



Management's Discussion & Analysis and Financial Statements

June 30, 2016

CONTENTS

1. Executive Summary	1
2. Overview.....	3
3. Financial Performance	6
4. Business Performance.....	8
5. Funding Sources	12
6. Capital Management	13
7. Investment Management.....	16
8. Financial Risk Management	17
9. Critical Accounting Policies And The Use Of Estimates	19
10. Governance And Control	20
11. Abbreviations and Acronyms	24

BOXES

Box 1. Key Financial Indicators, Fiscal Years 2012 - 2016.....	2
Box 2. MIGA's Product Line Up	4

FIGURES

Figure 1. Maximizing Development Impact (June 30, 2016).....	4
Figure 2. MIGA Financial Model.....	5
Figure 3. Average Gross Exposure (FY12 – FY16).....	7
Figure 4. Effective Premium Rate (FY12 – FY16).....	7
Figure 5. Guarantees Issued by Priority Area (Project Count).....	8
Figure 6. Guarantees Issued by Product Type (\$M).....	9
Figure 7. Regional Distribution of Gross Issuances (\$M).....	9
Figure 8. Sector Distribution of Gross Issuances (\$M).....	9
Figure 9. Guarantee Portfolio Gross and Net Exposure (\$M).....	10
Figure 10. Gross Exposure – Product Type (\$M)	10
Figure 11. Gross Outstanding Exposure in IDA-eligible Countries and FCS (\$M).....	11
Figure 12. Portfolio Reinsurance (\$M)	11
Figure 13. Pension-related Unrecognized Actuarial Losses and PBO Discount Rates.....	13
Figure 14. Impact of Reinsurance on EC Consumption - June 30, 2016 and June 30, 2015 (\$M)	15
Figure 15. Portfolio Composition of MIGA's Investment Portfolio.....	16
Figure 16. Reinsurer Counterparty Exposure (\$M).....	18

TABLES

Table 1. Summary of Net Income and Key Financial Ratios (\$M).....	6
Table 2. Cumulative Guarantees Issued in Member Countries	8
Table 3. Capital Stock (\$M) – June 30, 2016.....	12
Table 4. Current Underwriting Capacity (\$M).....	13
Table 5. Capital Utilization (FY14-16, \$M).....	15
Table 6. Investment Income by Asset Class (\$M)	16
Table 7. Top Ten Countries by Net Exposure (\$M).....	18

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, 2016 (FY16). Key financial indicators for the past five years are provided in **Box 1**.

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

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

FY16 Business and Financial Results

New Business

For FY16, new guarantee business reached a record high of \$4.3 billion in support of 17 projects and reflects a 51% growth over guarantees issued of \$2.8 billion in FY15. Of the projects supported, 53% were in IDA-eligible countries while 6% were in Fragile and Conflict-Affected Situations (FCS), both being strategic priority areas for MIGA.

Guarantee Portfolio

As of June 30, 2016, gross guarantee exposure also reached a record high of \$14.2 billion, a 13% increase from June 30, 2015, attributable primarily to the significantly higher level of new business written during FY16. Consistent with the enhanced reinsurance strategy for prudent capital management, \$3.4 billion (or 80% of FY16 total gross new business) was ceded to reinsurers compared to \$0.8 billion (or 27% of FY15 gross new business). Coupled with a portfolio run-off of \$2.6 billion, comprised primarily of high net retention contracts, the net guarantee exposure decreased by \$1 billion to \$6.7 billion as of June 30, 2016.

Net Premium Income

Net premium income increased by 9% to \$86.4 million, reflecting the combined effect of the higher average gross exposure and the effective portfolio premium rate, increasing in line with the continued upward trend of the non-honoring portion of the guarantee portfolio.

Operating Income

Operating income, defined as net premium income minus administrative expenses, was \$38.3 million for FY16, an increase of 12% over \$34.1 million in the prior fiscal year. Administrative expense to net premium income ratio, one of MIGA's key measures of financial sustainability, decreased slightly to 56% reflecting the growth in net premium income and effective management of administrative expenses.

Net Income

For FY16, MIGA recorded net income of \$56.8 million compared to a net loss of \$10.8 million in the prior year, mainly due to the significantly lower provision for claims and higher operating income.

¹ The other institutions of the World Bank Group are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the International Centre for Settlement of Investment Disputes (ICSID).

Capital and Financial Risk Management

Despite the record high gross guarantee exposure, the enhanced reinsurance strategy for prudent capital management enabled the Agency to cede a significant portion of new and existing business to its reinsurers, contributing to the decrease in net guarantee exposure. As a result, MIGA's capital utilization ratio (defined as Total Economic Capital (EC) / Operating Capital) declined to 50% as of June 30, 2016 from 54% as of June 30, 2015.

Box 1. Key Financial Indicators, Fiscal Years 2012 - 2016

As of and for the fiscal years ended June 30

US\$ millions, unless otherwise stated

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Guarantee Activities (See Section 4. Business Performance)					
New business	4,258	2,828	3,155	2,781	2,657
Portfolio run-off ¹	2,609	2,699	1,505	2,368	1,432
Gross guarantee exposure	14,187	12,538	12,409	10,758	10,346
Net guarantee exposure	6,665	7,708	7,113	6,410	6,262
Guarantee portfolio reinsurance rate ²	53%	38%	43%	40%	39%
Financial Results (See Section 3. Financial Performance)					
Net premium income	86.4	79.0	72.5	66.3	61.7
Operating income ³	38.3	34.1	26.9	19.2	17.8
Net income (loss)	56.8	(10.8)	70.0	(4.3)	5.9
Investing Activities (See Section 7. Investment Management)					
Net investment portfolio	1,376	1,323	1,282	1,157	1,090
Investment income	22.9	24.1	53.4	33.6	36.9
Return on investments (%)	1.7%	2.0%	4.4%	3.1%	3.6%
Capital Measures (See Section 6. Capital Management)					
Total shareholders' equity	989	971	974	911	905
Operating capital ⁴	1,329	1,312	1,262	1,178	1,125
Total economic capital ⁵	663	705	620	572	508
Total economic capital/operating capital (%)	50%	54%	49%	49%	45%

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

2. Guarantee portfolio reinsurance rate is inclusive of public reinsurance. (For FY16, private reinsurance portfolio rate is 46%)

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

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

5. Amount of capital utilized in support of the guarantee portfolio as well as investment and operational risks.

2. OVERVIEW

Introduction

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

MIGA is committed to promoting projects that are economically, environmentally, and socially sustainable, and that promise a strong development impact. Since its inception, MIGA has issued \$40 billion of guarantees, in support of over 800 projects in 109 of its member countries. The Agency has also supported multiple programs at regional and global levels in member countries.

MIGA's Outlook and Strategic Focus

MIGA's FY15-17 Strategy lays out the Agency's goal of maximizing development impact by partnering with the WBG to extend its support to projects with higher development impact. Under the FY15-17 Strategy, in seeking to deliver more foreign direct investment to its member countries using its expanded product line and broader client base, the Agency targeted an increase of 50% in annual volume by FY17 – from \$2.8 billion in FY13 to \$4.1 billion in FY17 – with a focus on activities in IDA-eligible countries, FCS, climate and energy efficiency, and innovative² projects.

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, investment dispute resolution, and research and knowledge services.

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

² Innovative projects include public private blend financing and new industries.

