 2018 compared to 1.39% as of June 30, 2017 while the effective rate on PRI decreased to 0.94% as of June 30, 2018 from 1.01% as of June 30, 2017.

Figure 8. Effective Premium Rate (FY14 – FY18)



Administrative Expenses (including Pension and Post Retirement Benefit Plan Expenses): Administrative expenses, including pension and post-retirement benefit plan expenses in FY18, on a combined basis, were $51.6 million, compared to $51.3 million in FY17. The Administrative Expenses-to-Net Premium Income ratio, a key measure of MIGA's cost efficiency improved further to 50% for FY18 in comparison to 55% in FY17. This ratio has been consistently below the management-approved cap of 75%, decreasing from 63% in FY14 to 50% in FY18.

Figure 9. Administrative Expenses-to-NPI Ratio (FY14 – FY18)



Operating Income: FY18 operating income of $52.5 million represents a 25% increase over FY17, primarily driven by the growth in net premium income outpacing that of administrative expenses.

Investment Income: FY18 investment income was $15.5 million compared to $4.8 million in FY17. The increase in investment income of $10.7 million was primarily due to higher interest income and lower mark-to-market losses from the MBS and U.S. Treasury holdings. (See **Section 8, Investment Management** for details on the Investment Portfolio and returns).

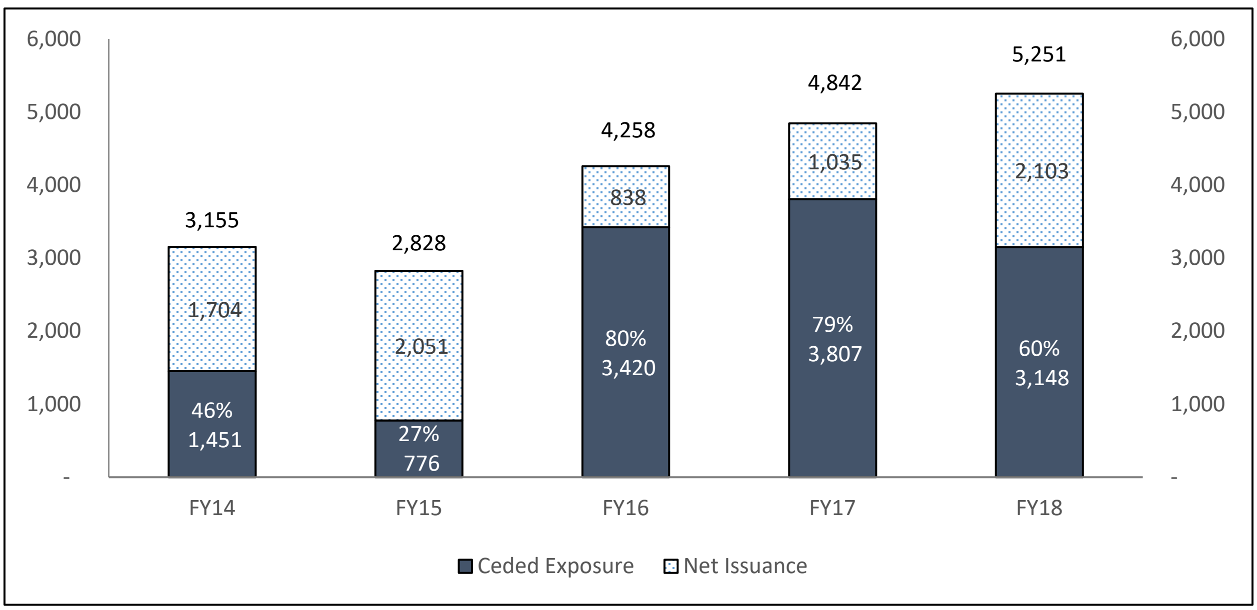
Increase in Reserve for Claims: FY18 increase in reserve for claims of $27.6 million, is driven primarily by the increase in the Insurance Portfolio Reserve (IPR) attributable to the increase in the size of the net guarantee portfolio, changes in portfolio composition, and net host country risk downgrades. In comparison, reserves for claims decreased by $ 154.3 million in FY17, primarily reflecting the impact of the introduction of the new EC model during that year, which resulted in a one-time decrease of $164.3 million in the net IPR. Excluding the effect of this one-time change in accounting estimate, the FY17 reserve for claims increased by $10 million due to changes in portfolio composition and net host country risk downgrades.

4. OPERATIONAL PERFORMANCE

New Guarantee Issuance

MIGA continued to facilitate foreign direct investment (FDI) into developing countries by providing its guarantee products to fit the unique needs of each project and sponsor. During FY18, the Agency issued a record $5.3 billion in new guarantees in support of 39 projects, reflecting an 8% growth over the $4.8 billion issued in FY17 and a 66% increase over new business volumes in FY14 of $3.2 billion. **Figure 10** below depicts the growth of MIGA's new business volumes over the last five fiscal years, in terms of the gross issuance, ceded volumes and the net amounts retained by the Agency.

Figure 10. New Guarantee Issuance (FY14 – FY18) ($M)



Cumulatively, MIGA has issued more than $50 billion in guarantees in 111 countries since its inception. **Table 3** below contains a summary of cumulative guarantees issued in member countries over the last five fiscal years.

Table 3. Cumulative Guarantees Issued in Member Countries

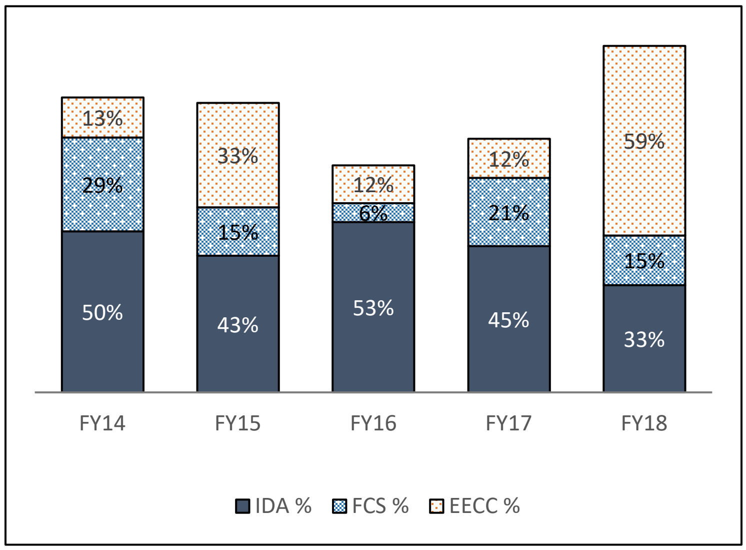
	FY18	FY17	FY16	FY15	FY14
Cumulative Guarantees Issued ($B)	50.2	45.0	40.1	35.9	33.0
Host Countries	111	110	109	109	109

Guarantees Issued by Priority Area

Of the 39 projects supported in FY18, 32 projects addressed one or more priority areas under the Agency's FY18-20 strategy, collectively representing 82% of the total projects supported in FY18. This includes guarantees totaling $1.2 billion issued in support of 13 projects (33% of total projects supported) in 12 IDA-eligible countries (Afghanistan, Bangladesh, Djibouti, Kosovo, Mauritania, Myanmar, Nigeria, Rwanda, Senegal, Sierra Leone, Pakistan and Uganda).

MIGA issued guarantees for $353 million in support of six projects (15%) in five Fragile and Conflict Affected States (FCS) – Afghanistan, Djibouti, Kosovo, Myanmar and Sierra Leone.

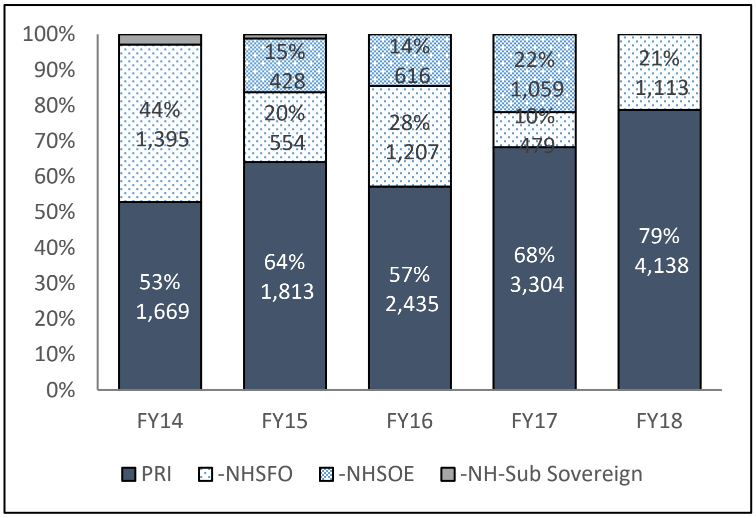
Figure 11. Projects Supported by Priority Area (% of Projects)



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

The Agency also issued guarantees in support of 23 projects (59%) in the EECC strategic priority area for a total of $917 million. **Figure 11** highlights the percentage of projects addressing each strategic priority area over the past five fiscal years.

Figure 12. Guarantees Issued by Product Type (%)



Guarantees Issued by Product Type

PRI guarantees issued by MIGA reached a record high of $4.1 billion (79% of total new guarantee business) in FY18 across all the four covers, compared to $3.3 billion (68% of total new guarantee business) in FY17. The Agency also issued its largest ever guarantee in relation to a capital optimization transaction in Argentina for a total of $1.35 billion.

Credit enhancement guarantees issued during FY18 amounted to $1.1 billion and were in relation to a gas pipeline project in Azerbaijan. In comparison, the Agency issued $1.5 billion (32%) of credit enhancement guarantees during FY17, with NHFO-SOE accounting for $1.0 billion and NHSFO for $0.5 billion. **Figure 12** provides the guarantee issuance breakdown by product type over the past five fiscal years.

Geographic Distribution of New Business Volume and Projects

During FY18, MIGA supported 14 projects in Sub Saharan Africa (SSA) issuing guarantees for just over $1.0 billion (20%), and included a mix of projects including several investments in the climate change strategic priority area. New guarantees issued in the Europe and Central Asia (ECA) region amounted to $1.9 billion and accounted for 37% of FY18 gross issuances, primarily on account of capital optimization deals, as well as the Agency's first non-honoring deal with Azerbaijan, in support of a natural gas pipeline system, transporting gas from Azerbaijan to Europe. The share of new business volumes in Latin America and Caribbean (LAC) increased to 30% of the total FY18 gross issuances, primarily due to a two large capital optimization transactions in Argentina and Peru. Collectively, the three regions, ECA, SSA and LAC for 87% of the total new business volumes in FY18.

While the remaining 13% of gross new business volumes related to guarantees issued in support of 16 projects (41% of project count) in Middle East and North Africa (MENA), East Asia and Pacific (EAP), and South Asia (SAR), 15 of these projects were in one or more of the Agency's strategic priority areas.

Table 4 provides the regional breakdown of new business by gross issued volumes and by number of projects supported in FY18 and FY17, respectively.

Table 4. Regional Breakdown of New Guarantee Business

Region	FY18 Projects	% Share of FY18 Projects	FY18 New Business ($m)	FY17 Projects	% Share of FY17 Projects	FY17 New Business ($m)
SSA	14	36%	$1,043	11	33%	$1,043
EAP	2	5%	172	2	6%	512
SAR	3	8%	132	3	9%	239
ECA	7	18%	1,942	15	45%	1,869
LAC	2	5%	1,597	1	3%	963
MENA	11	28%	365	1	3%	216
Total	**39**	**100%**	**5,251**	**33**	**100%**	**4,842**

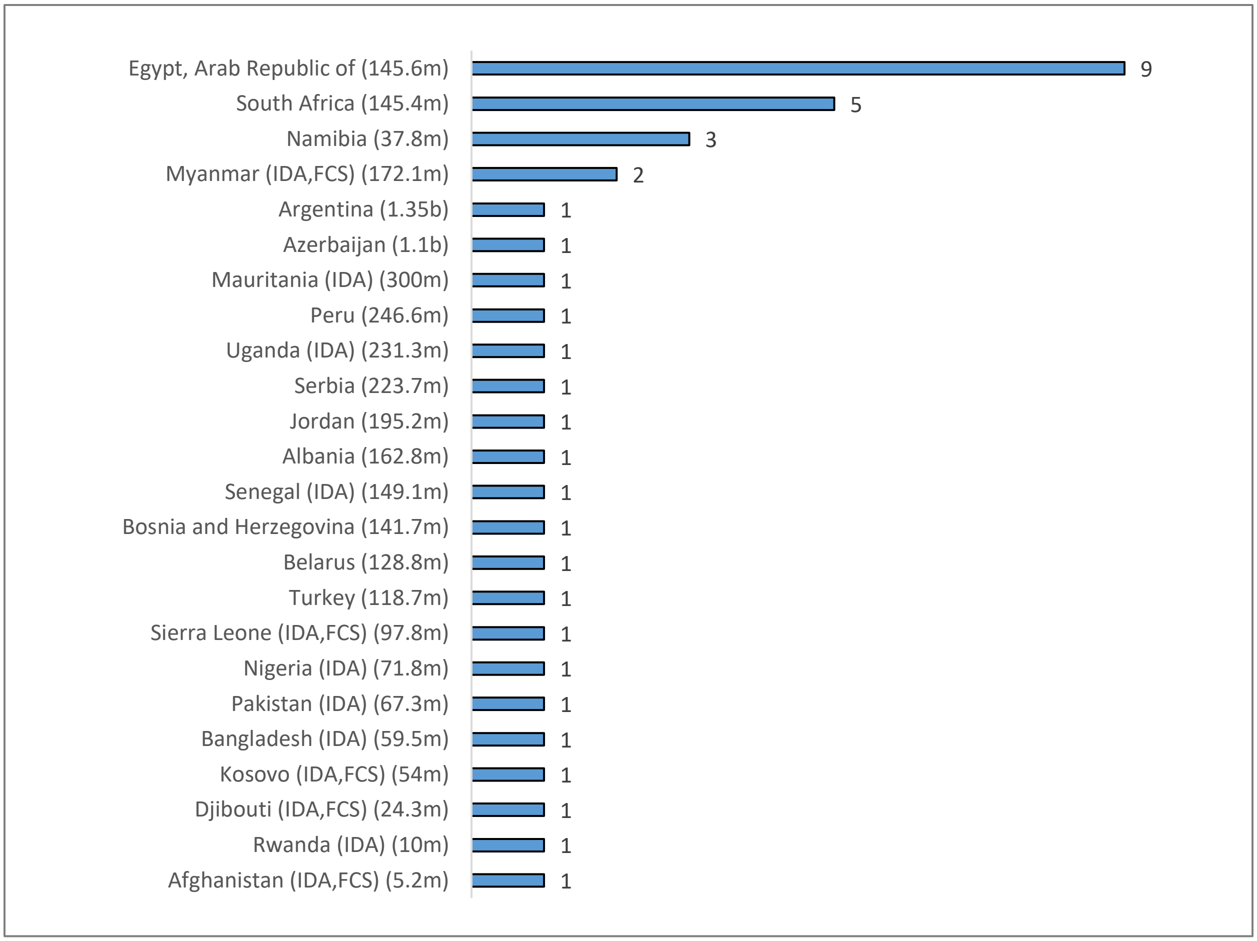
In terms of host countries, the Agency supported investments in 39 projects in 24 different host countries covering all six regions during FY18. **Figure 13** lists the new business volumes and number of projects supported by host country in descending order based on FY18 projects supported.

The Agency issued its largest ever guarantee in Argentina during FY18 for $1.35 billion, in support of a capital optimization project. MIGA also supported several small investments in IDA-eligible and FCS countries such as Afghanistan, Bangladesh, Djibouti, Pakistan, Rwanda and Sierra Leone.