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.

Box 2. MIGA's Product Line Up***Traditional Political Risk Insurance***

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

Non-Honoring of Financial Obligations

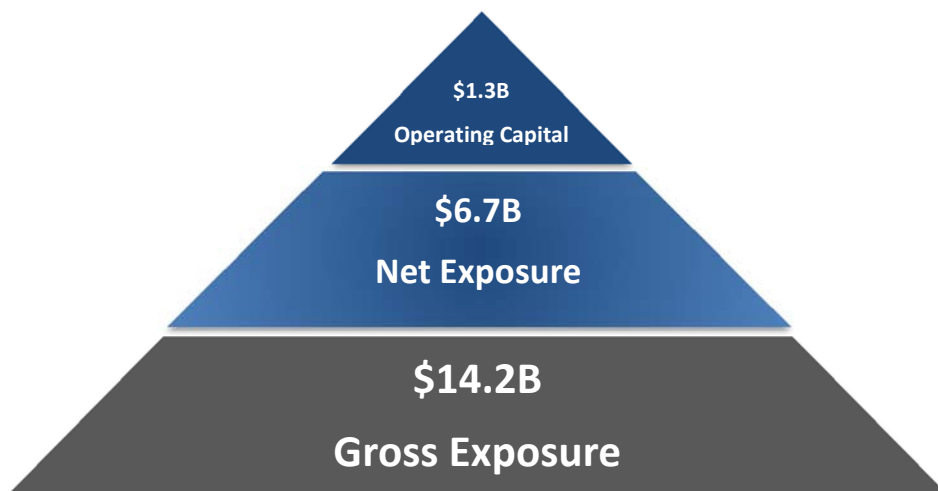
- **Non-honoring of a sovereign financial obligation (NHSFO)** – covers the risk that a sovereign or sub-sovereign fails to honor an unconditional financial payment obligation or guarantee, where the underlying project meets all of MIGA's eligibility requirements. Unlike MIGA's breach of contract coverage,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

Business Model

MIGA is financially self-sustaining and its activities are supported by a strong capital base and a comprehensive risk management framework. In the context of its statutory underwriting capacity, the Agency is able to support significant amounts of gross exposure and to contain risk, through the use of reinsurance in order to manage net guarantee exposure and the related capital utilization.

Figure 1 illustrates how MIGA is able to utilize its capital base, coupled with reinsurance capacity, to maximize its development reach. As of June 30, 2016, for every \$1 of operating capital, the Agency supported \$10.7 of gross exposure.

Figure 1. Maximizing Development Impact (June 30, 2016)

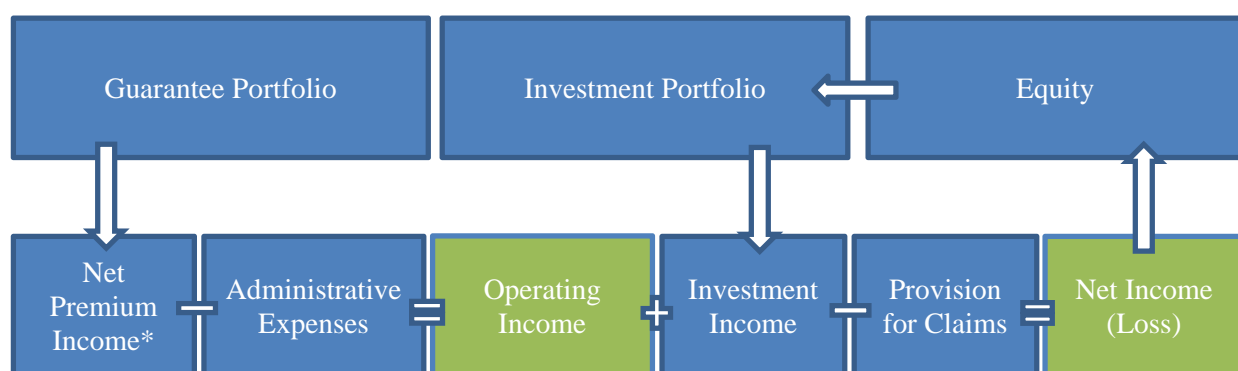


Financial Model

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 2).

Figure 2. 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). Through June 30, 2015, MIGA dual complied with both U.S. GAAP and International Financial Reporting Standards. The transition to U.S. GAAP as MIGA's sole basis of financial reporting effective July 1, 2015, does not have a material impact on the financial statements and related disclosures. MIGA's accounting policies are discussed in more detail under Note A to MIGA's Financial Statements.

3. FINANCIAL PERFORMANCE

For FY16, MIGA reported a net income of \$56.8 million, a significant improvement from a net loss of \$10.8 million in FY15. This is attributable primarily to the lower provision for claims of \$4.1 million compared to \$50.9 million in FY15 coupled with the growth in operating income.

Table 1 below shows the breakdown of MIGA's financial results over the past five years, followed by a discussion of the key drivers of MIGA's financial performance in FY16 compared to FY15.

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

As of and for the Year Ended June 30	2016	2015	2014	2013	2012
Premium Income	139.8	128.1	115.6	97.2	89.2
Premium Ceded	(64.1)	(56.6)	(50.1)	(37.7)	(33.7)
Ceding Commission	15.6	12.6	10.9	8.5	7.9
Brokerage and Other Charges	(4.9)	(5.1)	(4.0)	(1.7)	(1.7)
Net Premium Income	86.4	79.0	72.5	66.3	61.7
Administrative Expenses	(42.8)	(39.0)	(39.9)	(41.2)	(41.1)
Pension and Post Retirement Benefit Plan Expense	(5.3)	(5.9)	(5.6)	(5.9)	(2.8)
Operating Income⁽¹⁾	38.3	34.1	26.9	19.2	17.8
Income from Investments	22.9	24.1	53.4	33.6	36.9
Translation (Losses) Gains	(0.3)	(18.1)	2.8	(0.3)	(11.5)
Provision for Claims and Other Exposures ⁽²⁾	(4.1)	(50.9)	(13.1)	(56.7)	(37.3)
Net Income (Loss)	56.8	(10.8)	70.0	(4.3)	5.9
Key Financial Ratios					
Administrative Expenses / Net Premium Income	56%	57%	63%	71%	71%
ROOC ⁽³⁾ (before provisions)	4.6%	3.0%	6.6%	4.5%	3.8%
ROOC (after provisions)	4.3%	-0.8%	5.5%	-0.4%	0.5%
ROCU ⁽⁴⁾	6.4%	5.3%	4.8%	3.7%	3.9%

Note: numbers may not add up due to rounding.

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

⁽²⁾ Provisions are net of currency translation effect

⁽³⁾ Return on Operating Capital = Net Income/Operating Capital

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

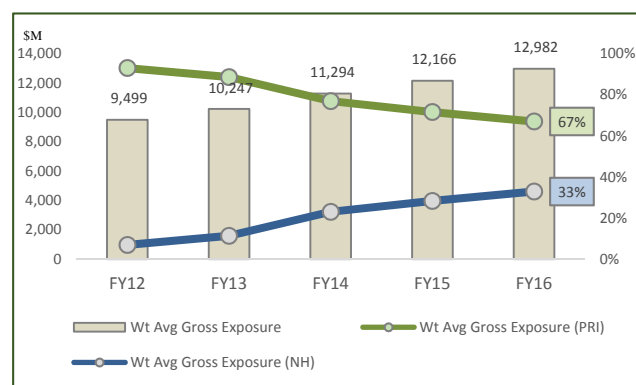
Operating Income

FY16 operating income of \$38.3 million represents a 12% increase over FY15, primarily driven by the growth in net premium income outpacing that of administrative expenses.

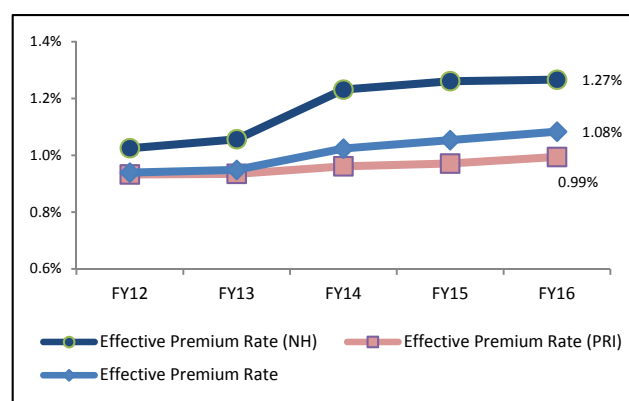
Net Premium Income

FY16 net premium income was \$86.4 million compared to \$79.0 million in FY15, an increase of \$7.4 million or 9%, attributable to the combined effect of higher average gross exposure and higher effective portfolio premium rate.

- Average Gross Exposure:** The average gross exposure increased by \$0.8 billion or 7% to \$13.0 billion in FY16 compared to \$12.2 billion in FY15, reflecting the effect of increased demand for the non-honoring product coupled with portfolio run-off on traditional PRI guarantees. The average exposure of the non-honoring product has grown significantly over the last five years, with the average exposure of the NH product increasing to \$4.3 billion (33%) in FY16, compared to \$3.4 billion (28%) in FY15.

Figure 3. Average Gross Exposure (FY12 – FY16)


- Effective Portfolio Premium Rate:** The effective portfolio premium rate increased to 1.08% as of June 30, 2016 from 1.05% as of June 30, 2015. This was mainly driven by the increased proportion of the non-honoring product of the total portfolio, earning a higher premium rate than the traditional PRI guarantees. The effective rate for the non-honoring product increased slightly to 1.27% as of June 30, 2016 compared to 1.26% as of June 30, 2015 and the effective rate on traditional PRI also trended upwards to 0.99% as of June 30, 2016 from 0.97% as of June 30, 2015.

Figure 4. Effective Premium Rate (FY12 – FY16)


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

On a combined basis, administrative expenses increased in FY16 by 7% to \$48.1 million from \$44.9 million in FY15, mainly due to planned higher workforce costs, travel expenses and contractual services.

Investment Income

Despite the challenging economic environment, FY16 investment income was slightly lower at \$22.9 million compared to \$24.1 million in FY15, representing an annualized return of 1.7% for FY16 compared to 2.0% in FY15.

Provision for Claims

FY16 provision for claims of \$4.1 million was significantly lower than the \$50.9 million provision in FY15. For FY16, the provision is primarily associated with one pending claim as of June 30, 2016, while the significantly higher FY15 provision was attributable to the growth in the net guarantee exposure and the effect of net host country risk rating downgrades.

4. BUSINESS PERFORMANCE

Guarantees Issued

New guarantees issued by MIGA in FY16 of \$4.3 billion in support of 17 projects reflect a growth of 51% over \$2.8 billion in FY15, and represents the largest volume of new business since the Agency's establishment. MIGA has issued more than \$40 billion in guarantees in 109 countries since its inception. **Table 2** below contains a summary of cumulative guarantees issued in member countries.

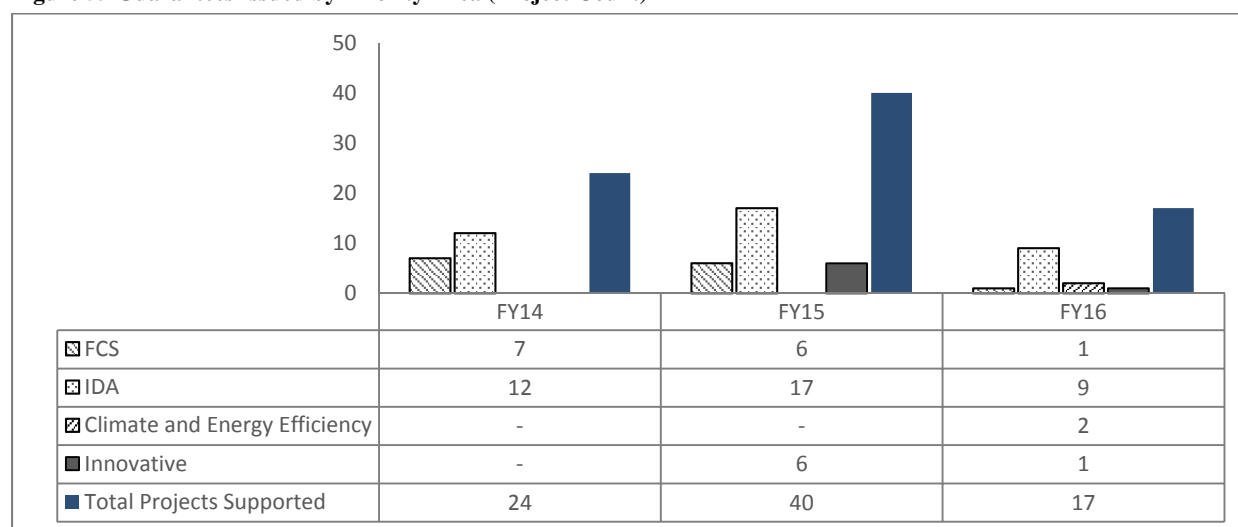
Table 2. Cumulative Guarantees Issued in Member Countries

	FY16	FY15	FY14	FY13	FY12
Cumulative Guarantees Issued (\$B)*	40.3	36.0	33.2	30.0	27.2
Host Countries	109	109	109	108	105

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

Of the 17 projects supported in FY16, 10 projects were in one or more priority areas under the Agency's FY15-17 strategy, collectively representing 59% of the total projects supported in FY16. **Figure 5** details the number of projects supported by priority area over each of the past three fiscal years.