During FY18, MIGA also issued its first five guarantees in Namibia, in support of three projects, two of which related to solar energy generating facilities. The third project included reinsurance to OPIC in support of an agribusiness project.

The Agency also supported nine solar power projects in Egypt for a total of $131 million. These represent nine of twelve projects approved by the Agency's Board in support of Egypt's Solar Feed-in Tariff (FiT) program.

Figure 13. FY18 Number of Projects Supported by Host Country



Guarantees issued under the IDA Private Sector Window (PSW)

A $2.5 billion IFC-MIGA Private Sector Window (PSW) was created in IDA18 with the goal of mobilizing private sector investment in IDA-only countries, particularly in FCS countries. The PSW will be deployed through four facilities, which have been designed to target critical challenges identified by IFC and MIGA's private sector counterparts and will leverage IFC and MIGA instruments including loan guarantees and derivatives. MIGA will participate in two of the four facilities under the PSW – the MIGA Guarantee Facility (MGF) and the Risk Mitigation Facility (RMF).

The Agency aims to utilize US$ 500 million set aside for the MIGA Guarantee Facility (MGF) of the IDA18 IFC-MIGA PSW through structures with first loss and risk participation akin to reinsurance, with the objective of expanding the coverage of MIGA's PRI products. The Agency will also administer, on behalf of IDA, the Risk Mitigation Facility (RMF), to provide project-based guarantees without sovereign counter-guarantee to crowd-in private investment in large infrastructure projects and public private partnerships (PPP's) supported by IFC.

During FY18, MIGA issued its first three guarantees supported by the MGF in Afghanistan, Myanmar and Sierra Leone for a total of $217.7 million and ceded a total exposure of $36.1 million to IDA using a shared first loss structure.

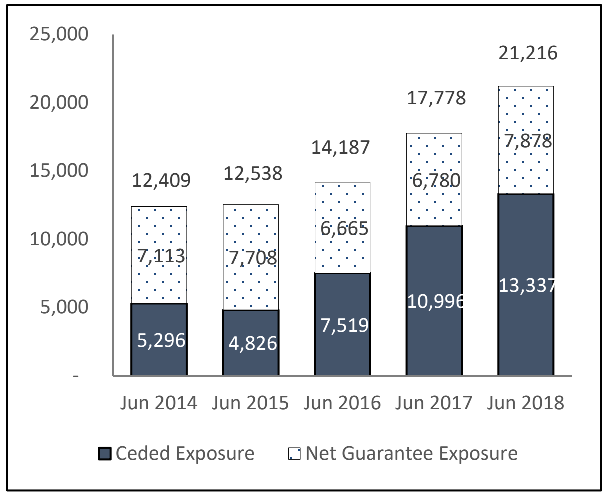
Guarantee Portfolio

Portfolio Evolution

MIGA's gross outstanding exposure continued its upward trajectory and reached a record high of $21.2 billion as of June 30, 2018, in comparison to the previous record high of $17.8 billion as of June 30, 2017. This reflects a growth of 19% with the increase primarily due to the record new business written during FY18, partially offset by low portfolio runoff.

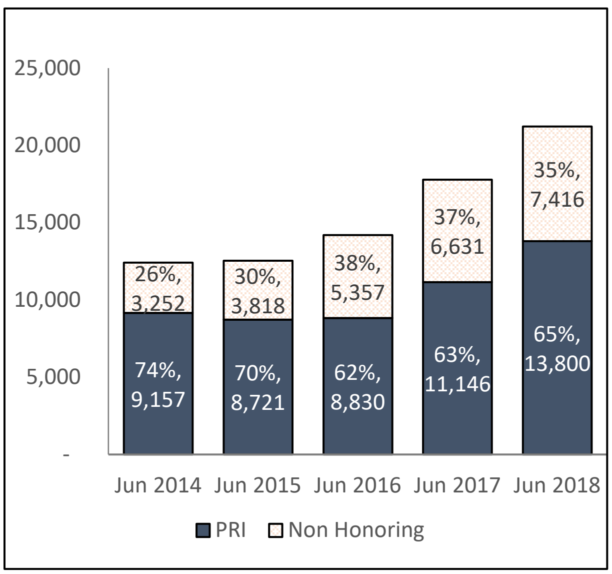
Net outstanding exposure also increased to a record level of $7.9 billion as of June 30, 2018, from $6.8 billion as of June 30, 2017, reflecting a 16% growth. **Figure 14** highlights the growth in the guarantee portfolio over the last five fiscal years.

Figure 14. Gross and Net Guarantee Portfolios ($M)



Portfolio Composition by Product Type

Figure 15. Portfolio Composition by Product ($M)



Gross outstanding exposure on tradtional PRI guarantees remained relatively flat between FY14 and FY16, averaging about $8.9 billion. The record new business in FY18 in PRI, coupled with low portfolio run-off, resulted in the PRI gross outstanding exposure increasing to $13.8 billion as of end-FY18 (65% of overall gross portfolio) from $11.1 billion (63%) as of end-FY17, representing a growth of $2.7 billion or 24%.

The gross outstanding exposure of credit enhancement guarantees as of end-FY18 accounted for $7.4 billion and 35% of the overall portfolio. The contribution of this product to the growth of the overall portfolio over the last five fiscal years has been significant, reflecting increased investor demand for the product from $3.3 billion as of end-FY14 to $7.4 billion as of end-FY18, a growth of $4.2 billion (128%) over the past five fiscal years.

Portfolio Exposure in Strategic Priority Areas

As of June 30 2018, MIGA's gross outstanding exposure in IDA-eligible countries was $6.6 billion or 31% compared to $6.6 billion (37%) as of end-FY17, and $5.2 billion (42%) as of end-FY14. While the share of IDA-eligible countries in the gross portfolio declined from end-FY14, the Agency significantly increased its portfolio exposure in these countries by $1.4 billion over the same period or by 27%. The decreasing share is attributable to the graduation of IDA-eligible countries with significant exposure such as Vietnam as well as the result of the non-honoring products gaining a more significant share in the overall portfolio, with the focus on middle income countries (MICs) for these products.

MIGA's exposure in FCS as of June 30, 2018 was $1.9 billion or 9% of the total gross portfolio, compared to $1.7 billion (10%) as of end-FY17, representing an increase of $171 million or 10%.

While the share of EECC projects in the overall gross outstanding exposure declined slightly from 23% as of end-FY17 to 22% as of end-FY18, the gross outstanding exposure of these projects increased to $4.7 billion as of end-FY18 from $4.2 billion as of end-FY17.

Investment Dispute Resolution

Consistent with Article 23 of the MIGA Convention, the Agency seeks to remove impediments to the flow of investment to developing member countries and to encourage the settlement of disputes between investors and host governments. MIGA actively pursues the resolution of disputes affecting MIGA-supported projects. In some cases, these efforts focus on situations in which either a claim has been or may be filed. Over the course of FY18, the Agency worked with a number of investors and host governments on incipient investment disputes. These discussions do not necessarily imply that a claim is imminent.

Claim Activities

During FY18, MIGA did not make any claim payments. As of June 30, 2018, there was one pending claim related to War and Civil Disturbance for which appropriate reserves have been maintained. Since its inception, the Agency has paid ten claims for a total of $26.5 million on a gross basis and $10.2 million, net of recoveries. Of the ten claims paid, eight were in relation to War and Civil Disturbance and two related to Expropriation.

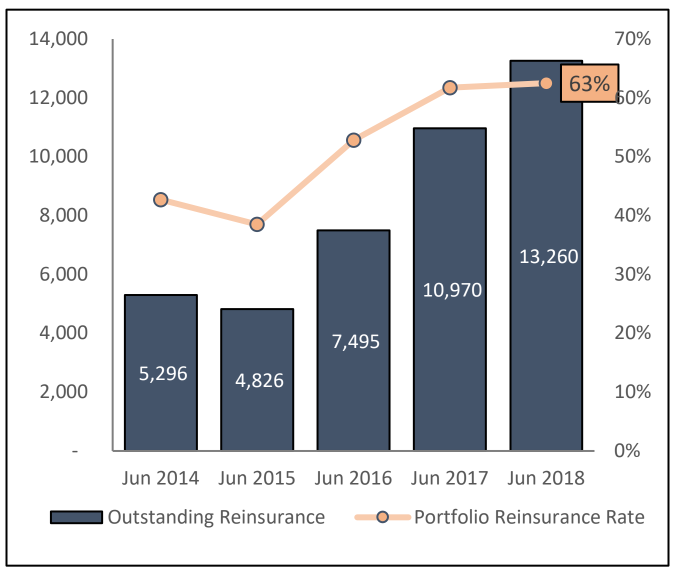
5. Reinsurance Management

Portfolio Reinsurance

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

As of June 30, 2018, $13.3 billion (63%) of the gross outstanding exposure was reinsured under facultative and quota share treaty arrangements. This compares to $11.0 billion (62%) as of end-FY17 and $7.5 billion (53%) as of end-FY16. **Figure 16** shows the evolution of the reinsurance portfolio over the past five fiscal years and the upward trend of the portfolio reinsurance rate.

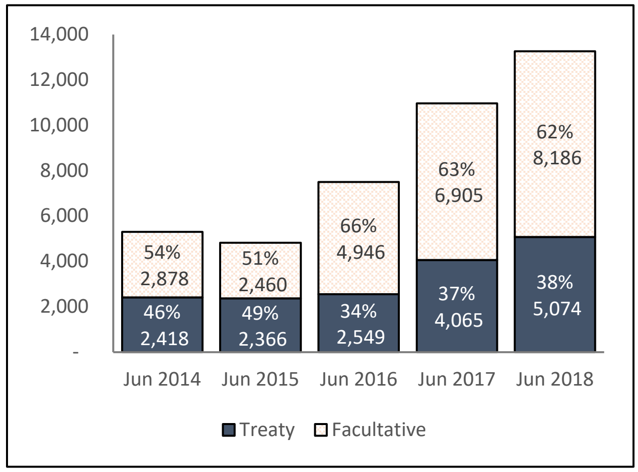
Figure 16. Portfolio Reinsurance ($M) and Rate (%)



Treaty and Facultative Reinsurance

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

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

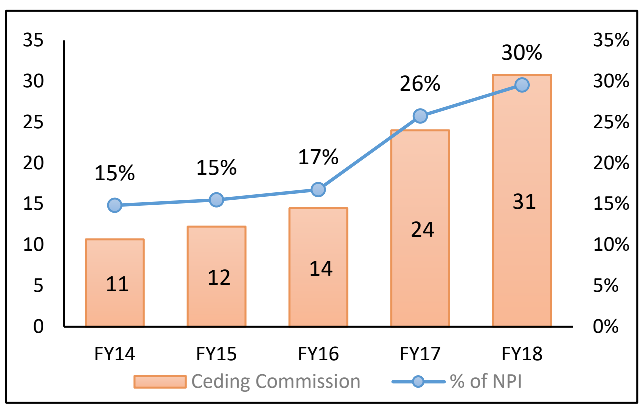


The Agency's treaty reinsurance attaches to a contract of guarantee when the associated gross exposure exceeds the attachment point defined in the treaty agreement. Attachment points and amounts ceded under treaty reinsurance vary according to country risk. As of June 30, 2018, exposure ceded to the panel of treaty reinsurers amounted to $5.1 billion or 38% of total outstanding reinsurance, an increase of $1.0 billion from the end-FY17 level of $4.1 billion.

In addition to treaty reinsurance, MIGA also cedes exposure through facultative reinsurance, as required, for large or high-risk projects or in host countries where the Agency has high concentration levels. Exposure ceded to facultative reinsurers was $8.2 billion as of end-FY18, or 62% of total outstanding reinsurance, an increase of $1.3 billion from the end-FY17 level of $6.9 billion (63%), and an increase of $5.3 billion from end-FY14 level, reflecting a growth rate of 19% and 184%, respectively. (**See Figure 17**)

Ceding Commissions Earned on Reinsurance Transactions

Figure 18. Ceding Commissions ($M)



Reinsurance allows MIGA to fulfill its developmental mandate by utilizing its capital efficiently and minimizing risk concentrations. Reinsurance also contributes to MIGA's revenue in the form of ceding commissions, (i.e. a percentage of the premiums ceded to reinsurers is retained by MIGA). During FY18, MIGA earned ceding commissions of $30.8 million, a 22% increase over commissions of $24.0 million earned in FY17. This constitutes 30% of the FY18 NPI and 26% of the FY17 NPI, respectively, reflecting a significant increase in revenue generated by low-risk counterparties (the weighted average rating of MIGA's reinsurance panel is AA-).

6. FUNDING SOURCES

Capital Stock

MIGA derives its financial strength primarily from the capital backing it receives from its shareholders and from its retained earnings and reserves. MIGA's Convention initially established its authorized capital stock (membership shares) at 100,000 shares—equivalent to $1,082 million—with a provision that the authorized capital stock shall automatically increase upon the admission of a new member to the extent that the total number of authorized shares are sufficient to allow subscription by the new member. As of June 30, 2018, MIGA had 181 member countries and a total subscribed capital of $1.9 billion. **Table 5** provides a summary of the capital stock as of June 30, 2018.

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, 2018, $110.1 million of paid-in capital is in the form of non-negotiable, non-interest bearing demand obligations (promissory notes). The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. Since inception, MIGA has not encashed any of the promissory notes.

Table 5. Capital Stock ($M) - June 30, 2018

	Total
Subscribed Capital	1,919
Of which:	
Paid in Capital	366
Callable Capital	1,553

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

Shareholders' Equity

Total shareholders' equity as of June 30, 2018 was $1,260.8 million compared to $1,213.2 million as of June 30, 2017, an increase of $47.6 million. The increase primarily reflects FY18's net income contribution of $40.9 million, coupled with the decrease in accumulated other comprehensive loss by $6.7 million, resulting from the amortization of unrecognized actuarial losses and prior service costs on the three pension and post-retirement benefit plans.

7. CAPITAL MANAGEMENT

Statutory Underwriting Capacity

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

As of June 30, 2018, MIGA's underwriting capacity was $28,380 million, as detailed in **Table 6** below. MIGA's gross outstanding exposure on that date was $21,216 million, and represented 75% of the Agency's statutory underwriting capacity.

Table 6. Statutory Underwriting Capacity ($M)

	June 30, 2018	June 30, 2017
Subscribed Capital	1,919	1,919
Retained Earnings	925	884
Accumulated Other Comprehensive Loss	(30)	(37)
Insurance Portfolio Reserve (net)	210	185
Total	3,024	2,951
500%[4] of Subscribed Capital, Retained Earnings, Accumulated Other Comprehensive Loss and Insurance Portfolio Reserve, net	15,120	14,752
100% of Exposure Ceded[5]	13,260	10,970
Statutory Underwriting Capacity	**28,380**	**25,722**

As noted in **Section 5**, the Board of Directors has authorized the Agency to reinsure its guarantees up to a maximum of 70% of gross exposure. As a result, the maximum guarantee capacity can be extended to $50.4 billion, based on a maximum net guarantee exposure scenario of $15.1 billion as of June 30, 2018 and 70% maximum portfolio reinsurance rate.

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[6] in the Agency and the risk of loss in the investment portfolio.

During FY17, MIGA implemented a new simulation-based EC model and associated core parameters with the primary objective of ensuring MIGA is employing a flexible model that is appropriate for measuring MIGA's risks related to the guarantee portfolio, as well as for pricing, assessing capital adequacy and reserving. A key change to the model engine was the ability of the new model to handle

[4] "Increase in Overall Limit on Guarantee Capacity (Adoption of Resolution and Tally of Voting)", MIGA Resolution No. 101, November 11, 2016 (MIGA/R2016-0094).