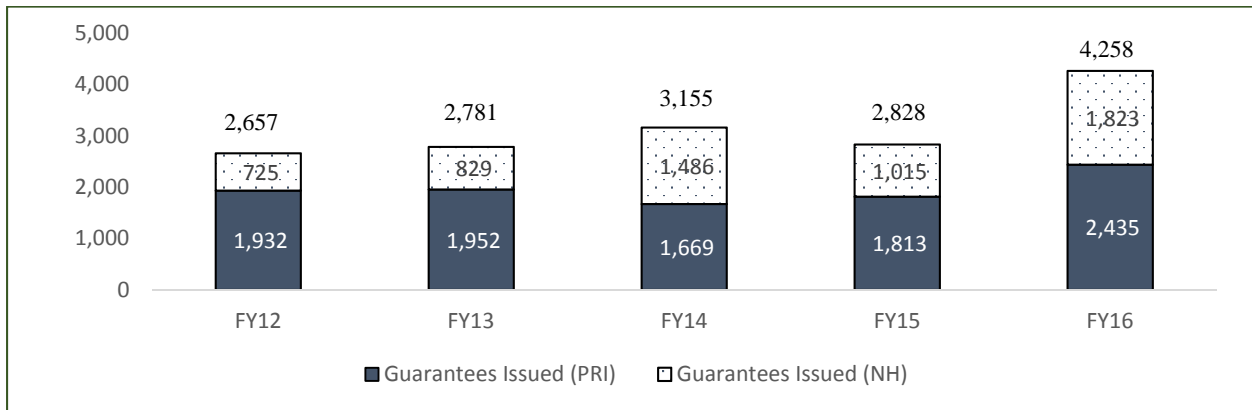
Figure 5. Guarantees Issued by Priority Area (Project Count)



Guarantees Issued By Product Type

During FY16, guarantees issued under MIGA's traditional political risk cover types amounted to \$2.4 billion (including the largest guarantee in MIGA's history of \$1 billion for a project in Mongolia) or 57% of guarantees issued in FY16, compared to \$1.8 billion in FY15 or 64% of guarantees issued in FY15. The non-honoring product in FY16 amounted to \$1.8 billion or 43% of the total FY16 new business volume, compared to \$1.0 billion or 36% of guarantees issued in FY15 (See **Figure 6**).

Figure 6. Guarantees Issued by Product Type (\$M)



Guarantees Issued by Region and Sector

Sub-Saharan Africa accounted for \$1.8 billion or 41% of the total FY16 new business volume, compared to \$0.2 billion (7%) in FY15, with the increase mainly due to a few large projects in the Infrastructure and Oil and Gas sectors. The share of new business in East Asia and Pacific region also increased significantly from \$0.2 billion in FY15 to \$1.3 billion in FY16 primarily due to a large mining contract in Mongolia in FY16. **Figure 7** below presents the regional distribution of guarantees issued in FY16 and FY15.

Figure 7. Regional Distribution of Gross Issuances (\$M)

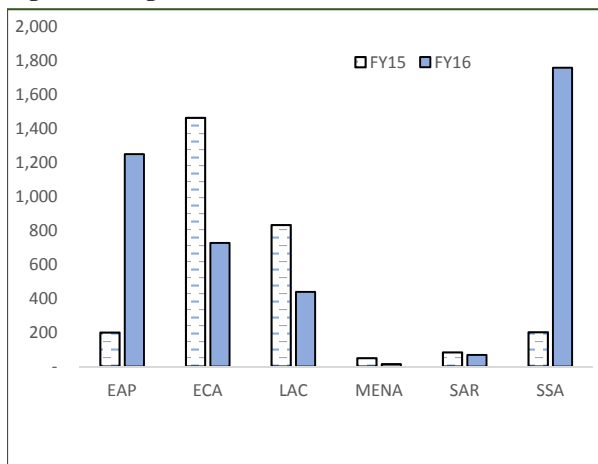
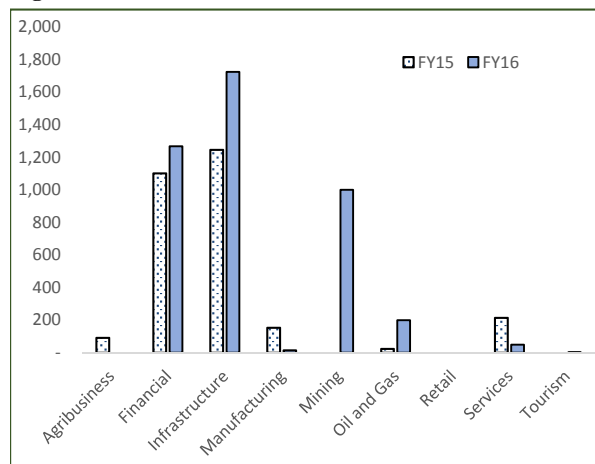


Figure 8. Sector Distribution of Gross Issuances (\$M)



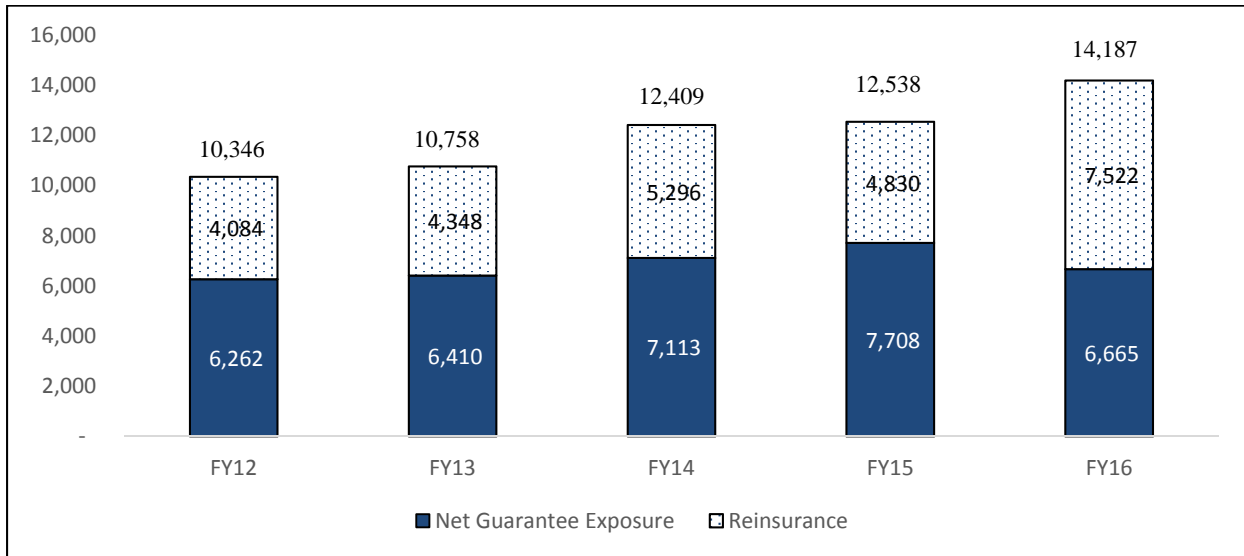
During FY16, MIGA continued to focus heavily on the Infrastructure sector, with \$1.7 billion in new guarantees supporting seven projects accounting for 40% of the total new business volume. This was followed by the Financial sector at 30% and the Mining sector at 23%. **Figure 8** above shows the sector distribution of MIGA’s new business during FY16 and FY15.

Guarantee Portfolio

Portfolio Evolution

As a result of the record new business volume in FY16 of \$4.3 billion partially offset by portfolio runoff of \$2.6 billion, the Agency’s gross exposure increased by \$1.6 billion, from \$12.5 billion as of June 30, 2015 to a record high of \$14.2 billion as of June 30, 2016. Conversely, due to significant reinsurance on new and existing business, coupled with the FY16 runoff of higher net retention guarantee contracts, the net exposure decreased by \$1.0 billion, from \$7.7 billion as of June 30 2015 to \$6.7 billion as of June 30, 2016. **Figure 9** below indicates the growth in the guarantee portfolio over the last five fiscal years.