[5] For the purposes of calculation of FY18 underwriting capacity, exposure ceded excludes adjustments relating to the exposure exchange agreement with IBRD and amounts ceded to the CAFEF facility and IDA, which as of June 30, 2018 stood at $0.5 million, $41.1 million and $36.1 million, respectively.

[6] Operational risk capital is based on the Basel II methodology for calculating operational risk capital as a percentage of gross revenues and amounted to $64 million as of June 30, 2018.

more granular treatments of loss structures and portfolio exposures, such as limits and excess of loss structures. The new model strengthened calculations of extreme loss scenarios, representative of the low frequency but high severity nature of MIGA's portfolio. Additionally, some of the models core parameters, such as claim probabilities, recoveries, correlations and loss dependency assumptions, were reviewed and refined prior to the implementation.

Total economic capital, defined as capital consumption from the guarantee portfolio and estimated capital required for operational risk and investment risk, represents a broader measure of MIGA's capital adequacy. As of June 30, 2018, the economic capital consumed by the guarantee portfolio amounted to $605 million and the total economic capital for the Agency amounted to $685 million, compared to $518 million and $592 million, respectively, as of June 30, 2017.

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

MIGA's management monitors the level and utilization of available operating capital, comprised of paid-in-capital, retained earnings, accumulated other comprehensive income (AOCI) and the insurance portfolio reserve, net of the corresponding reinsurance recoverable, with the objective of ensuring sufficient operating capital is available to sustain expected and unexpected losses associated with claims and to support the ongoing business. **Table 7** shows the ratios of guarantee portfolio and total economic capital to operating capital over the past three years, which serve as measures of the current utilization of the operating capital by the guarantee portfolio and the whole Agency. These ratios stood at 41.1% and 46.6%, respectively, as of June 30, 2018 compared with 37.1% and 42.4% as of June 30, 2017. The increase is largely attributable to the increased net guarantee exposure during FY18.

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, 2018, this ratio stood at 7.7% compared to 7.6% at end-FY17. The above ratios indicate a strong and stable capital position for the Agency at the end of FY18.

Table 7. Capital Utilization (FY16-18, $M)

	FY18	FY17	FY16
Guarantee Portfolio Economic Capital	**605**	**518**	**597**
Total Economic Capital	**685**	**592**	**663**
Insurance Portfolio Reserve (net)	210	185	341
Retained Earnings and Accumulated Other Comprehensive Loss	895	847	622
Paid-in Capital	366	366	366
Operating Capital	**1,471**	**1,398**	**1,329**
Net Exposure	**7,878**	**6,780**	**6,665**
Guarantee Portfolio Economic Capital / Operating Capital	**41.1%**	**37.1%**	**44.9%**
Total Economic Capital / Operating Capital	**46.6%**	**42.4%**	**49.9%**
Guarantee Portfolio Economic Capital / Net Exposure	**7.7%**	**7.6%**	**9.0%**

1: numbers may not add up due to rounding.

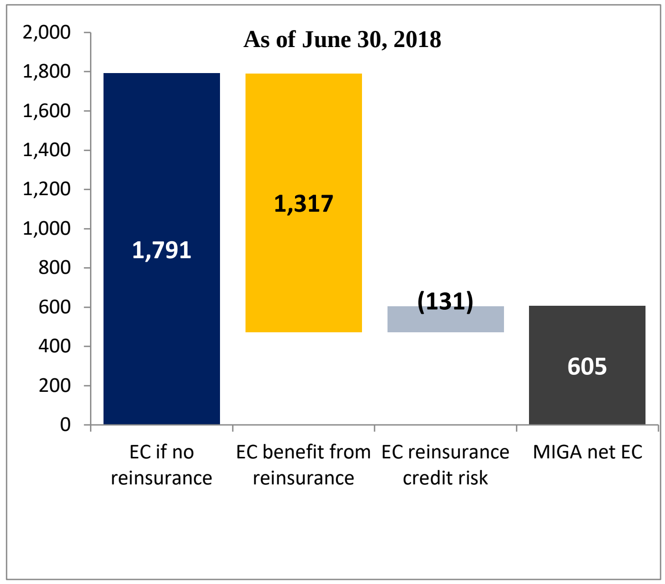
2: EC and total EC/OC ratios for FY17 and FY18 are based on the new EC model commissioned in FY17, and are not comparable with FY16 amounts and ratios that are based on the old EC model.

Effects of Reinsurance on Economic Capital

As noted in **Section 5**, reinsurance of MIGA's guarantee portfolio plays a key part in risk management and business growth, as it helps MIGA manage its exposure concentration by transferring risk and provides substantial capital relief given the highly rated counterparty credit risk assumed. As of June 30, 2018, reinsurance on the guarantee portfolio provided relief to the overall guarantee portfolio EC consumption by 66% compared to a similar level in FY17. **Figure 19** shows the benefit provided by reinsurance on the guarantee portfolio economic capital in FY18, net of EC for reinsurer counterparty credit risk (RCC).

MIGA is also exposed to the risk of default by its reinsurers when claims materialize. **Figure 19** indicates the impact of the RCC on the guarantee portfolio economic capital. As of June 30, 2018, the amount of RCC EC is estimated at $131 million and is included in the overall guarantee portfolio EC. MIGA closely monitors the credit ratings of each of its reinsurer counterparts.

Figure 19. Impact of Reinsurance on Economic Capital ($M)

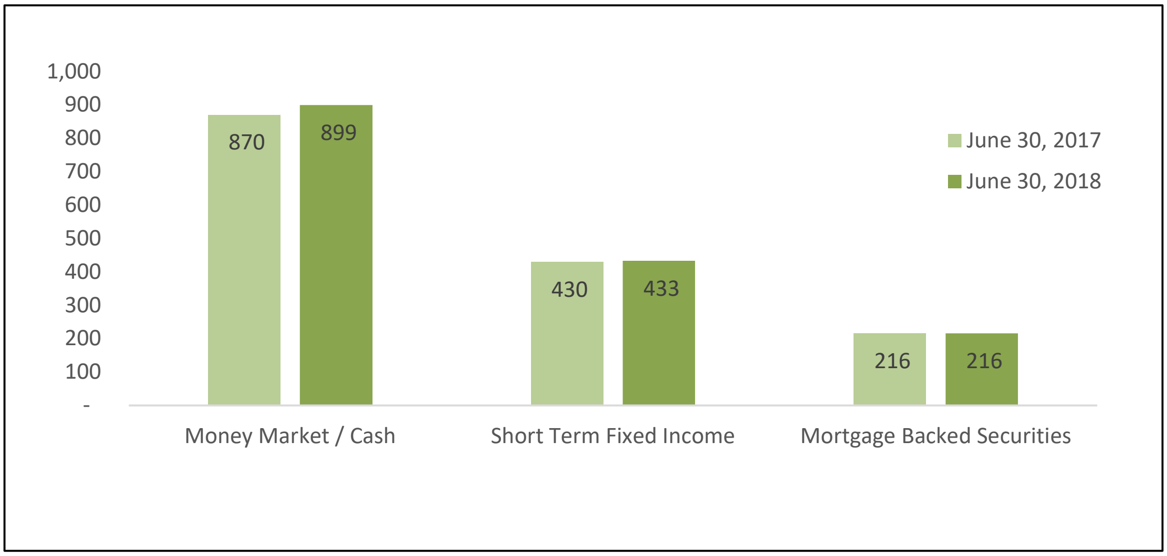


8. INVESTMENT MANAGEMENT

MIGA's investment policy objectives are to provide liquidity to pay for claims and to grow MIGA's capital base to support MIGA's long-term business strategy.

At June 30, 2018, MIGA's investment portfolio holdings totaled $1,548 million, comprising of cash and money market instruments, U.S. Treasuries, Agency Mortgage-backed Securities, Asset-backed Securities, sovereign and government guaranteed securities, as well as derivatives. **Figure 20** shows the broad asset class allocation. Most of MIGA's assets are denominated in USD, with a small portion in non-USD holdings. At the of end-FY18 MIGA held cash and government securities denominated in currencies other than USD totaling $142 million or 9.2% of its total holdings.

Figure 20. Composition of MIGA's Investment Portfolio ($M)



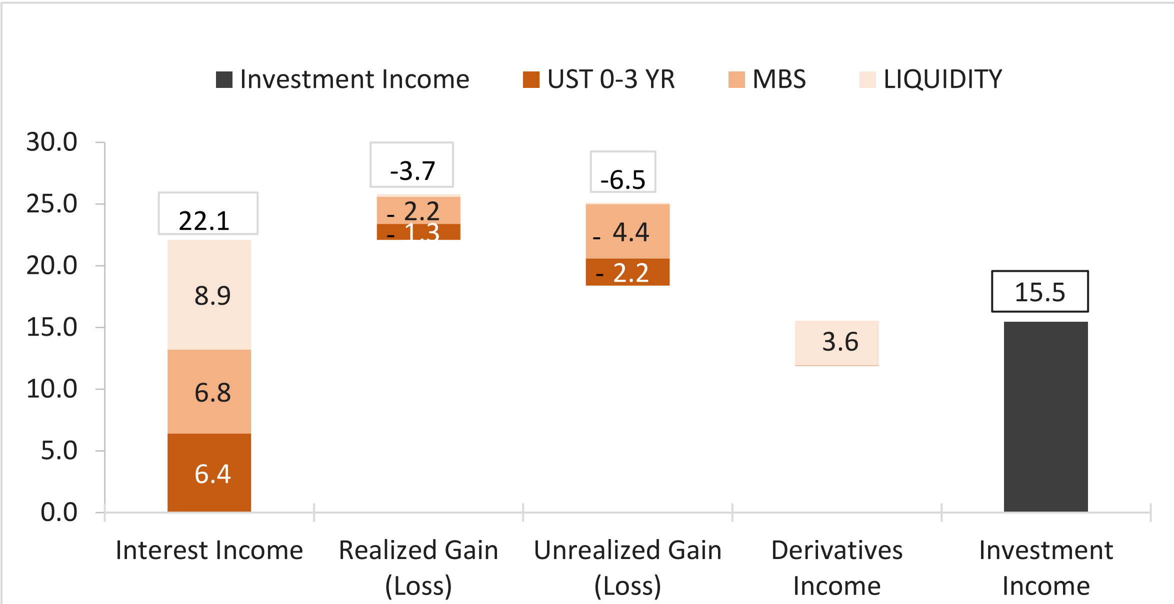
MIGA's investment portfolio had an annual return of 1.0% in FY18 compared to 0.3% in FY17. The increase in return can be attributed to the higher interest rate environment and MIGA's decision to hold investments in shorter-duration instruments. **Table 8** provides details on the investment income by asset class over the past three fiscal years. Total investment income earned in FY18 was $15.5 million compared to $4.8 million in FY17.

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

Asset Class	FY18	FY17	FY16
Money Market / Cash	12.4	6.2	3.1
US Short Term (0-3 Year)	2.9	1.8	2.3
Mortgage Backed Securities (MBS)	0.2	(3.0)	17.5
Total Investment Income	**15.5**	**4.8**	**22.9**
Total Portfolio Return	**1.0%**	**0.3%**	**1.7%**

As compared to FY17, the increase in investment income of $10.7 million in FY18 was primarily driven by higher interest income as rates continued to increase. Figure 21 shows investment income by asset class and source of income. $22.1 million of interest income plus $3.6 million of derivative income was offset by mark- to-market valuation losses of $10.2 million mainly on the MBS and US Treasury holdings.

Figure 21. FY18 Investment Income by Asset Class and Source ($M)



9. FINANCIAL RISK MANAGEMENT

The responsibility for approving MIGA's risk management policies lies with the Board of Directors. The Audit Committee of the Board deals with risk management issues. While the Executive Vice President and Chief Executive Officer assumes the responsibility for overall risk management with the support of the senior management team, the responsibility for the design and operational implementation of the risk management framework lies with the Finance and Risk Management Group with input from the Legal Affairs and Claims Group, the Operations Group and the Economics and Sustainability Group.

Risk Categories

MIGA is exposed to a variety of risks and uses risk management programs such as an Economic Capital Framework and reinsurance arrangements to measure and manage its risk. Below is a description of the risk management programs for MIGA's principal risks.

Insurance Risk

Assessment of non–commercial risk forms an integral part of MIGA's underwriting process, and includes the analysis of both country-related and project-related risks. Insurance risk arises from MIGA's core business of issuing investment guarantees. MIGA's earnings depend on the extent to which claims experience is consistent with assumptions used in setting prices for products and establishing technical provisions for claims. If actual claims experience of the Agency is less favorable than underlying assumptions, then income would be reduced. MIGA monitors claim activities and provisions for pending claims. In addition, claim reserves for the guarantee portfolio are calculated using MIGA's Economic Capital Model.

Concentration Risk

For portfolio risk management purposes, MIGA utilizes an Economic Capital (EC) [7] Model, based on best practices applied in risk modeling. Under the EC Model, MIGA defines its economic capital as the 99.97th percentile of the aggregate loss distribution over a three year horizon, minus the mean of the loss distribution, which is in line with industry practice for a AAA rated institution. The model helps evaluate concentration risk in the guarantee portfolio and facilitates active, risk-based exposure management by allocating the Economic Capital to particular regions, countries, sectors, covers, or individual contracts, based on their respective risk contribution. **Table 9** below captures the top five and top ten largest EC consuming countries in the portfolio as of June 30, 2018.

Table 9. Top Five and Ten Countries by EC Consumption as of June 30, 2018 ($M)

Host Country	EC	Share of EC (%)
Turkey	118.1	19.5%
Honduras	39.8	6.6%
South Africa	35.1	5.8%
Azerbaijan	26.6	4.4%
Mauritania	26.2	4.3%
Top Five Host Countries	**245.8**	**40.7%**
Egypt, Arab Republic of	25.1	4.2%
Jordan	23.5	3.9%
Senegal	21.1	3.5%
Pakistan	19.9	3.3%
Cote d'Ivoire	18.9	3.1%
Top Ten Host Countries	**354.3**	**58.6%**

In addition, in order to prevent excessive risk concentration, MIGA has in place nominal maximum net guarantee exposure limits per country and per project, which as of June 30, 2018 stood at $820 million and $250 million, respectively. The top five and ten largest exposure countries by net exposure as of June 30, 2018 are shown below in **Table 10**, and accounted for 24% and 40% of the total net guarantee portfolio, respectively.

[7] The Economic Capital concept is a widely recognized risk management tool in the banking and insurance industries, defining the minimum amount of capital an organization needs to hold in order to withstand larger than expected losses with a high degree of confidence, over a defined time horizon and given the risk exposure and defined risk tolerance.