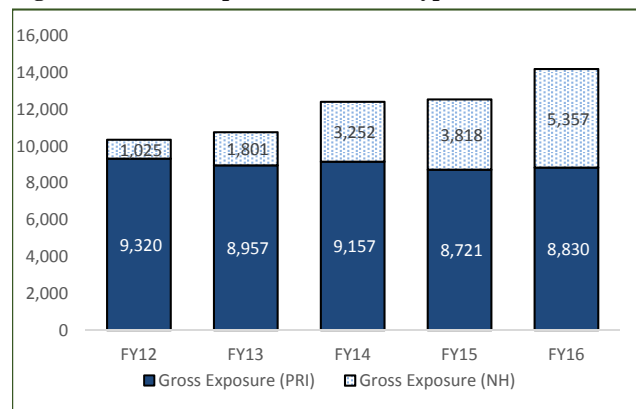
Figure 9. Guarantee Portfolio Gross and Net Exposure (\$M)



Portfolio Composition by Product Type

The demand for the Non-Honoring products continues to grow with **Figure 10** reflecting the increasing share of these products in the gross portfolio over the past five fiscal years. As of June 30, 2016, the Non-Honoring products accounted for \$5.4 billion or 38% of the gross portfolio, compared to \$3.8 billion or 30% as of June 30, 2015.

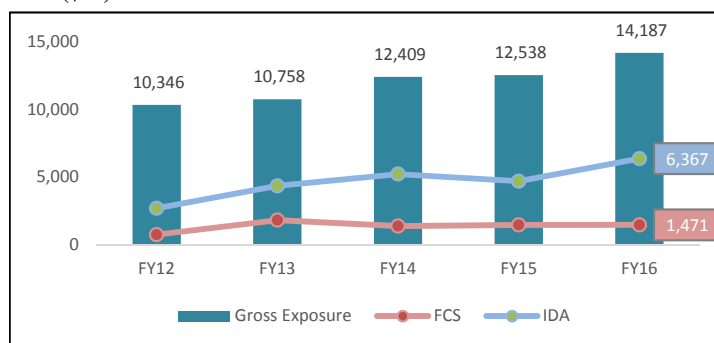
Figure 10. Gross Exposure – Product Type (\$M)



Exposure in IDA-eligible Countries and FCS

As of June 30 2016, MIGA's gross exposure in IDA-eligible countries was \$6.4 billion or 45% in comparison to \$4.7 billion (37%) as of end-FY15. MIGA's exposure in FCS as of June 30, 2016 was \$1.5 billion or 10% of the total gross portfolio. **Figure 11** indicates the trend of MIGA's gross outstanding exposure in these two strategic priority areas.

Figure 11. Gross Outstanding Exposure in IDA-eligible Countries and FCS (\$M)

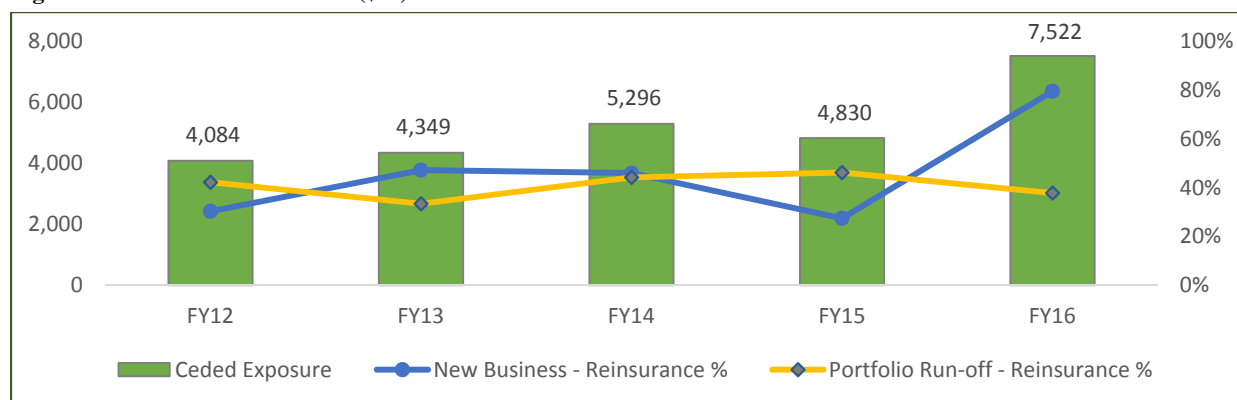


Reinsurance

MIGA's objective of using reinsurance is to support the Agency's growth while protecting the balance sheet and ensuring efficient capital utilization. MIGA recently broadened the participation of private and public insurance providers in its projects through its treaty and facultative reinsurance arrangements. As of June 30, 2016, \$7.5 billion (53%) of the gross exposure was reinsured under facultative and quota share treaty arrangements. This compares to \$4.8 billion (38%) as of end-FY15 and \$5.3 billion (43%) as of end-FY14.

The increase in portfolio reinsurance rate was attributable to: (i) Significantly high reinsurance (80%) of FY16 new business in line with the Agency's enhanced reinsurance strategy for prudent capital management, (ii) portfolio run-off carrying lower amounts of reinsurance (38% reinsured), and (iii) additional reinsurance of existing projects with facultative reinsurers (\$293 million) in FY16. **Figure 12** below provides the evolving portfolio reinsurance over the last five years, as well as the impact of ceded exposure of new guarantee business and portfolio run-off.

Figure 12. Portfolio Reinsurance (\$M)



Note: Ceded Exposure outstanding as of June 30, 2016 includes exposure adjustments relating to the exposure exchange agreement with IBRD of \$2.5 million and amounts ceded to the Conflict-Affected and Fragile Economies Facility (CAFEF) of \$24.2 million.

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 FY16, the Agency worked with a number of investors and host governments on incipient investment disputes. These discussions do not necessarily imply that a claim was imminent.

Claim Activities

During FY16, MIGA did not make any claim related payments. As of June 30, 2016, there was one pending claim related to War and Civil Disturbance for which an appropriate reserve was maintained.

5. 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, 2016, MIGA had 181 member countries and a total subscribed capital of \$1.9 billion.

Table 3 provides a summary of the capital stock as of June 30, 2016.

Table 3. Capital Stock (\$M) – June 30, 2016

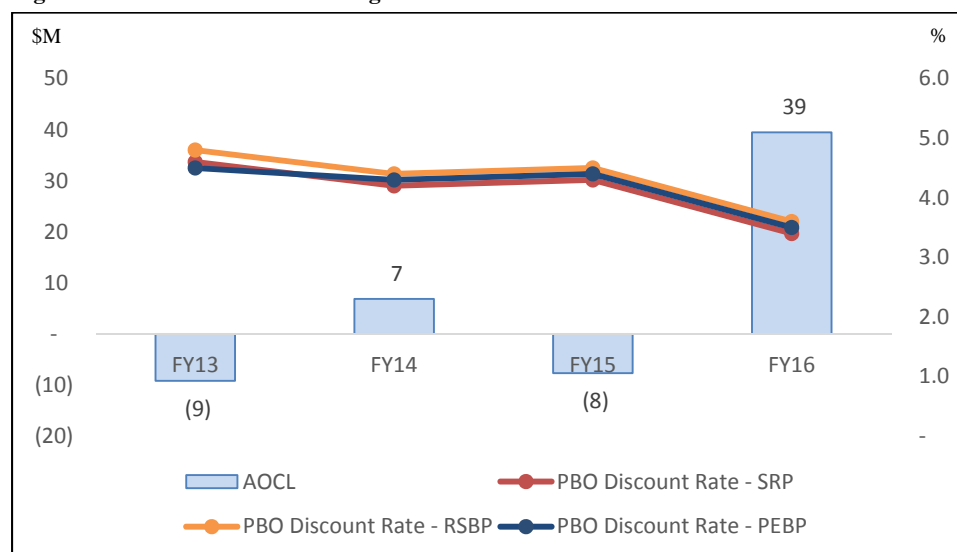
	Initial Capital	Capital Increase	Total
Subscribed Capital	1,169	750	1,919
Of which:			
Paid in Capital	234	132	366
Callable Capital	935	618	1,553

Of the initial membership shares subscribed, 20 percent had been paid-in and the remaining 80 percent was subject to call when needed by MIGA to meet its obligations. As of June 30, 2016, \$110.3 million of paid-in capital is in the form of non-negotiable, non-interest bearing demand obligations (promissory notes). The notes are denominated in freely convertible currencies and are due on demand to meet MIGA's obligations. Since inception, MIGA has not encashed any of the promissory notes.

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

Shareholders' Equity

Total shareholders' equity as of June 30, 2016 was \$988.5 million compared to \$971.2 million as of June 30, 2015, an increase of \$17.3 million. The increase primarily reflects FY16's net income contribution of \$56.8 million, partially offset by the increase in accumulated other comprehensive loss of \$39.5 million, resulting from actuarial losses on the pension and post-retirement benefit plans. FY16 actuarial losses were attributable to the significant decline in the discount rates applied to the annual re-measurement of pension liabilities (PBO), and to a lesser extent, lower than expected returns on the pension assets. **Figure 13** below shows the evolution of the discount rates and the resulting impact on pension-related actuarial gains and losses.

Figure 13. Pension-related Unrecognized Actuarial Losses and PBO Discount Rates

6. CAPITAL MANAGEMENT

Underwriting Capacity

MIGA's capital base ensures the financial sustainability of the Agency over both the short-term and long-term. The subscribed capital and retained earnings determine the Agency's statutory underwriting capacity. The Council of Governors and the Board of Directors have set the maximum amount of contingent liability that may be assumed by MIGA at 350 percent of the sum of its unimpaired subscribed capital and reserves and retained earnings plus 100 percent of the ceded exposure to reinsurers. In other words, the maximum amount of net guarantee exposure is determined by the amount of available capital, and the statutory underwriting capacity is expressed on a gross exposure basis by adding the current amount of portfolio reinsurance to the net exposure. As of June 30, 2016, MIGA's underwriting capacity was \$17,581 million, as detailed in **Table 4** below.

Table 4. Current Underwriting Capacity (\$M)

	June 30, 2016	June 30, 2015
Subscribed Capital	1,919	1,919
Retained Earnings	684	627
Accumulated Other Comprehensive Loss	(62)	(22)
Insurance Portfolio Reserve (net)	341	341
Total	2,882	2,865
350% of Subscribed Capital, Retained Earnings, Accumulated Other Comprehensive Loss and Insurance Portfolio Reserve, net	10,086	10,027
100% of Exposure Ceded ⁴	7,495	4,826
Statutory Underwriting Capacity	17,581	14,853

As of June 30, 2016, MIGA's gross exposure was \$14,187 million, representing 81% of MIGA's statutory underwriting capacity.

⁴ For the purposes of calculation of FY16 underwriting capacity, exposure ceded excludes adjustments relating to the exposure exchange agreement with IBRD and amounts ceded to the CAFEF facility, which as of June 30, 2016 stood at \$2.5 million and \$24.2 million, respectively.

Capital Adequacy

Under its Economic Capital-based capital adequacy framework, MIGA's measures of capital adequacy and risk-bearing capacity include economic capital consumed by the guarantee portfolio. It provides an analytically rigorous measure for assessing the consumption of risk capital by the core guarantee business, and incorporates the effects from portfolio diversification and concentration. In addition, MIGA estimates the minimum amount of capital that should be held against operational risk in the Agency and the risk of loss in the investment portfolio.

Total economic capital, defined as capital consumption from the guarantee portfolio and estimated capital required for operational risk⁵ and investment risk, represents a broader measure of MIGA's capital adequacy. As of June 30, 2016, the economic capital consumed by the guarantee portfolio amounted to \$597 million and the total economic capital for the Agency amounted to \$663 million, compared to \$644 million and \$705 million, respectively, as of June 30, 2015. The \$47 million decrease in guarantee economic capital primarily reflects: (i) the decline in the volume and changes in the composition of MIGA's net guarantee portfolio, and (ii) net host country risk rating upgrades.

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, and changes to the product mix.

MIGA's management monitors the level and utilization of available operating capital, which is comprised of paid-in-capital, retained earnings, and the insurance portfolio reserve, net of the corresponding reinsurance recoverable. MIGA management's objective is to have sufficient operating capital to sustain losses associated with claims and to support the ongoing business without facing a significant risk of having to avail itself of the callable capital. As measures of the current utilization of this capital, by the guarantee portfolio and by the Agency as a whole, **Table 5** shows the ratios of guarantee portfolio and total economic capital to operating capital over the past three years. These ratios stood at 44.9% and 49.8%, respectively, as of June 30, 2016 compared with 49.1% and 53.7% as of June 30, 2015.

As a gauge of year-on-year changes to the relative risk-level of the guarantee portfolio, **Table 5** also shows the ratio of guarantee portfolio economic capital to portfolio net exposure. As of June 30, 2016, this ratio stood at 9.0% compared to 8.4% at end-FY15 and is largely reflective of the increased risk associated with changes in the product mix of the guarantee portfolio and increased counterparty risk associated with exposure ceded to reinsurers. The above ratios indicate a strong and stable capital position for the Agency at the end of FY16.

⁵ Operational risk capital is based on the Basel II methodology for calculating operational risk capital as a percentage of gross revenues and amounted to \$46 million as of June 30, 2016.

Table 5. Capital Utilization (FY14-16, \$M)