Table 10. Top Five and Ten Countries by Net Exposure as of June 30, 2018 ($M)

Host Country	Gross Exposure	Net Exposure	Share of Net Exposure (%)
Turkey	2,547	583	7.4%
South Africa	1,585	377	4.8%
Serbia	869	340	4.3%
Egypt, Arab Republic of	342	287	3.6%
Pakistan	372	286	3.6%
Top Five Host Countries	**5,715**	**1,873**	**23.8%**
Honduras	327	273	3.5%
Hungary	791	273	3.5%
Cote d'Ivoire	644	266	3.4%
Jordan	629	252	3.2%
Argentina	1,350	250	3.2%
Top Ten Host Countries	**9,455**	**3,186**	**40.4%**

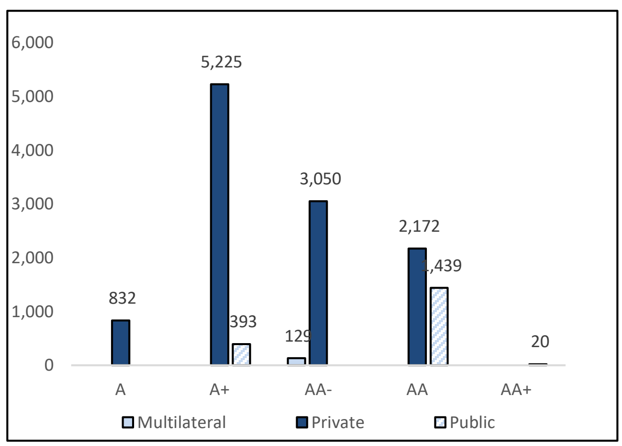
Liquidity Risk

Adequate liquidity resources need to be maintained to sustain the Agency over prolonged periods of cash payouts due to claims. MIGA assesses and monitors the availability of its liquid assets on a periodic basis and analyzes the impact on its finances (capital and liquidity) under stress scenarios where claims situations propagate through contagion across countries and regions.

Reinsurance Counterparty Credit Risk (RCC)

Counterparty credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. MIGA's exposure to counterparty credit risk is derived mainly from its reinsurance counterparts and is the risk of default by MIGA's reinsurers when claims materialize. MIGA requires that private sector reinsurers, with which it conducts business, be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that the ratings be above a minimum threshold. MIGA has also established limits both at the project and portfolio levels, which restrict the amount of reinsurance. **Figure 22** provides a graphical representation of the ceded exposure with reinsurance counterparties by credit risk ratings.

Figure 22. Reinsurer Counterparty Exposure Distribution by Rating ($M)



As discussed in **Section 5**, given the strong growth in the portfolio reinsurance rate during FY16 through FY18, the Agency created a small dedicated team in FY17, that monitors and manages the RCC to which MIGA is exposed. This team is tasked with performing, amongst others, the in-house credit risk analysis of MIGA's reinsurance counterparts and the development of the reporting and credit monitoring frameworks, as well as policies and operating guidelines, for the credit risks assumed under MIGA's reinsurance programs. This will support the Agency's aim of diversifying the counterparty credit risk created by the increased reinsurance portfolio, as well as enhance MIGA's in-house analytical capability to measure and manage any financial risks to the Agency as a result of its increased exposure to the reinsurance industry as a whole

As part of the implementation of the new EC model, MIGA reviewed and refined the RCC methodology. The key changes made to the methodology in FY17 were (i) the downward adjustment in the correlation between MIGA guarantee claim events and reinsurer defaults, (ii) introduction of the 'non-double default' EC, which measures the risk of reinsurers being downgraded without there being concurrent and simultaneous claim events on MIGA guarantees and (iii) an update of reinsurer probabilities of default to be based on S&P default data published annually. RCC as computed by the new EC model as of June 30, 2018 was $131 million, **(See Figure 19)**.

Operational Risk

Operational risk is intrinsic to financial institutions and is an important component of the agency-wide risk management framework. The most important types of operational risk involve breakdowns in internal controls, processes, systems and corporate governance.

MIGA mitigates operational risks by maintaining a sound internal control system based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s 2013 *Integrated Internal Control* framework. A key component of this framework is the effectiveness of key controls over external financial reporting. This component is assessed and validated annually.

Legal Risk

Legal risks arise primarily from changes in the legal parameters of MIGA's member countries as a result of legislation or court decisions that may affect MIGA's activities. There are also legal risks associated with MIGA being involved in legal disputes and arbitration proceedings, especially in the context of claim resolution or settlement, and with MIGA failing to protect its assets, including its intellectual property.

MIGA manages these risks by monitoring current and prospective developments by way of ongoing discussions with member countries' representatives on the Board of Directors and Council of Governors. MIGA also shares information and analyses with other members of the World Bank Group, the IMF and the United Nations. In addition, MIGA actively participates as a member of the Berne Union in discussions and analyses of the changes in the operating investment environment in its member countries. MIGA also manages these legal risks by developing and enforcing policies and procedures to govern its activities.

10. Critical Accounting Policies And The Use Of Estimates

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

Reserve for Claims

MIGA's provisioning methodology builds on portfolio risk quantification models that use both individually assessed loss probabilities for projects at risk and rating-based loss probabilities that are applied to the entire guarantee portfolio. Under this methodology, for the purpose of presentation in the financial statements, MIGA's reserve consists of two primary components, the Specific Reserve and the Insurance Portfolio Reserve.[8]

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

Pension and Other Postretirement Benefits

Along with IBRD and IFC, MIGA participates in pension and post-retirement benefit plans that cover almost all of their staff members. All costs, assets, and liabilities associated with these plans are allocated among IBRD, IFC, and MIGA based upon their employees' respective participation in the plans. The underlying actuarial assumptions, fair value of plan assets, and funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. For further details, please refer to the Notes to Financial Statements – Note F, *Pension and Other Post Retirement Benefits*.

Fair Value of Financial Instruments

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

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.

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

11. GOVERNANCE AND CONTROL

General Governance

Board Membership

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

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

Senior Management Changes

Mr. Subramaniam V. Iyer was appointed as Vice President and Chief Operating Officer, effective April 10, 2018.

Audit Committee

Membership

The Audit Committee consists of eight members of the Board of Directors. Membership in the Committee is determined by the Board of Directors, based on 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, internal controls and institutional integrity. 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**.

In addition to the Code, the business conduct obligations of staff are articulated in the Staff Manual (Principles of Staff Employment, Staff Rules), Administrative Manual, and other guidelines. The Principles and Staff Rules require that all staff avoid or properly manage conflicts of interest. To protect individual staff in MIGA from apparent and real (potential or actual) conflicts of interest, senior staff are required to complete an annual financial disclosure statement with the Office of Ethics and Business Conduct.

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

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

Both EBC and INT report directly to the President and each is composed of professionals from a range of disciplines including financial analysts, researchers, investigators, lawyers, prosecutors, forensic accountants, and staff with operational experience across the World Bank Group. These units maintain comprehensive websites to provide guidance on how to handle concerns.

Auditor Independence

The appointment of the external auditor for MIGA is governed by a set of Board-approved principles. These include:

- Until the completion of the FY18 audit and audit-related work, prohibiting the external auditor from providing any non-audit related services;
- Requiring all audit-related services to be pre-approved on a case-by-case basis by the Board of Directors, upon the recommendation of the Audit Committee; and
- Mandatory rebidding of the external audit contract every five years, with a limit of two consecutive terms and mandatory rotation thereafter, provided however that the Audit Committee may exceptionally recommend that the incumbent audit firm should be allowed to participate in the re-bidding.

The external auditor is appointed to a five-year term of service, with a limit of two consecutive terms, and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Directors. FY18 is the final year of KPMG LLP's second term as MIGA's external auditor. On November 28, 2017, following a mandatory rebidding of the external audit contract, MIGA's Board of Directors approved the appointment of Deloitte & Touche LLP as MIGA's external auditor for a five year term commencing FY19.

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 and carried on as often as deemed necessary by either party. MIGA's external auditors follow the communication requirements with audit committees set out under US Generally Accepted Auditing Standards. In keeping with these standards, significant formal communications include:

- Quarterly and annual financial statement reporting
- Annual appointment of the external auditors
- Presentation of the external audit plan
- Presentation of a statement regarding independence

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

During FY17, the Board of Directors approved amendments to the policy on appointment of the external auditor, effective for the FY19 audit period onwards. The primary amendments now permit the external auditor to provide non-audit related services subject to monetary limits. Broadly, the list of prohibited non-audit related services now prohibited include those that would put the external auditor in the roles typically handled by management and in a position of auditing their own work, such as accounting services, internal audit services and provision of investment advice. A monetary limit of seventy percent of the audit fees over the term of the relevant external audit engagement will be applied when considering the fees relating to the total non-audit related services over the same period.

Internal Control

Internal Control Over Financial Reporting

Management makes an annual assertion whether, as of June 30 of each fiscal year, the organization's system of internal control over its external financial reporting has met the criteria for effective internal control over external financial reporting as described in the 2013 *Internal Control – Integrated Framework* issued by The Committee of the Sponsoring Organizations of the Treadway Commission (COSO)[9].

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

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

12. Abbreviations and Acronyms

AOCL : Accumulated Other Comprehensive Loss
CAFEF: Conflict-Affected and Fragile Economies Facility
CODE: Committee on Development Effectiveness
COGAM: Committee on Governanace and Administrative Matters
COSO: Committee of the Sponsoring Organizations of the Treadway Commission
EAP: East Asia and Pacific
EC: Economic Capital
ECA: Europe and Central Asia
EECC: Energy Efficiency and Climate Change
FCS: Fragile and Conflict-Affected Situations
IBRD: International Bank for Reconstruction and Development
IDA: International Development Association
IFC: International Finance Corporation
LAC: Latin America and the Caribbean
LTIP: Long-Term Investment Portfolio
MBS: Mortgage Backed Securities
MIGA: Multilateral Investment Guarantee Agency
MGF: MIGA Guarantee Facility
NHFO-SOE: Non-Honoring of Financial Obligation by a State Owned Enterprise
NHSFO: Non-Honoring of a Sovereign Financial Obligation
PBO: Projected Benefit Obligation
PRI: Political Risk Insurance
PSW: Private Sector Window
RMF: Risk Mitigation Facility
SAR: South Asia
SSA: Sub-Saharan Africa
WBG: World Bank Group

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June 30, 2018

MIGA | Multilateral Investment Guarantee Agency
WORLD BANK GROUP

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

August 9, 2018

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 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 audit of its internal control over external financial reporting were valid and appropriate. The independent auditors' reports accompany the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with accounting principles generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America as of June 30, 2018. This assessment was based on the criteria for effective internal control over external financial reporting described in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that MIGA maintained effective internal control over external financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of June 30, 2018. The independent audit firm that audited the financial statements has issued an Independent Auditors' Report which expresses an opinion on MIGA's internal control over external financial reporting.

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

Jim Yong Kim
President

Keiko Honda
Executive Vice President and CEO

Santiago Gerardo Assalini
Director, Corporate Risk

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

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

We have audited the Multilateral Investment Guarantee Agency's (MIGA) internal control over financial reporting as of June 30, 2018, based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for Internal Control Over Financial Reporting

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

Auditors' Responsibility

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

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

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

Opinion

In our opinion, MIGA maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of MIGA, which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and our report dated August [ ], 2018 expressed an unmodified opinion on those financial statements.

KPMG LLP

Washington, D.C.
August 9, 2018

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

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

We have audited the accompanying financial statements of the Multilateral Investment Guarantee Agency (MIGA), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIGA as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2018 in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2018 is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to

KPMG

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

Report on Internal Control over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, MIGA's internal control over financial reporting as of June 30, 2018, 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 9, 2018 expressed an unmodified opinion on the effectiveness of MIGA's internal control over financial reporting.

KPMG LLP

Washington, D.C.
August 9, 2018

Balance Sheets

June 30, 2018 and June 30, 2017
Expressed in thousands of US dollars

	June 30, 2018	June 30, 2017
Assets		
Cash	$ 41,419	$ 7,076
Investments - Trading (including securities transferred under repurchase agreements) - Note B	1,507,423	1,515,121
Derivative assets - Note B	148,966	145,823
Non-negotiable, non interest - bearing demand obligations - Note C	110,084	109,763
Receivable for investment securities sold - Note B	30,631	36,090
Reinsurance recoverable - Note E	251,871	223,770
Prepaid premium ceded to reinsurers	241,246	271,637
Net assets under retirement benefits plan - Note F	4,245	4,043
Miscellaneous assets - Note G	23,821	17,421
TOTAL ASSETS	$ 2,359,706	$ 2,330,744
Liabilities and Shareholders' Equity		
LIABILITIES		
Payable for investment securities purchased - Note B	$ 27,941	$ 19,983
Securities sold under repurchase agreements and payable for cash collateral received - Note B	13	13,040
Derivative liabilities - Note B	146,916	150,388
Unearned premiums and commitment fees	391,249	433,359
Other liabilities - Notes E, F and G	79,548	100,565
Reserve for claims, gross - Note E		
Specific reserves for claims	3,121	1,488
Insurance portfolio reserve	450,100	398,725
Reserve for claims - gross	453,221	400,213
TOTAL LIABILITIES	1,098,888	1,117,548
CONTINGENT LIABILITIES - Note D		
SHAREHOLDERS' EQUITY		
Capital stock - Note C		
Authorized capital (186,587 shares - June 30, 2018 and June 30, 2017)		
Subscribed capital (177,331 shares - June 30, 2018 and June 30, 2017)	1,918,721	1,918,721
Less uncalled portion of subscriptions	1,552,599	1,552,599
	366,122	366,122
Retained earnings	925,176	884,235
Accumulated other comprehensive loss - Note H	(30,480)	(37,161)
TOTAL SHAREHOLDERS' EQUITY	1,260,818	1,213,196
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,359,706	$ 2,330,744

See accompanying notes to the financial statements

Statements of Income

For the fiscal years ended June 30, 2018 and June 30, 2017
Expressed in thousands of US dollars

	2018	2017
INCOME		
Income from guarantees		
Premium income - Note D	$ 210,089	$ 179,659
Premium ceded - Note D	(131,073)	(105,277)
Ceding commission and other fees - Note D	32,214	25,508
Brokerage and other charges - Note D	(7,092)	(6,666)
Total	104,138	93,224
Income from investments - Note B	15,455	4,772
Miscellaneous income	121	1,256
Total income	119,714	99,252
EXPENSES		
Increase (decrease) in reserves, net - Note E		
Increase (decrease) in reserves, excluding translation losses (gains)	26,026	(152,298)
Translation losses (gains)	1,547	(2,038)
Increase (decrease) in reserves, net	27,573	(154,336)
Administrative expenses - Note G	43,810	41,143
Expenses from pension and other post retirement benefit plans - Note F	7,804	10,190
Translation (gains) losses - Investments and other assets	(414)	2,043
Increase (decrease) in reserves and total expenses	78,773	(100,960)
NET INCOME	$ 40,941	$ 200,212

See accompanying notes to the financial statements

Statements of Comprehensive Income

For the fiscal years ended June 30, 2018 and June 30, 2017
Expressed in thousands of US dollars

	2018	2017
NET INCOME	$ 40,941	$ 200,212
OTHER COMPREHENSIVE INCOME - Note H		
Net actuarial gains on benefit plans	6,423	24,220
Prior service credits on benefit plans	258	258
Total other comprehensive income	6,681	24,478
COMPREHENSIVE INCOME	$ 47,622	$ 224,690

Statements of Changes in Shareholders' Equity

For the fiscal years ended June 30, 2018 and June 30, 2017
Expressed in thousands of US dollars

	2018	2017
CAPITAL STOCK		
Balance at beginning of the fiscal year	$ 366,122	$ 366,122
Paid-in subscriptions	-	-
Ending Balance	366,122	366,122
RETAINED EARNINGS		
Balance at beginning of the fiscal year	884,235	684,023
Net income	40,941	200,212
Ending Balance	925,176	884,235
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of the fiscal year	(37,161)	(61,639)
Other comprehensive income	6,681	24,478
Ending Balance	(30,480)	(37,161)
TOTAL SHAREHOLDERS' EQUITY	$ 1,260,818	$ 1,213,196

See accompanying notes to the financial statements

Statements of Cash Flows

For the fiscal years ended June 30, 2018 and June 30, 2017
Expressed in thousands of US dollars