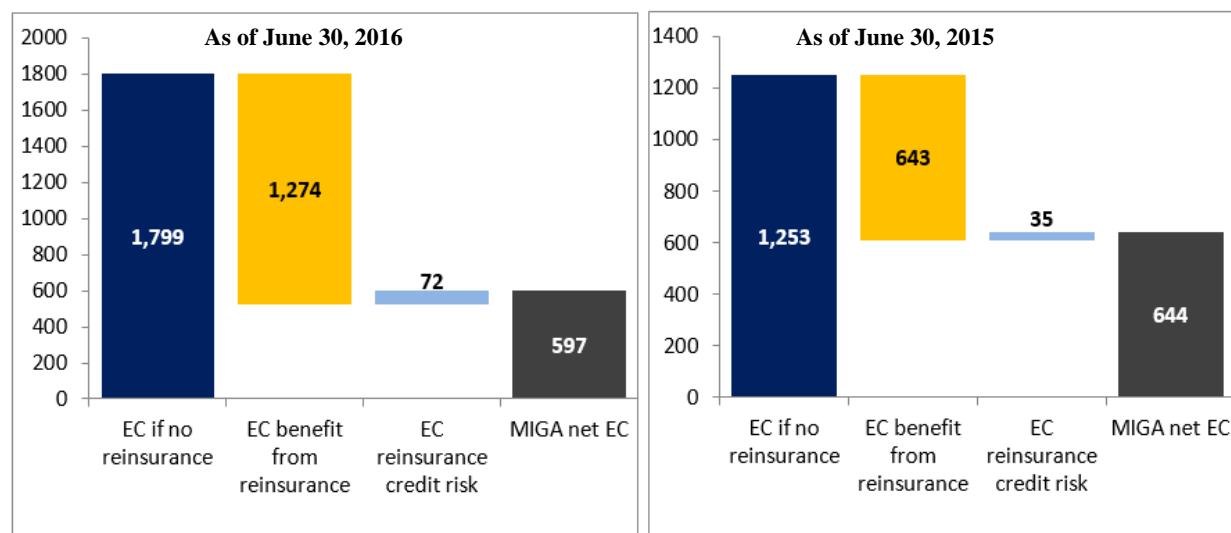
	FY16	FY15	FY14
Guarantee Portfolio Economic Capital	597	644	561
Total Economic Capital	663	705	620
Insurance Portfolio Reserve (net)	341	341	288
Retained Earnings and Accumulated Other Comprehensive Loss	622	605	608
Paid-in Capital	366	366	366
Operating Capital	1,329	1,312	1,262
Net Exposure	6,665	7,708	7,113
Guarantee Portfolio Economic Capital / Operating Capital	44.9%	49.1%	44.5%
Total Economic Capital / Operating Capital	49.8%	53.7%	49.1%
Guarantee Portfolio Economic Capital / Net Exposure	9.0%	8.4%	7.9%

Note: numbers may not add up due to rounding.

Effects of Reinsurance on Economic Capital

Reinsurance of MIGA's guarantee portfolio plays a key part in risk management and business growth, as it helps MIGA manage its exposure concentration by transferring risk and provides substantial capital relief in comparison to the counterparty credit risk assumed. As of June 30 2016, reinsurance on the guarantee portfolio provided relief to the overall guarantee portfolio economic consumption by 67% compared to 49% in FY15. **Figure 14** shows the benefit provided by reinsurance on the guarantee portfolio economic capital in FY16 and FY15, with the increase in FY16 resulting largely from the significant amount of new and existing business reinsured in FY16.

MIGA is exposed to the risk of default by its reinsurers when claims materialize and **Figure 14** also indicates the impact of the reinsurance counterparty risk on the guarantee portfolio economic capital. As of June 30, 2016, the amount of counterparty credit risk is estimated to be \$72 million and is included in the overall guarantee portfolio economic capital. MIGA closely monitors the credit ratings of each of its reinsurer counterparties.

Figure 14. Impact of Reinsurance on EC Consumption - June 30, 2016 and June 30, 2015 (\$M)

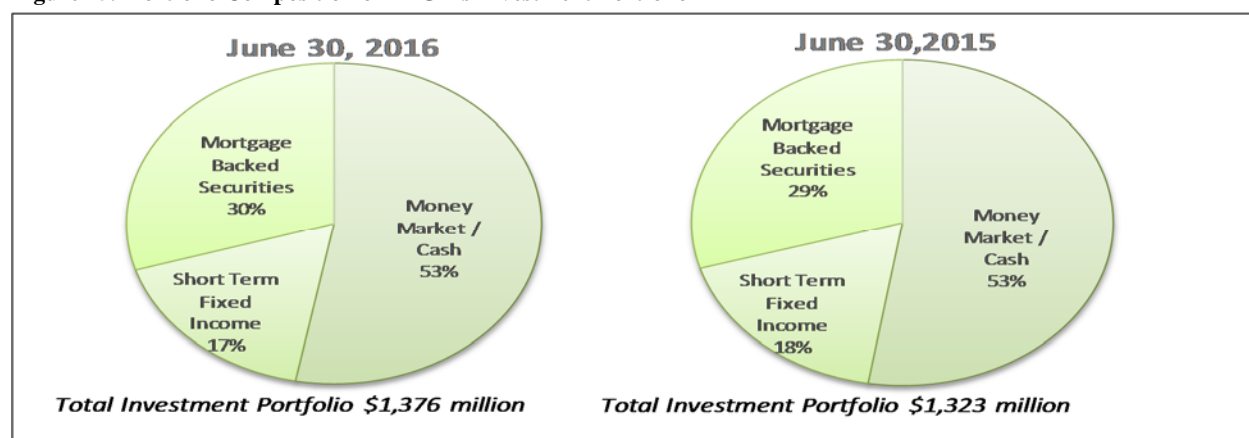
7. INVESTMENT MANAGEMENT

MIGA's investment portfolio management strategy is to provide liquidity to pay for identified claims as well as to cover future unidentified claims, and to maximize investment returns to provide for capital growth, consistent with clearly defined and prudent risk limits. The portfolio consists of two tranches. Tranche 1 is managed with target duration between 1 to 2 years to support potential claims, and consists of investments in cash, treasury securities, agency securities, mortgage-backed securities (MBS), asset-backed securities (ABS) and sovereign securities. Tranche 2 (Long-Term Investment Portfolio or LTIP) supports long-term capital growth, by investing in assets such as global equities. Portfolio management activities for MIGA's fixed income assets, as well as trading, risk analytics and reporting, are provided by IBRD's Treasury Investment Management Department.

In response to the sustained volatility in global equity markets, in March 2015, MIGA de-risked the remaining global equity portfolio holdings. As of June 30, 2016, MIGA had no Tranche 2 investment holdings. The Agency is considering various alternatives to increase the returns on its portfolio within acceptable risk parameters.

As of June 30, 2016, the net investment portfolio totaled \$1,376 million consisted of cash, treasury securities, agency securities, MBS, ABS, sovereign and government guaranteed securities, and derivatives (see Figure 3). Although primarily USD-denominated, the portfolio also held cash and government securities denominated in currencies other than USD totaling \$147 million or 12%.

Figure 15. Portfolio Composition of MIGA's Investment Portfolio



MIGA's investment portfolio had an annual portfolio yield of 1.7% in FY16 versus 2.0% in FY15. **Table 6** provides details on the investment income by asset class over the past three fiscal years.

Table 6. Investment Income by Asset Class (\$M)

Asset Class	FY16	FY15	FY14
Money Market / Cash	3.1	1.2	1.0
US Short Term (0-3 Year)	2.3	1.8	2.8
Mortgage Backed Securities	17.5	10.1	11.4
LTIP - Global Equities	-	11.0	38.2
Total Investment Income	22.9	24.1	53.4
Total Portfolio Return	1.7%	2.0%	4.4%

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

Portfolio Risk

For portfolio risk management purposes, MIGA currently utilizes an Economic Capital (EC)⁶ Model, based on best practices applied in risk modeling. Under the EC Model, MIGA defines its economic capital as the 99.99th percentile of the aggregate loss distribution over a one year horizon, minus the mean of the loss distribution, which is in line with industry practice. The model helps evaluate concentration risk in the guarantee portfolio and facilitates active, risk-based exposure management by allocating the Economic Capital to particular regions, countries, sectors, covers, or individual contracts, based on their respective risk contribution. Additionally, in order to prevent excessive risk concentration, MIGA has in place nominal maximum net guarantee exposure limits per country and per project, which as of June 30, 2016 stood at \$820 million and \$250 million, respectively.