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$ 40,941	$ 200,212
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Increase (decrease) in reserves, net - Note E	27,573	(154,336)
Translation (gains) losses - Investments and other assets	(414)	2,043
Claims paid, net of reinsurance recoveries	-	(4,780)
Net change in:		
Investments - Trading, net	3,329	(139,103)
Other assets	24,363	(12,132)
Other liabilities	(14,288)	(11,686)
Unearned premiums and commitment fees	(47,322)	118,854
Net cash provided by (used in) operating activities	34,182	(928)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	161	917
Net increase (decrease) in cash	34,343	(11)
Cash at beginning of the fiscal year	7,076	7,087
CASH AT END OF THE FISCAL YEAR	$ 41,419	$ 7,076

See accompanying notes to the financial statements

Statement of Subscriptions to Capital Stock and Voting Power

As of June 30, 2018
Expressed in thousands of US dollars

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

See accompanying notes to the financial statements

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

As of June 30, 2018
Expressed in thousands of US dollars

		SUBSCRIPTIONS (NOTE C)			VOTING POWER	
Members	**Shares[1]**	**Total Subscribed**	**Amount Paid-in**	**Amount Subject to Call**	**Number of Votes**	**% of Total**
El Salvador	122	$ 1,320	$ 264	$ 1,056	348	0.16
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
Eswatini	58	628	126	502	284	0.13
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

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

As of June 30, 2018
Expressed in thousands of US dollars

		SUBSCRIPTIONS (NOTE C)			VOTING POWER	
Members	Shares[1]	Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Madagascar	176	$ 1,904	$ 362	$ 1,542	402	0.18
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

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

As of June 30, 2018
Expressed in thousands of US dollars

		SUBSCRIPTIONS (NOTE C)			VOTING POWER	
Members	Shares[1]	Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Slovenia	180	$ 1,948	$ 370	$ 1,578	406	0.19
Solomon Islands	50	541	108	433	276	0.13
South Africa	1,662	17,983	3,414	14,569	1,888	0.87
South Sudan	155	1,677	335	1,342	381	0.17
Spain	2,265	24,507	4,652	19,855	2,491	1.14
Sri Lanka	478	5,172	982	4,190	704	0.32
Sudan	206	2,229	445	1,784	432	0.20
Suriname	82	887	177	710	308	0.14
Sweden	1,849	20,006	3,798	16,208	2,075	0.95
Switzerland	2,643	28,597	5,429	23,168	2,869	1.31
Syrian Arab Republic	296	3,203	608	2,595	522	0.24
Tajikistan	130	1,407	267	1,140	356	0.16
Tanzania	248	2,683	509	2,174	474	0.22
Thailand	742	8,028	1,524	6,504	968	0.44
Timor-Leste	50	541	108	433	276	0.13
Togo	77	833	167	666	303	0.14
Trinidad and Tobago	358	3,874	735	3,139	584	0.27
Tunisia	275	2,976	565	2,411	501	0.23
Turkey	814	8,807	1,672	7,135	1,040	0.48
Turkmenistan	66	714	143	571	292	0.13
Uganda	233	2,521	478	2,043	459	0.21
Ukraine	1,346	14,564	2,765	11,799	1,572	0.72
United Arab Emirates	656	7,098	1,347	5,751	882	0.40
United Kingdom	8,565	92,673	17,593	75,080	8,791	4.03
United States	32,564	352,342	67,406	284,936	32,790	15.02
Uruguay	202	2,186	437	1,749	428	0.20
Uzbekistan	175	1,894	379	1,515	401	0.18
Vanuatu	50	541	108	433	276	0.13
Venezuela, R.B. de	1,427	15,440	3,087	12,353	1,653	0.76
Vietnam	388	4,198	797	3,401	614	0.28
Yemen, Republic of	155	1,677	335	1,342	381	0.17
Zambia	318	3,441	688	2,753	544	0.25
Zimbabwe	236	2,554	511	2,043	462	0.21
Total - June 30, 2018[2]	177,331	$ 1,918,721	$ 366,122	$ 1,552,599	218,237	100.00
Total - June 30, 2017	177,331	$ 1,918,721	$ 366,122	$ 1,552,599	218,237	100.00

1. Subscribed shares pertaining to the General Capital Increase include only those shares for which the subscription process has been completed, i.e., for which required payment has been received.

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

Statement of Guarantees Outstanding

As of June 30, 2018
Expressed in thousands of US dollars

Host Country	Gross Exposure (Note D)				Total	Ceded Exposure[1]	Net
	US Dollars	Euro	Swiss Franc	JPY			
Afghanistan	$ 120,853	$ 407	$ -	$ -	$ 121,260	$ 42,871	$ 78,389
Albania	-	297,243	-	-	297,243	157,658	139,585
Angola	-	335,478	-	-	335,478	283,010	52,468
Argentina	1,350,000	-	-	-	1,350,000	1,100,000	250,000
Azerbaijan	779,774	333,093	-	-	1,112,866	872,721	240,146
Bangladesh	548,279	-	-	-	548,279	405,223	143,055
Belarus	-	121,643	-	-	121,643	-	121,643
Benin	-	5,762	-	-	5,762	-	5,762
Bosnia and Herzegovina	-	421,328	-	-	421,328	259,447	161,880
Brazil[2]	310,343	-	-	-	310,343	140,998	169,346
Bulgaria	-	37,541	-	-	37,541	18,771	18,771
Burundi	5,615	7,229	-	-	12,843	1,140	11,703
Cameroon	180,000	94,321	-	-	274,321	60,000	214,321
Colombia	88,667	2,322	-	-	90,989	-	90,989
Congo, Democratic Republic of	67,500	-	-	-	67,500	60,542	6,958
Cote d'Ivoire	574,903	68,872	-	-	643,775	378,000	265,775
Djibouti	24,300	-	-	-	24,300	-	24,300
Dominican Republic	74,003	-	-	-	74,003	11,100	62,903
Egypt, Arab Republic of	336,381	5,798	-	-	342,178	54,840	287,338
El Salvador	11,875	-	-	-	11,875	-	11,875
Eswatini	2,606	-	-	-	2,606	1,303	1,303
Ethiopia	12,368	-	-	-	12,368	-	12,368
Gabon	-	5,906	-	-	5,906	-	5,906
Georgia	106,528	-	-	-	106,528	-	106,528
Ghana	460,065	-	-	-	460,065	214,208	245,856
Honduras	326,946	-	-	-	326,946	54,250	272,696
Hungary	-	790,709	-	-	790,709	518,207	272,502
Indonesia	200,000	-	-	-	200,000	-	200,000
Iran, Islamic Republic of	32,579	-	-	-	32,579	3,258	29,321
Iraq	8,316	-	-	-	8,316	-	8,316
Jamaica	25,196	-	-	-	25,196	5,039	20,157
Jordan	628,945	-	-	-	628,945	376,445	252,499
Kenya	101,597	47,440	-	-	149,037	-	149,037
Kosovo	-	95,250	-	-	95,250	-	95,250
Lao People's Democratic Republic	23,696	-	-	-	23,696	11,848	11,848
Lebanon	35,460	-	-	-	35,460	-	35,460
Macedonia, former Yugoslav Republic of	-	22,117	-	-	22,117	-	22,117
Madagascar	-	75,430	-	-	75,430	46,795	28,636
Mauritania	300,000	2,687	-	-	302,687	150,000	152,687
Mexico	962,913	-	-	-	962,913	765,000	197,913
Moldova	-	23,501	-	-	23,501	-	23,501
Mongolia	931,474	-	-	-	931,474	789,424	142,050
Mozambique	98,902	-	-	-	98,902	44,788	54,113
Myanmar	684,038	-	-	-	684,038	523,453	160,585
Namibia	37,792	-	-	-	37,792	-	37,792
Nicaragua	16,290	-	-	-	16,290	-	16,290
Nigeria	552,256	-	-	-	552,256	382,657	169,599

Statement of Guarantees Outstanding *(cont'd)*

As of June 30, 2018
Expressed in thousands of US dollars

Host Country	Gross Exposure (Note D)				Total	Ceded Exposure[1]	Net
	US Dollars	Euro	Swiss Franc	JPY			
Pakistan	$ 251,756	$ -	$ 80,499	$ 39,687	$ 371,942	$ 86,340	$ 285,602
Panama[3]	390,046	-	-	-	390,046	231,369	158,678
Peru	252,801	-	-	-	252,801	147,877	104,925
Russian Federation	53,200	265,403	-	-	318,603	130,944	187,660
Rwanda	9,965	-	-	-	9,965	-	9,965
Saudi Arabia	9,900	-	-	-	9,900	-	9,900
Senegal	10,000	244,910	-	-	254,910	83,812	171,098
Serbia	-	869,134	-	-	869,134	529,614	339,520
Sierra Leone	-	102,603	-	-	102,603	53,421	49,182
South Africa	810,382	763,056	11,320	-	1,584,758	1,207,692	377,066
Tanzania	22,637	-	-	-	22,637	-	22,637
Thailand	18,696	-	-	-	18,696	9,348	9,348
Tunisia	-	70,802	-	-	70,802	26,019	44,783
Turkey	791,745	1,636,888	-	117,986	2,546,618	1,963,473	583,145
Turkmenistan	11,477	-	-	-	11,477	-	11,477
Uganda	361,035	-	-	-	361,035	248,524	112,512
Ukraine	41,051	8,515	-	-	49,566	2,377	47,189
Uruguay	439,349	-	-	-	439,349	345,000	94,349
Vietnam	667,144	-	-	-	667,144	549,527	117,617
Zambia	70,660.25	-	-		70,660		70,660.25
	14,232,301	6,755,389	91,819	157,672	21,237,181	13,348,333	7,888,849
Adjustment for Dual-Country Contracts[4]							
Lao PDR/Thailand	(18,696)				(18,696)	(9,348)	(9,348)
Eswatini/Mozambique	(2,606)				(2,606)	(1,303)	(1,303)
	(21,302)				(21,302)	(10,651)	(10,651)
Total - June 30, 2018[5]	$ 14,210,999	$ 6,755,389	$ 91,819	$ 157,672	$ 21,215,880	$ 13,337,682	$ 7,878,198
Total - June 30, 2017	$ 11,308,045	$ 6,374,322	$ 95,166	$ -	$ 17,777,533	$ 10,997,156	$ 6,780,377

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

2. Net exposure to Brazil increased by $72 million on account of exposure exchange agreement with IBRD (Note D).

3. Net exposure to Panama reduced by $72 million on account of exposure exchange agreement with IBRD (Note D).

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

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

Notes to Financial Statements

Purpose

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

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

Note A: Summary of Significant Accounting and Related Policies

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

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

On August 9, 2018, the Board of Directors approved the financial statements for issue, which was also the date through which MIGA's management evaluated subsequent events.

The significant accounting policies employed by MIGA are summarized below.

Investments
MIGA manages its investment portfolio both for the purpose of providing liquidity for potential claims and for capital growth. MIGA invests in time deposits, asset-backed securities (ABS) and government and agency obligations based on its investment authorization approved by the Board. ABS are diversified among credit cards, student loans, home equity loans and mortgage backed securities. Government and agency obligations include highly rated fixed-rate bonds, notes, bills and other obligations issued or unconditionally guaranteed by governments of countries or other official entities, including government agencies or by multilateral organizations.

MIGA makes use of derivative contracts such as exchange traded futures, options, currency swaps and covered forward contracts to manage its investment portfolio. The purposes of these transactions are to enhance the return and manage the overall duration of the portfolio. With respect to futures and options, MIGA generally closes out most open positions prior to expiration. Futures are settled on a daily basis.

MIGA has classified and accounted for all its investment securities as trading securities. Investments classified as trading securities are reported at fair value using trade-date accounting. Securities purchased or sold may have a settlement date that is different from the trade-date. A liability is recorded for securities purchased but not settled before the reporting dates. Similarly, a receivable is recorded for securities sold but not settled before the reporting dates.

Notes to Financial Statements

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

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

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

The *Specific Reserve* is calculated based on contract-specific parameters that are reviewed every quarter by MIGA's management for contracts that have known difficulties and where management finds it likely that a claim payment will be made in the near term.

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

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

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

Impairment of Reinsurance Assets
MIGA assesses at each balance sheet date whether there is objective evidence that the reinsurance asset is impaired, and makes a provision for such impairment, where necessary. Objective evidence may be in the form of observable data that comes to MIGA's attention periodically.

Currency Translation
Assets and liabilities denominated in foreign currencies are translated at market exchange rates in effect at the end of the reporting period. Income and expenses are translated at either the market exchange rates in effect on the dates on which they are recognized or at an average of the market exchange rates in effect during each month. Translation adjustments are reflected in the Statements of Income.

Notes to Financial Statements

MIGA has in place a system for active management of exposures to foreign currencies, under which the amounts of non-U.S. dollar assets are matched to non-U.S. dollar insurance portfolio reserve components. The objective is to align the currency compositions of MIGA's assets and liabilities to minimize the sensitivity of MIGA's net income to movements in foreign currency exchange rates.

Valuation of Capital Stock

Under the MIGA Convention, all payments from members subscribing to the capital stock of MIGA shall be settled on the basis of the average value of the Special Drawing Rights (SDR) introduced by the International Monetary Fund, as valued in terms of United States dollars for the period January 1, 1981 to June 30, 1985, such value being equal to $1.082 for one SDR.

Revenue Recognition

Premium amounts received on direct insurance contracts and reinsurance contracts assumed can be upfront, annual, semi-annual or quarterly and are recorded as unearned premium. Premiums are recognized as earned on a pro rata basis over the contract period. A receivable for premium is recorded when a contract has been issued or renewed and coverage amounts have been specified.

MIGA cedes to reinsurers in the normal course of business by obtaining treaty and facultative reinsurance to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio. Premiums ceded follow the same approach as for direct insurance contracts and are recognized as ceded premium on a pro rata basis over the contract period.

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

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

Retroactive Reinsurance

As part of its reinsurance strategy for prudent capital management, MIGA occasionally cedes exposure on existing guarantee contracts. Since MIGA is not relieved of its obligations to the guarantee holders under these transactions, it does not recognize a credit in the Statements of Income in relation to exposures subsequently ceded; instead it accounts for these as retroactive reinsurance contracts. Premium paid to the reinsurers on these contracts is accounted for as a reinsurance recoverable on the Balance Sheet. The shortfall between the associated reserves and the premium paid, is recognized as a deferred gain under Other Liabilities on the Balance Sheet and increases the reinsurance recoverable by an equal amount. Both the deferred gain and reinsurance recoverable are subsequently amortized over the life of the guarantee contracts in proportion to the expected cash flows associated with each reinsurance contract, with the excess recoverable charged to the Statements of Income.

Statements of Cash Flows

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

Notes to Financial Statements

Fair Value Measurements

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

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

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

Fair Value Hierarchy

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

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

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

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

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

Notes to Financial Statements

Reporting Developments

Recently adopted Accounting Standards:

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-09, *Disclosures about Short-Duration Contracts*. To enhance the transparency, consistency and comparability of the reported information, the ASU requires entities to provide additional disclosures about: (i) their liability for unpaid claims and claim adjustment expenses to increase the transparency of significant estimates; (ii) significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including the reasons for the changes and the effects on the entities' financial statements, and the timing, frequency and severity of claims; and (iii) roll forward of the liability for unpaid claims and claim adjustment expenses for annual and interim reporting periods. Following the effectiveness of the ASU during the quarter ending March 31, 2018, MIGA has incorporated the additional disclosures in *Note E, Reserve for Claims and Other Exposures*. The adoption of the ASU had no impact on MIGA's financial position, results of operations or cash flows.

Accounting Standards under Evaluation:

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and subsequent amendments in 2015 and 2016. The ASUs provide a common framework for revenue recognition for U.S. GAAP, and supersede most of the existing revenue recognition guidance in U.S. GAAP. The core principle of the guidance is that an entity recognizes revenue when it transfers control of promised goods and services to customers in an amount that reflects consideration to which the entity expects to be entitled. The ASUs also require additional quantitative and qualitative disclosures to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For MIGA, the revenue streams within the scope of the ASU largely relate to the provision of technical assistance, and trustee services to clients and donors, representing less than 0.1% of MIGA's revenue and is therefore immaterial as of and for the year ended June 30, 2018. MIGA will adopt the ASUs during the quarter ending September 30, 2018, using a modified retrospective approach. Under the modified retrospective approach, all changes in revenue recognition are reflected in the period of adoption of the ASUs.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires that an employer report the service cost component of net benefit cost in the same line item as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and are not eligible for capitalization. For MIGA, this ASU will become effective from the quarter ending September 30, 2018, with earlier application permitted. The implementation of this ASU will result in a modification in the presentation of MIGA's Statement of Income, with no impact on net income, as well as additional disclosures in the notes to the financial statements.

Notes to Financial Statements

Note B: Investments

The investment securities held by MIGA are carried and reported at fair value. As of June 30, 2018, the majority of the Investments – Trading is comprised of Time deposits and Government and agency obligations (50.2% and 39.5%, respectively), with all instruments being classified as Level 1 and Level 2 within the fair value hierarchy.

A summary of MIGA's investment portfolio as of June 30, 2018 and June 30, 2017 are as follows:

In thousands of US dollars

	Fair Value	
	June 30, 2018	*June 30, 2017*
Time deposits	$ 756,413	$ 863,630
Government and agency obligations	595,344	461,743
Asset-backed securities	155,666	189,748
Total investments - Trading	$ 1,507,423	$ 1,515,121

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2018 and June 30, 2017:

In thousands of US dollars

	Fair Value	
	June 30, 2018	*June 30, 2017*
Investment - Trading	$ 1,507,423	$ 1,515,121
Cash held in investment portfolio[a]	35,848	2,789
Receivable for investment securities sold	30,631	36,090
	1,573,902	1,554,000
Derivative assets		
Currency forward contracts	103,163	145,592
Currency swaps	45,487	-
Others[b]	316	231
	148,966	145,823
Derivative liabilities		
Currency forward contracts	(101,556)	(150,095)
Currency swaps	(45,344)	-
Others[b]	(16)	(293)
	(146,916)	(150,388)
Payable for investment securities purchased	(27,941)	(19,983)
Securities sold under repurchase agreement and payable for cash collateral received[c]	(13)	(13,040)
Net investment portfolio	$ 1,547,998	$ 1,516,412

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

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

c. Includes Cash Collateral received of $13K (June 30, 2017 - $NIL).

Notes to Financial Statements

As of June 30, 2018, investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 9.2 percent (8.7 percent – June 30, 2017) of the portfolio, of which the Euro-denominated instruments accounted for 9.0 percent (8.6 percent – June 30, 2017) of the total portfolio.

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

The following table summarizes MIGA's Income from investments during the fiscal year ended June 30, 2018 and June 30, 2017:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2018	June 30, 2017
Interest income	$ 21,996	$ 17,402
Realized (losses) gains	(6,910)	12,796
Unrealized gains (losses)	369	(25,426)
	$ 15,455	$ 4,772

The following table summarizes MIGA's income from derivative instruments, reported as part of Income from investments, which mainly relates to interest rate futures, options, currency forward and currency swaps for the fiscal year ended June 30, 2018 and June 30, 2017:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2018	June 30, 2017
Interest income	$ 48	$ 1,096
Realized (losses) gains	(3,256)	17,555
Unrealized gains (losses)	6,831	(14,865)
	$ 3,623	$ 3,786

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, 2018 and June 30, 2017:

In thousands of US dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2018			
	Level 1	*Level 2*	*Level 3*	*Total*
ASSETS:				
Time deposits	$ 39,004	$ 717,409	$ -	$ 756,413
Government and agency obligations	189,710	405,634	-	595,344
Asset backed securities	-	155,666	-	155,666
Total investments - Trading	228,714	1,278,709	-	1,507,423
Derivative assets				
Currency forward contracts	-	103,163	-	103,163
Currency swaps	-	45,487	-	45,487
Others[a]	38	278	-	316
Total derivative assets	38	148,928	-	148,966
Total	$ 228,752	$ 1,427,637	$ -	$ 1,656,389
LIABILITIES:				
Derivative liabilities				
Currency forward contracts	$ -	$ 101,556	$ -	$ 101,556
Currency swaps	-	45,344	-	45,344
Others[a]	-	16	-	16
Total derivative liabilities	-	146,916	-	146,916
Total	$ -	$ 146,916	$ -	$ 146,916

a. These relate to TBA securities and futures contracts.

Notes to Financial Statements

In thousands of US dollars

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

a. These relate to TBA securities and futures contracts.

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, 2018 and June 30, 2017.

Securities Lending, Borrowing and Repurchases:

MIGA may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resale) of government and agency obligations and asset-backed securities. These transactions are conducted under legally enforceable master netting arrangements, which allow MIGA to reduce its gross credit exposure related to these transactions. For Balance Sheets presentation purposes, MIGA presents its securities lending and repurchases, as well as re-sales, on a gross basis. As of June 30, 2018 and June 30, 2017, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements.

Notes to Financial Statements

The following is a summary of the carrying amount of the securities transferred under repurchase agreements, and the related liabilities as of June 30, 2018 and June 30, 2017:

In thousands of US dollars

	June 30, 2018	June 30, 2017
Securities transferred under repurchase agreements	$ -	$ 13,028
Liabilities relating to securities transferred under repurchase agreements	$ -	$ 13,040

Transfers of securities by MIGA to counterparties are not accounted for as sales as the accounting criteria for the treatment as sale have not been met. Counterparties are permitted to re-pledge these securities until the repurchase date.

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

As of June 30, 2018, there were no repurchase agreements that were accounted for as secured borrowings.

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

In thousands of US dollars

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

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, 2018, MIGA has received securities with a fair value of $Nil ($Nil - June 30, 2017) under resale agreements.

Notes to Financial Statements

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

ABS holdings are investment grade, and therefore, do not pose a significant concentration risk or credit risk to MIGA as of June 30, 2018. However, market deterioration could cause this to change in future periods.

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

Notional Amounts and Credit Exposures of the Derivative Instruments

The following table provides information on the credit exposure and notional amounts of the derivative instruments as of June 30, 2018 and June 30, 2017:

In thousands of US dollars

Type of contracts	June 30, 2018	June 30, 2017
Currency forward contracts and currency swaps		
Credit exposure	$ 1,903	$ -
Exchange traded options and futures[a]		
Notional long position	167,000	56,000
Notional short position	460,000	28,000
Others[b]		
Notional long position	69,000	80,000
Notional short position	5,000	49,000
Credit exposure	278	201

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

Offsetting Assets and Liabilities

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

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

Notes to Financial Statements

The following tables summarize information on derivative receivables and payables (before and after netting adjustments) that are reflected on MIGA's Balance Sheet as of June 30, 2018 and June 30, 2017. 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, 2018					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Currency forward contracts	$ 103,163	$ -	$ 103,163	$ 101,556	$ -	$ 101,556
Currency swaps	45,487	-	45,487	45,344	-	45,344
Others[a]	408	(92)	316	16	-	16
	$ 149,058	$ (92)	$ 148,966	$ 146,916	$ -	$ 146,916
Amounts subject to legally enforcable master netting agreement			(146,840)			(146,840)
Net derivative positions at at counterparty level before collateral			$ 2,126			$ 76
Less:						
Cash collateral received[b]			(13)			
Net derivative exposure after collateral			$ 2,113			

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

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

a. These relate to TBA securities and futures contracts.

Notes to Financial Statements

Note C: Capital Stock

The MIGA Convention established MIGA's authorized capital stock at 100,000 shares with a provision that the authorized capital stock shall automatically increase on the admission of a new member to the extent that the then authorized shares are insufficient to provide the shares to be subscribed by such member. The Convention further states that 10 percent of the members' initial subscription be paid in cash, in freely convertible currencies, except that developing member countries may pay up to a quarter of the 10 percent in their own currencies. An additional 10 percent of the initial subscription shall be paid in the form of non-negotiable, non-interest bearing promissory notes. The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. The remaining 80 percent is subject to call when required by MIGA to meet its obligations.

On March 29, 1999, the Council of Governors approved a General Capital Increase (GCI) resolution increasing the authorized capital stock of MIGA by 78,559 shares to be subscribed by members during the subscription period ending March 28, 2002. Of the additional capital, 17.65 percent is to be paid in cash, in freely usable currency. The remaining 82.35 percent is subject to call when required by MIGA to meet its obligations. On May 6, 2002, the Council of Governors adopted a resolution to extend the GCI subscription period to March 28, 2003. On March 17, 2003, the Council of Governors approved an amendment to the GCI resolution allowing eligible countries to subscribe to the GCI shares allocated to them by submitting an Instrument of Contribution before the GCI deadline of March 28, 2003, and requesting such countries to pay for their GCI shares as soon as possible. The reserved shares will be issued and corresponding voting power will accrue when the subscription process has been completed.

At June 30, 2018, MIGA's authorized capital stock comprised 186,587 (186,587 – June 30, 2017) shares, of which 177,331 (177,331 – June 30, 2017) 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, 2018, $366,122,000 ($366,122,000 – June 30, 2017) has been paid in; and the remaining $1,552,599,000 ($1,552,599,000 - June 30, 2017) is subject to call.

At June 30, 2018, MIGA had $110,084,000 ($109,763,000 – June 30, 2017) in the form of non-negotiable, non-interest bearing demand obligations (promissory notes), relating to the initial capital subscriptions.

Notes to Financial Statements

A summary of the changes in MIGA's authorized, subscribed and paid-in capital during the fiscal years ended June 30, 2018 and June 30, 2017 is as follows:

	Initial Capital		Capital Increase		Total	
	Shares	(US$000)	Shares	(US$000)	Shares	(US$000)
At June 30, 2018						
Authorized:						
At beginning of fiscal year	108,028	$ 1,168,863	78,559	$ 850,008	186,587	$ 2,018,871
New membership	-	-	-	-	-	-
At end of fiscal year	108,028	$ 1,168,863	78,559	$ 850,008	186,587	$ 2,018,871
Subscribed:						
At beginning of fiscal year	108,028	$ 1,168,863	69,303	$ 749,858	177,331	$ 1,918,721
New membership	-	-	-	-	-	-
At end of fiscal year	108,028	$ 1,168,863	69,303	$ 749,858	177,331	$ 1,918,721
Uncalled portion of the Subscription		(935,091)		(617,508)		(1,552,599)
Paid-in Capital		$ 233,772		$ 132,350		$ 366,122
At June 30, 2017						
Authorized:						
At beginning of fiscal year	108,028	$ 1,168,863	78,559	$ 850,008	186,587	$ 2,018,871
New membership	-	-	-	-	-	-
At end of fiscal year	108,028	$ 1,168,863	78,559	$ 850,008	186,587	$ 2,018,871
Subscribed:						
At beginning of fiscal year	108,028	$ 1,168,863	69,303	$ 749,858	177,331	$ 1,918,721
New membership	-	-	-	-	-	-
At end of fiscal year	108,028	$ 1,168,863	69,303	$ 749,858	177,331	$ 1,918,721
Uncalled portion of the Subscription		(935,091)		(617,508)		(1,552,599)
Paid-in Capital		$ 233,772		$ 132,350		$ 366,122

Notes to Financial Statements

Note D: Guarantees

Guarantee Program

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

MIGA considers the guarantee contracts it issues to be short-duration contracts. Short-duration contracts are contracts for which the issuer recognizes premiums received as revenue over the period of the contract in proportion to the amount of insurance coverage provided.

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, 2018 totaled $21,215,880,000 ($17,777,533,000 – June 30, 2017). A contract of guarantee issued by MIGA may permit the guarantee holder, at the start of each contract period, to elect coverage and place amounts both on current, standby and future interest. MIGA is currently at risk for amounts placed on current. The maximum amount of contingent liability is MIGA's maximum exposure to insurance claims, which includes standby and future interest coverage for which MIGA is committed but not currently at risk. At June 30, 2018, MIGA's actual exposure to insurance claims, exclusive of standby and future interest coverage is $16,452,527,000 ($13,635,830,000 – June 30, 2017).

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. Guarantees issued by MIGA on behalf of trust funds had a total outstanding gross exposure of $28,388,900 as of June 30, 2018 ($22,815,093 – June 30, 2017).

Reinsurance and Other Ceded Exposures

MIGA obtains treaty and facultative reinsurance (both public and private) to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio, and not for speculative reasons. All reinsurance contracts are ceded on a proportionate basis. However, MIGA is exposed to reinsurance non-performance risk in the event that reinsurers fail to pay their proportionate share of the loss in case of a claim. MIGA manages this risk by requiring that private sector reinsurers be rated by at least two of the four major rating agencies (Standard & Poor’s, A.M. Best, Moody’s and Fitch). The minimum rating required for private reinsurers is A by S&P or Fitch, A2 by Moody’s and A- by A.M. Best. In addition, MIGA may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments and with multilateral agencies that represent an acceptable counterparty risk. MIGA has established limits, at both the project and portfolio levels, which restrict the amount of reinsurance that may be ceded. As of June 30, 2018, the project limit states that MIGA may cede no more than 90 percent of any individual project. Similarly, the portfolio limit states that MIGA may not reinsure more than 70 percent of its aggregate gross exposure.

Notes to Financial Statements

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, for eligible projects. As of June 30, 2018, out of $425,637,000 ($366,744,000 – June 30, 2017) in gross exposure under this arrangement on MIGA's own account, amounts ceded to CAFEF under the initial loss layer totaled $41,318,000 ($26,195,000 – June 30, 2017).

MIGA is also able to cede exposures to IDA under the MIGA Guarantee Facility (MGF), one of the four facilities set up under the IDA18 IFC-MIGA Private Sector Window to promote investment in IDA-only and FCS countries. Under this facility, MIGA issues guarantees and cedes to IDA an initial first loss layer for eligible projects. As of June 30, 2018, out of $217,689,000 ($NIL-June 30, 2017) MIGA's gross exposure under this facility, amounts ceded to IDA under the first loss layer totaled $36,067,000 ($NIL – June 30, 2017).

The table below provides a reconciliation between MIGA's gross guarantee exposure and net exposure as of June 30, 2018 and June 30, 2017:

In thousands of US dollars

	June 30, 2018	June 30, 2017
Gross guarantee exposure	$ 21,215,880	$ 17,777,533
Less: Ceded Exposures		
Facultative and Treaty reinsurers	(13,259,806)	(10,969,771)
CAFEF	(41,318)	(26,195)
IDA PSW - MGF (Note G)	(36,067)	-
Net guarantee exposure before exposure exchanges	7,878,689	6,781,567
Less:		
Exposure Exchange Agreement (Note G)	(491)	(1,190)
Net guarantee exposure	$ 7,878,198	$ 6,780,377

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2018, total insurance exposure assumed by MIGA, primarily with official investment insurers, amounted to $218,533,000 ($210,302,000 – June 30, 2017).

Notes to Financial Statements

Premiums, fees and commission relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2018 and June 30, 2017 were as follows:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2018	June 30, 2017
Premiums written		
Direct	$ 172,635	$ 276,440
Assumed	2,135	2,005
Ceded	(101,878)	(195,564)
	72,892	82,881
Premium income		
Direct	207,973	177,641
Assumed	2,116	2,018
	$ 210,089	$ 179,659
Premium ceded	(131,073)	(105,277)
Ceding commission and other fees	32,214	25,508
Brokerage and other charges	(7,092)	(6,666)
Income from guarantees	$ 104,138	$ 93,224

Portfolio Risk Management

Controlled acceptance of non-commercial risk in developing countries is MIGA's core business. The underwriting of such risk requires a comprehensive risk management framework to analyze, measure, mitigate and control risk exposures.

Claims risk, the largest risk for MIGA, is the risk of incurring a financial loss as a result of a claimable non-commercial risk event in developing countries. Non-commercial risk assessment forms an integral part of MIGA's underwriting process and includes the analysis of both country-related and project-related risks.

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

Project-specific risk assessment is performed by a cross-functional team. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings of a specific coverage. The decision to issue an insurance contract is subject to approval by MIGA's senior management and concurrence or approval by the Board of Directors. For insurance contracts that are issued under the Small Investment Program (SIP), the Board has delegated approval to MIGA's senior management. In order to avoid excessive risk concentration, MIGA sets exposure limits per country and per project. As of June 30, 2018, the maximum net exposure which may be assumed by MIGA is $820 million ($820 million – June 30, 2017) in each host country and $250 million ($250 million – June 30, 2017) for each project.

Notes to Financial Statements

As approved by the Board of Directors and the Council of Governors, the maximum aggregate amount of contingent liabilities that may be assumed by MIGA is 500 percent (500 percent – June 30, 2017) of the sum of MIGA's unimpaired subscribed capital, retained earnings, accumulated other comprehensive income (loss) and net insurance portfolio reserve plus 100 percent of gross exposure ceded by MIGA through contracts of reinsurance. Accordingly, at June 30, 2018, the maximum level of guarantees outstanding (including reinsurance) may not exceed $28,379,337,000 ($25,721,471,000 – June 30, 2017).

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, 2018 and June 30, 2017 are as follows:

In thousands of US dollars

	June 30, 2018		June 30, 2017	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	$ 7,557,155	$ 11,499,654	$ 6,753,653	$ 9,994,280
% of Total Gross Exposure	35.6	54.2	38.0	56.2
Net Exposure	$ 1,872,671	$ 3,186,143	$ 1,745,952	$ 2,934,791
% of Total Net Exposure	23.8	40.4	25.8	43.3

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, 2018 and June 30, 2017 are shown in the following table:

In thousands of US dollars

	June 30, 2018			June 30, 2017		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
East Asia & Pacific	$ 2,506,351	$ 632,099	8.0	$ 2,422,523	$ 578,028	8.5
Europe & Central Asia	6,824,126	2,370,913	30.1	5,854,850	2,172,134	32.0
Latin America & Caribbean	4,250,751	1,450,119	18.4	2,893,696	1,292,398	19.1
Middle East & North Africa	1,152,481	691,918	8.8	876,898	495,375	7.3
South Asia	1,041,481	507,048	6.4	991,484	479,909	7.1
Sub-Saharan Africa	5,440,690	2,226,101	28.3	4,738,082	1,762,533	26.0
	$ 21,215,880	$ 7,878,198	100.0	$ 17,777,533	$ 6,780,377	100.0

Notes to Financial Statements

The sectoral distribution of MIGA's portfolio at June 30, 2018 and June 30, 2017 are shown in the following table:

In thousands of US dollars

	June 30, 2018			June 30, 2017		
Sector	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Agribusiness	$ 83,991	$ 82,851	1.1	$ 74,709	$ 74,412	1.1
Financial	7,204,915	2,260,494	28.7	5,905,097	2,016,773	29.7
Infrastructure	10,297,407	4,103,992	52.1	8,504,159	3,389,322	50.0
Manufacturing	501,844	412,766	5.2	500,179	409,601	6.0
Mining	1,231,474	292,050	3.7	965,570	147,249	2.2
Oil and Gas	878,325	316,994	4.0	964,665	339,458	5.0
Services and Tourism	1,017,924	409,051	5.2	863,154	403,562	6.0
	$ 21,215,880	$ 7,878,198	100.0	$ 17,777,533	$ 6,780,377	100.0

Note E: Reserve for Claims and other Exposures

MIGA's reserve for claims and other exposures primarily comprise Insurance Portfolio Reserve (IPR) and Specific Reserve for Claims.

<u>The following table provides an analysis of reserve for claims as of June 30, 2018 and June 30, 2017.</u>

In thousands of US dollars

	June 30, 2018			June 30, 2017		
	IPR	Specific Reserve for Claims	Total	IPR	Specific Reserve for Claims	Total
Gross Reserve for Claims	$ 450,100	$ 3,121	$ 453,221	$ 398,725	$ 1,488	$ 400,213
Less: Reinsurance recoverable[a]	(239,616)	-	(239,616)	(214,181)	-	(214,181)
Net Reserve for Claims	$ 210,484	$ 3,121	$ 213,605	$ 184,544	$ 1,488	$ 186,032

a. As of June 30, 2018, excludes $12,255k (June 30, 2017 - $9,589k) reinsurance recoverable associated with retroactive reinsurance contracts, which is included in the Reinsurance recoverable on the Balance Sheet.

The following table provides the composition of reinsurance recoverables at June 30, 2018 and June 30, 2017:

In thousands of US dollars

		June 30, 2018	June 30, 2017
Prospective reinsurance	- IPR	$ 239,616	$ 214,181
	- Specific Reserve for Claims	-	-
		239,616	214,181
Retroactive reinsurance	- IPR	12,255	9,589
		$ 251,871	$ 223,770

Notes to Financial Statements

As of June 30, 2018, the deferred gains reflecting the shortfall between the retroactive reinsurance contracts associated reserves and the related premium ceded totaled $6,308,500 ($5,013,500 – June 30, 2017) and is reported under Other Liabilities on the Balance Sheet.

The net increase (decrease) in reserves for claims reflected in the Statement of Income for the fiscal years ended June 30, 2018 and June 30, 2017 comprised changes in the Insurance Portfolio Reserve and Specific reserve for claims as follows:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2018	June 30, 2017
Increase (decrease) in Net Reserves:		
Insurance Portfolio Reserve	$ 24,393	$ (153,786)
Specific reserve for claims	1,633	1,488
Increase (decrease) in reserves, before translation adjustments	26,026	(152,298)
Foreign currency translation adjustments	1,547	(2,038)
Increase (decrease) in reserves, net	$ 27,573	$ (154,336)

For the fiscal year ended June 30, 2018, MIGA's claims reserving methodology and the related assumptions remained unchanged. Excluding translation effects, the $26,026,000 increase in reserves largely reflects the impact of the change in portfolio composition, increase in net guarantee exposure and changes in host country risk ratings.

For the fiscal year ended June 30, 2017, MIGA implemented a new economic capital model and associated core parameters used for the purpose of calculating the Agency's IPR, as well as for pricing and capital adequacy. Consequently, included in the decrease in reserves before translation adjustments during the fiscal year ended June 30, 2017 of $152,298,000, was the impact of the change in accounting estimate totaling $164,300,000, being a reserve release associated with the introduction of the new economic capital model.

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 reserves is effectively managed through MIGA's system for managing exposures to foreign currencies by holding equivalent amounts in the Investment portfolio. The amount by which the reserve increases (decreases) as a result of translation adjustment is offset by the translation gains (losses) on MIGA's investment portfolio and other assets, reported on the Statements of Income.

Insurance Portfolio Reserve (IPR)

The IPR reflects provisions set aside for unexpected losses and is calculated based on the long-term historical experiences of the non-commercial political risk insurance industry and the default history of the sovereigns and sub-sovereigns, adjusted for MIGA's claims history.

Notes to Financial Statements

The following table provides an analysis of the changes in the gross IPR for the fiscal years ended June 30, 2018 and June 30, 2017:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2018	June 30, 2017
Gross IPR, beginning balance	$ 398,725	$ 541,043
Less: Reinsurance recoverables	(214,181)	(200,353)
Net IPR, beginning balance	184,544	340,690
Increase (decrease) in reserves before translation adjustments	24,393	(154,108)
Foreign currency translation losses (gains)	1,547	(2,038)
Increase (decrease) in reserves, net of reinsurance	25,940	(156,146)
Net IPR, ending balance[a]	210,484	184,544
Add: Reinsurance recoverables[b]	239,616	214,181
Gross IPR, ending balance[c]	$ 450,100	$ 398,725

a. As of June 30, 2018 represents 2.7% of Total Net Exposure (June 30, 2017 - 2.7%).

b. As of June 30, 2018, excludes $ 12,255k (June 30, 2017 - $9,589K) reinsurance recoverables associated with retroactive reinsurance contracts which is included in the Reinsurance recoverables on the Balance Sheet.

c. As of June 30, 2018 represents 2.1 % of Total Gross Exposure (June 30, 2017 - 2.2%).

Specific Reserve for Claims

The Specific Reserve for Claims is composed of: (i) reserves for pending claims and (ii) reserves for contracts where a claimable event, or events that may give rise to a claimable event, may have occurred, and a claim payment is probable, but in relation to which no claim has been filed. 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. MIGA's Legal Affairs and Claims Group reviews any pre-claim situations and claims filed and, together with MIGA's Finance and Risk Management Group, recommends provisioning parameters for MIGA Management to approve on a quarterly basis. MIGA's Guidelines and Procedures for Assigning Provisioning Parameters to MIGA's Specific Reserve specify the basis on which such parameters are determined.

Claims probability: For a contract where a claim payout is deemed probable (i.e., more likely than not), the claims probability is normally set at 75%.

Severity: This parameter reflects the expected quantum of MIGA's claims payment. For a contract in the claims reserve, this is typically the amount of the claim filed, whereas for an equity contract in the probable loss reserve this parameter will normally be set at 100 percent, unless there is more specific information. For contracts covering debt and loans, the parameter will be set at the percentage of the maximum aggregate liability equaling the scheduled payments in default and future payments for which a claim payment is probable.

Expected recovery: This parameter is expressed as a percentage of the contract's maximum aggregate liability and is based on an internal assessment of the host country's creditworthiness. For this purpose, each host country is assigned to one of four risk groups, where each group has a defined standard expected recovery level. Depending on the host country category, standard expected recovery periods are applied.

Because the parameters applied in determining the Specific Reserve are based on the facts and circumstances at the time of the initial determination, subsequent quarterly re-assessment of the parameters occasionally results in an increase or decrease to the previously assessed estimates. Changes in the estimates of the Specific Reserve reflect the effect of actual payments or evaluation of the information since the prior reporting date.

The following table provides an analysis of the changes in the gross specific reserve for claims for the fiscal years ended June 30, 2018 and June 30, 2017:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2018	June 30, 2017
Gross Specific reserve for claims, beginning balance	$ 1,488	$ 4,458
Less: Reinsurance recoverables	-	-
Net Specific reserve for claims, beginning balance	1,488	4,458
Increase in Specific reserve for claims, before translation adjustments		
- Current year	-	1,810
- Prior years	1,633	-
	1,633	1,810
Foreign currency translation losses (gains)	-	-
Increase in specific reserve for claims, net of reinsurance	1,633	1,810
Less: Claims paid		
- Current year	-	(322)
- Prior years	-	(4,458)
Total Claims Paid	-	(4,780)
Net Specific reserve for claims, ending balance	3,121	1,488
Add: Reinsurance recoverables	-	-
Gross Specific reserve for claims, ending balance	$ 3,121	$ 1,488

The gross Specific Reserve for Claims as of June 30, 2018 and June 30, 2017 comprises:

In thousands of US dollars

	June 30, 2018	June 30, 2017
Reserve for Pending Claims	$ 1,946	$ 893
Probable Loss Reserve	1,175	595
Gross Specific Reserve	$ 3,121	$ 1,488

For the purpose of short-duration contracts disclosures, MIGA's material lines of business are: Political Risk Insurance (currency inconvertibility and transfer restriction, expropriation, war and civil disturbance, and breach of contract) and Non-honoring of financial obligations. Since MIGA has not had any claims history on the Non-honoring product since its introduction, the disclosures below pertain solely to Political Risk Insurance.

Notes to Financial Statements

MIGA generally creates a claim file for a policy at the contract level by type of risk coverage and recognizes one count for each claim filed by the guarantee holder and for which a claim reserve has been created. For the purposes of the claims development tables presented below, the Agency counts claims for policies issued even if the claims are eventually closed without a payment being made.

For the purpose of short-duration contracts disclosures, incurred and paid claims information include both the probable loss reserve and reported claims for each accident year.

The following tables present information about incurred and paid claims development as of June 30, 2018, net of reinsurance, and cumulative claim frequency. The tables include unaudited information about incurred and paid claims development for the years ended June 30, 2009 through 2017, which is presented as supplementary information:

Political Risk Insurance: Incurred Claims (Specific and Probable Loss Reserves), Net of Reinsurance

In thousands of US dollars	For the Year Ended June 30,											
	Unaudited											
	Reported Claims											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Probable Loss Reserve	Cumulative number of Reported Claims
Accident Year												
2009	13	13	13	13	13	13	13	13	13	13	12,749	5
2010		-	-	-	-	-	-	-	-	-	30,807	-
2011			-	-	-	-	-	-	-	-	6,082	1
2012				3,833	8,232	5,350	4,303	4,303	4,303	4,303	5,593	1
2013					5,166	299	273	273	273	273	6,905	-
2014					-	-	-	-	-	-	1,752	1
2015						-	363	363	363	363	-	2
2016							-	4,458	4,458	4,458	-	-
2017								-	1,215	2,268	595	3
2018									-	-	1,175	2
Total										11,678		

Political Risk Insurance: Cumulative Claim Payments, Net of Reinsurance

In thousands of US dollars	For the Year Ended June 30,									
	Unaudited									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Accident Year										
2009	13	13	13	13	13	13	13	13	13	13
2010		-	-	-	-	-	-	-	-	-
2011			-	-	-	-	-	-	-	-
2012				-	-	-	4,303	4,303	4,303	4,303
2013					-	-	273	273	273	273
2014						-	-	-	-	-
2015							363	363	363	363
2016							-	-	4,458	4,458
2017								-	322	322
2018									-	-
Total										9,732
Outstanding liabilities before 2009, net of reinsurance										-
Liabilities for claims, net of reinsurance										1,946

Notes to Financial Statements

The following table presents a reconciliation of the net incurred and paid claims development tables to the liability for claims on the Balance Sheet:

In thousands of US dollars

	June 30, 2018	June 30, 2017
Specific Reserve for claims, Net of Reinsurance	$ 3,121	$ 1,488
Reinsurance recoverable	-	-
Gross Specific Reserve for Claims	$ 3,121	$ 1,488

The following table presents supplementary information about average historical claims duration as of June 30, 2018:

Average Annual Percentage payment of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Political Risk Insurance	91%	11%	11%	14%	0%	0%	0%	0%	0%	0%

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 and Trust (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members, retirees and beneficiaries.

The SRP provides pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

MIGA uses a June 30 measurement date for its pension and other postretirement benefit plans.

All costs, assets and liabilities associated with these pension plans are allocated between MIGA, IBRD, and IFC based upon their employees' respective participation in the plans. MIGA and IFC reimburse IBRD for their proportionate share of any contributions made to these plans by IBRD. Contributions to these plans are calculated as a percentage of salary.

The amounts presented below reflect MIGA's respective share of the costs, assets, and liabilities of the plans.

Notes to Financial Statements

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, 2018 and June 30, 2017:

In thousands of US dollars

	Fiscal Year Ended June 30, 2018				Fiscal Year Ended June 30, 2017			
Benefit Cost	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Service cost	$ 6,278	$ 1,423	$ 1,179	$ 8,880	$ 6,564	$ 1,426	$ 1,157	$ 9,147
Interest cost	7,242	1,139	893	9,274	6,445	1,032	758	8,235
Expected return on plan assets	(10,914)	(1,469)	-	(12,383)	(10,119)	(1,296)	-	(11,415)
Amortization of unrecognized prior service cost[a]	61	174	23	258	61	174	23	258
Amortization of unrecognized net actuarial losses[a]	844	-	931	1,775	2,756	226	983	3,965
Net periodic pension cost	$ 3,511	$ 1,267	$ 3,026	$ 7,804	$ 5,707	$ 1,562	$ 2,921	$ 10,190

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

The following table summarizes the projected benefit obligation, fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for MIGA for the fiscal years ended June 30, 2018 and June 30, 2017. The SRP and RSBP assets are held in irrevocable trusts, while the PEBP assets 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 mostly invested in fixed income, equity instruments and alternative investments.

In thousands of US dollars

	Fiscal Year Ended June 30, 2018				Fiscal Year Ended June 30, 2017			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Projected Benefit Obligation								
Beginning of year	$ 197,151	$ 29,505	$ 23,801	$ 250,457	$ 191,553	$ 28,554	$ 21,858	$ 241,965
Service cost	6,278	1,423	1,179	8,880	6,564	1,426	1,157	9,147
Interest cost	7,242	1,139	893	9,274	6,445	1,032	758	8,235
Net entity transfers	(7,873)	(1,319)	n.a.	(9,192)	3,915	615	n.a.	4,530
Participant contributions	2,065	166	207	2,438	2,037	153	100	2,290
Federal subsidy received	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Benefits paid	(7,332)	(581)	(559)	(8,472)	(7,045)	(567)	(549)	(8,161)
Actuarial loss (gains)	6,965	(907)	(2,917)	3,141	(6,318)	(1,708)	477	(7,549)
End of Year	**$ 204,496**	**$ 29,426**	**$ 22,604**	**$ 256,526**	**$ 197,151**	**$ 29,505**	**$ 23,801**	**$ 250,457**
Fair value of plan assets								
Beginning of year	$ 201,194	$ 26,490		$ 227,684	$ 178,076	$ 22,436		$ 200,512
Net entity transfers	(7,873)	(1,319)		(9,192)	3,915	615		4,530
Participant contributions	2,065	166		2,231	2,037	153		2,190
Actual return on assets	17,802	2,370		20,172	21,304	2,818		24,122
Employer contributions	2,885	916		3,801	2,907	1,035		3,942
Benefits paid	(7,332)	(581)		(7,913)	(7,045)	(567)		(7,612)
End of Year	**$ 208,741**	**$ 28,042**		**$ 236,783**	**$ 201,194**	**$ 26,490**		**$ 227,684**
Funded Status[a]	**$ 4,245**	**$ (1,384)**	**$ (22,604)**	**$ (19,743)**	**$ 4,043**	**$ (3,015)**	**$ (23,801)**	**$ (22,773)**
Accumulated Benefit Obligations	**$ 184,755**	**$ 29,426**	**$ 19,676**	**$ 233,857**	**$ 175,947**	**$ 29,505**	**$ 20,124**	**$ 225,576**

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

Notes to Financial Statements

During the fiscal year ended June 30, 2018 and June 30, 2017, there were no plan amendments made to the retirement benefit plans.

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, 2018

In thousands of US dollars

	SRP	RSBP	PEBP	Total
Net actuarial loss (gain)	$ 26,095	$ (992)	$ 7,325	$ 32,428
Prior service cost	348	979	160	1,487
Net amount recognized in Accumulated Other Comprehensive Loss (Gain)	$ 26,443	$ (13)	$ 7,485	$ 33,915

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

In thousands of US dollars

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

The estimated amounts that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost in the fiscal year ending June 30, 2019 are as follows:

In thousands of US dollars

	SRP	RSBP	PEBP	Total
Net actuarial loss	$ 236	$ -	$ 845	$ 1,081
Prior service cost	58	174	22	254
Net amount recognized in Accumulated Other Comprehensive Loss	$ 294	$ 174	$ 867	$ 1,335

Assumptions

The actuarial assumptions used are based on financial market interest rates, inflation expectations, past experience, and management’s best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations.

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, change in yields and risk premium/spread (as appropriate).

Notes to Financial Statements

Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end yield of AA corporate bonds

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, 2018 and June 30, 2017:

In percent

	SRP		RSBP		PEBP	
	2018	2017	2018	2017	2018	2017
Weighted average assumptions used to determine projected benefit obligations						
Discount rate	4.10	3.70	4.10	3.90	4.10	3.80
Rate of compensation increase	5.50	5.20			5.50	5.20
Health care growth rates-at end of fiscal year			6.00	5.50		
Ultimate health care growth rate			4.20	4.00		
Year in which ultimate rate is reached			2030	2030		
Weighted average assumptions used to determine net periodic pension cost						
Discount rate	3.70	3.40	3.90	3.60	3.80	3.50
Expected return on plan assets	5.50	5.70	5.50	5.70		
Rate of compensation increase	5.20	5.30			5.20	5.30
Health care growth rates-at end of fiscal year			5.50	5.30		
Ultimate health care growth rate			4.00	4.00		
Year in which ultimate rate is reached			2030	2030		

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

In thousands of US dollars

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	1,000	(600)
Effect on post-retirment benefit obligation	6,800	(5,200)

Notes to Financial Statements

Investment Strategy

The investment policies establish the framework for investment of the plan assets based on long-term investment objectives and the trade-offs inherent in seeking adequate investment returns within acceptable risk parameters. A key component of the investment policy is to establish a Strategic Asset Allocation (SAA) representing the policy portfolio (i.e., policy mix of assets) around which the plans are invested. The SAA for the plans is reviewed in detail and reset about every three to five years, with more frequent reviews and changes if and as needed based on market conditions.

The key long-term objective is to generate asset performance that is reasonable in relation to the growth rate of the underlying liabilities and the assumed sponsor contribution rates, without taking undue risks. Given the relatively long investment horizons of the SRP and RSBP, and the relatively modest liquidity needs over the short-term to pay benefits and meet other cash requirements, the focus of the investment strategy is on generating sustainable long-term investment returns through a globally diversified set of strategies including fixed income, public and private equity and real assets.

The SAA is derived using a mix of quantitative analysis that incorporates expected returns and volatilities by asset class as well as correlations across the asset classes, and qualitative considerations such as the liquidity needs of the plans.

The following table presents the policy asset allocation at June 30, 2018 and the actual asset allocation at June 30, 2018 and June 30, 2017 by asset category for the SRP and RSBP:

In Percent

	SRP			RSBP		
	Policy Allocation 2018	% of Plan Assets		Policy Allocation 2018	% of Plan Assets	
Asset Class	(%)	2018	2017	(%)	2018	2017
Fixed income & Cash	26	19	19	26	21	21
Public Equity	33	32	35	33	30	34
Private Equity	20	24	17	20	26	19
Market Neutral Hedge Funds	8	12	11	8	11	10
Real Assets[a]	13	13	14	13	12	12
Other[b]	-	-	4	-	-	4
Total	100	100	100	100	100	100

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

b.Includes authorized investments that are outside the policy allocations primarily in long-term private credit funds.

More recently, in April 2018, the revised SAAs for SRP and RSBP were approved with effective date of July 1, 2018. The new SAAs introduce a five percent allocation to ‘credit strategies’ by proportionally reducing the allocation to fixed income and global equities.

Significant Concentrations of Risk in Plan Assets

The assets of the SRP and RSBP are diversified across a variety of asset classes. Investments in these asset classes are further diversified across funds, managers, strategies, geographies and sectors, to limit the impact of any individual investment. In spite of such level of diversification, equity market risk remains the primary source of the overall return volatility of the Plans. As of June 30, 2018, the largest exposure to a single counterparty was 7% and 5% of the plan assets in SRP and RSBP, respectively.

Risk management practices

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

Market risk is regularly monitored at the absolute level, as well as at the relative levels with respect to the investment policy, manager benchmarks, and liabilities of the Plans. Stress tests are performed periodically using relevant market scenarios to assess the impact of extreme market events.

Monitoring of performance (at both manager and asset class levels) against benchmarks, and compliance with investment guidelines, is carried out on a regular basis as part of the risk monitoring process. Risk management for different asset classes is tailored to their specific characteristics and is an integral part of the external managers’ due diligence and monitoring processes.

Credit risk is monitored on a regular basis and assessed for possible credit event impacts. The liquidity position of the Plans is analyzed at regular intervals and periodically tested using various stress scenarios to ensure that the Plans have sufficient liquidity to meet all cash flow requirements. In addition, the long-term cash flow needs of the Plans are considered during the SAA exercise and are one of the main drivers in determining maximum allocation to the illiquid investment vehicles. The plans mitigate operational risk by maintaining a system of internal controls along with other checks and balances at various levels.

Notes to Financial Statements

Fair Value Measurements

All plan assets are measured at fair value on recurring basis. The following table presents the fair value hierarchy of major categories of plans assets as of June 30, 2018 and June 30, 2017:

In thousands of US dollars	Fair Value Measurements on a Recurring Basis as of June 30, 2018							
	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt Securities								
Time deposits	$ 292	$ 95	$ -	$ 387	$ 42	$ 8	$ -	$ 50
Securities purchased under resale agreements	2,077	-	-	2,077	324	-	-	324
Government and agency securities	22,007	4,871	-	26,878	3,263	773	-	4,036
Corporate and convertible bonds	-	4,917	-	4,917	-	668	-	668
Asset backed securities	-	2,060	-	2,060	-	266	-	266
Mortgage backed securities	-	3,042	-	3,042	-	420	-	420
Total Debt Securities	24,376	14,985	-	39,361	3,629	2,135	-	5,764
Equities								
US common stocks	6,128	-	-	6,128	835	-	-	835
Non-US common stocks	28,546	-	-	28,546	3,192	-	-	3,192
Mutual Funds	1,837	-	-	1,837	552	-	-	552
Real estate investments trusts (REITs)	3,535	-	-	3,535	422	-	-	422
Total Equity Securities	40,046	-	-	40,046	5,001	-	-	5,001
Other funds at NAV[a]								
Commingled funds	-	-	-	29,840	-	-	-	3,844
Private equity	-	-	-	49,262	-	-	-	7,209
Real estate (including infrastructure and timber)[a]	-	-	-	24,455	-	-	-	3,143
Hedge funds	-	-	-	25,568	-	-	-	3,045
Derivative assets/liabilities	58	70	-	128	9	12	-	21
Other assets/liabilities, net[b]	-	-	-	81	-	-	-	15
Total Assets	$ 64,480	$ 15,055	$ -	$ 208,741	$ 8,639	$ 2,147	$ -	$ 28,042

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

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

Notes to Financial Statements

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

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

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

Valuation methods and assumptions

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

Debt securities

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

Equity securities
Equity securities (including REITs) represent investments 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 collective investment vehicles, such as trusts that are reported at NAV as provided by the investment manager or sponsor of the fund based on valuation of underlying investments.

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

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

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

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

Notes to Financial Statements

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, 2018:

In thousands of US dollars

	SRP	RSBP		PEBP
		Before Federal Subsidy	Federal Subsidy	
July 1, 2018 - June 30, 2019	$ 7,705	$ 468	$ -	$ 783
July 1, 2019 - June 30, 2020	8,299	525	-	853
July 1, 2020 - June 30, 2021	9,138	602	-	908
July 1, 2021 - June 30, 2022	9,456	685	-	939
July 1, 2022 - June 30, 2023	9,602	762	-	1,041
July 1, 2023 - June 30, 2028	59,201	5,123	-	6,345

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, 2018 is $2,838,000 and $709,000, respectively.

Note G: Transactions with Affiliated Organizations

Shared Services and Joint Business Development Agreement

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

Notes to Financial Statements

Total fees paid by MIGA reflected in the Statements of Income for the fiscal year ended June 30, 2018 and June 30, 2017 are as follows:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2018	June 30, 2017
Fees charged by IBRD/IDA	$ 9,059	$ 9,882
Fees charged by IFC	3,795	3,321

At June 30, 2018 and June 30, 2017, MIGA had the following (payables to) receivables from its affiliated organizations with regard to administrative and other services and pension and other postretirement benefits:

In thousands of US dollars

	June 30, 2018			June 30, 2017		
	Administrative & Other Services[a]	Pension and Other Postretirement Benefits[b]	Total	Administrative & Other Services[a]	Pension and Other Postretirement Benefits[b]	Total
IBRD	$ (12,327)	$ 12,977	$ 650	$ (11,891)	$ 10,760	$ (1,131)
IFC	(7,164)	-	(7,164)	(6,363)	-	(6,363)
	$ (19,491)	$ 12,977	$ (6,514)	$ (18,254)	$ 10,760	$ (7,494)

a. This amount is included in Other liabilities on the Balance Sheet.

b. This amount is included in Other assets on the Balance Sheet.

Exposure Exchange with IBRD

During FY14, MIGA entered into an exposure exchange agreement with IBRD under which MIGA and IBRD agreed to exchange $120 million each of notional amount of exposures on their respective balance sheets with one another. Under the agreement, IBRD provided a guarantee on principal and interest pertaining to MIGA's guarantee exposure under its Non-Honoring of Sovereign's Financial Obligation in exchange for MIGA's guarantee on IBRD's loan principal and interest exposure. As of June 30, 2018 and June 30, 2017, the outstanding off-balance sheet amounts relating to this exposure exchange agreement were as follows:

In thousands of US dollars

	June 30, 2018	June 30, 2017
IBRD's exposure assumed by MIGA	$ 71,746	$ 84,625
MIGA's exposure assumed by IBRD	72,237	85,815
Net amount	$ (491)	$ (1,190)

Notes to Financial Statements

As of June 30, 2018, the recorded liabilities related to MIGA's obligation under the existing exposure exchange agreement with IBRD amounted to $0.5 million ($0.6 million – June 30, 2017) and is included in Insurance portfolio reserve on the Balance Sheet.

IDA18 IFC-MIGA Private Sector Window (PSW)

During FY18, MIGA executed three MGF-supported contracts by ceding exposures to IDA. As of June 30, 2018, the amounts ceded to IDA under the first loss layer totaled $36,067,000 ($NIL – June 30, 2017). Correspondingly, the premium ceded to IDA amounted to $48,566 ($NIL – June 30, 2017) and commission receivable from IDA in relation to the premium ceded amounted to $7,355 ($NIL – June 30, 2017).

Note H: Accumulated Other Comprehensive Loss

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) for the fiscal years ended June 30, 2018 and June 30, 2017:

In thousands of US dollars

	Fiscal Year Ended June 30, 2018			
	Cumulative Translation Adjustment[a]	Unrecognized Net Actuarial Losses on Benefit Plans	Unrecognized Prior Service Costs on Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance, beginning of fiscal year	$ 3,435	$ (38,851)	$ (1,745)	$ (37,161)
Changes during the year:				
Changes in fair value AOCL	-	4,648	-	4,648
Amounts reclassified into net income[b]	-	1,775	258	2,033
Net change during the year	-	6,423	258	6,681
Balance, end of year	$ 3,435	$ (32,428)	$ (1,487)	$ (30,480)

a. Until June 30, 2006, all the currencies of transactions were deemed functional and the related currency transaction adjustments were reflected in Equity through Other Comprehensive Income.
b. See Note F, Pension and Other Post Retirement Benefits.

In thousands of US dollars

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

a. Until June 30, 2006, all the currencies of transactions were deemed functional and the related currency transaction adjustments were reflected in Equity through Other Comprehensive Income.
b. See Note F, Pension and Other Post Retirement Benefits.