The top ten largest exposure countries as of June 30, 2016 are shown below in **Table 7**, and accounted for 42% of the total net guarantee portfolio.

⁶ 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 7. Top Ten Countries by Net Exposure (\$M)

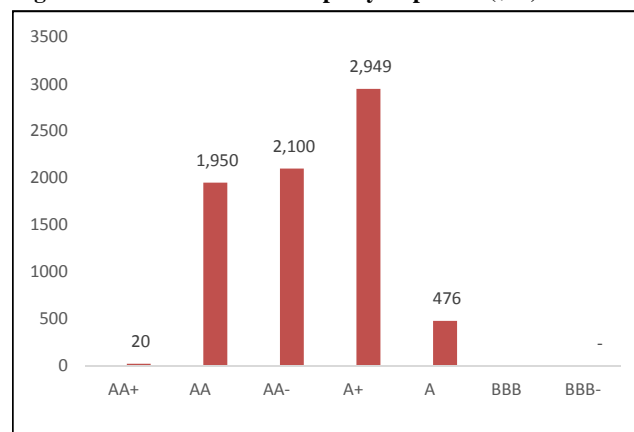
Host Country	Gross Exposure	Net Exposure	Share of Net Exposure (%)
Turkey	1,695	537	8.1%
Panama	522	210	3.1%
Serbia	447	293	4.4%
Cote d'Ivoire	820	286	4.3%
Honduras	327	273	4.1%
Russian Federation	429	263	4.0%
Pakistan	348	259	3.9%
Ghana	285	258	3.9%
Nigeria	691	220	3.3%
Cameroon	270	210	3.2%
Top Ten Host Countries	5,835	2,809	42.1%

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

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 credit risk is derived mainly from its reinsurance counterparties. MIGA requires that private sector reinsurers, with which it conducts business, be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that the ratings be above a minimum threshold. Also, MIGA has established limits at both the project and portfolio levels, which restrict the amount of reinsurance. **Figure 16** provides a graphical representation of the ceded exposure with reinsurance counterparties by credit risk ratings.

Figure 16. Reinsurer Counterparty Exposure (\$M)

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.

9. CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

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

Reserve for Claims

MIGA's provisioning methodology builds on portfolio risk quantification models that use both individually assessed loss probabilities for projects at risk and rating-based loss probabilities that are applied to the entire guarantee portfolio. Under this methodology, for the purpose of presentation in the financial statements, MIGA's reserve consists of two primary components, the Specific Reserve and the Insurance Portfolio Reserve.⁷

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*.

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

Fair Value of Financial Instruments

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

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

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

10. GOVERNANCE AND CONTROL

General Governance

Board Membership

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

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

Senior Management Changes

Effective January 30, 2016, Mr. Ravi Vish retired from MIGA as Director, Economics and Sustainability and the Agency is in the process of appointing a replacement.

Following the departure of Ms. Edith Quintrell, effective June 1, 2016, Mr. Sarvesh Suri was appointed Director, Operations and Mr. Muhamet Bamba Fall was appointed Chief Underwriter and Associate Director, Operations.

Audit Committee

Membership

The Audit Committee consists of eight members of the Board of Directors. Membership on the Committee is determined by the Board of Directors, based upon nominations by the Chairman of the Board, following informal consultation with the Directors. In addition, the composition of the Committee is expected to reflect the economic and geographic diversity of MIGA's member countries. Other relevant selection

criteria include seniority, continuity, and relevant experience. Some or all of the responsibilities of individual Committee members are performed by their alternates or advisors. Generally, Committee members are appointed for a two-year term; reappointment to a second term, when possible, is desirable for continuity. Audit Committee meetings are generally open to any member of the Board who wishes to attend, and non-Committee members of the Board may participate in the discussion but cannot vote. In addition, the Chairman of the Audit Committee may speak in that capacity at meetings of the Board of Directors, with respect to discussions held at the Audit Committee.

Key Responsibilities

The Audit Committee has a mandate to assist the Board of Directors in overseeing MIGA's finances, accounting, risk management, and internal controls. This mandate includes the review and oversight of MIGA's financial statements and financial reporting related to trust funds. The Audit Committee is also responsible for recommending to the Board of Directors the appointment of the external auditor, as well as monitoring the performance and independence of the external auditor. The Audit Committee oversees the internal audit function, including reviewing the responsibilities, staffing, annual internal audit plan, and effectiveness of internal audit. In the execution of its role, the Committee discusses with management, the external auditors, and internal auditors, financial issues and policies which have an impact on the Agency's financial position and risk-bearing capacity. The Committee also reviews with the external auditor the financial statements prior to their publication and recommends the annual audited financial statements for approval to the Directors. The Audit Committee monitors the evolution of developments in corporate governance and encourages continuous improvement of, and adherence to MIGA's policies, procedures, and practices.

Communications

The Audit Committee communicates regularly with the full Board of Directors through distribution of the following documents:

- The minutes of its meetings.
- Reports of the Audit Committee prepared by the Chairman, which document discussions held. These reports are distributed to the Directors, Alternates Directors, World Bank Group Senior Management, and MIGA Senior Management.
- "Statement(s) of the Chairman" and statements issued by other members of the Audit Committee.
- The Annual Report to the Board of Directors, which provides an overview of the main issues addressed by the committee over the year.

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

Executive Sessions

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

Throughout the year, the Audit Committee receives a large volume of information, with respect to the financial position, financial statement presentations, risk assessment, and risk management, as well as matters regarding governance and controls. The Audit Committee meets both formally and informally throughout the year to discuss finance, accounting, risk management, and internal controls matters. The Directors have unrestricted access to management. The Audit Committee reviews and discusses with management the quarterly and annual financial statements. The committee also reviews with the external

auditor the financial statements prior to their publication and recommends these for approval to the Board of Directors.

The Audit Committee has the authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

Code of Conduct and Business Conduct Framework

Staff members' ethical obligations to the institution are embodied in its Core Values and Principles of Staff Employment. As a member organization, MIGA has adopted the updated World Bank Group Code of Conduct, *Living our Values* (the Code), which is a practical guide to assist staff in making the Bank Group's Core Values a part of what staff does every day. The Code applies to all staff worldwide and is available on IBRD's website, www.worldbank.org.

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

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

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

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

Auditor Independence

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

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

The external auditor is appointed to a five-year term of service. This is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Directors.

As standard practice, the external auditor is invited as an observer to attend all Audit Committee meetings and is frequently asked to present its perspective on issues. In addition, the Audit Committee meets periodically with the external auditor in private sessions without the presence of management. Communication between the external auditor and the Audit Committee is ongoing, as frequently as is deemed necessary by either party. MIGA's external auditors follow the communication requirements with audit committees set out under US Generally Accepted Auditing Standards. In keeping with these standards, significant formal communications include:

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

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

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)⁸.

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

⁸ 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.

11. ABBREVIATIONS AND ACRONYMS

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

Table of Contents**June 30, 2016**

Management's Report Regarding Effectiveness of Internal Control over External Financial Reporting.....	25-26
Independent Auditor's Report on Management's Assertion Regarding Effectiveness of Internal Control over External Financial Reporting.....	27-28
Independent Auditor's Report.....	29-30
Balance Sheet	31
Statement of Income.....	32
Statement of Comprehensive Income.....	33
Statement of Changes in Shareholders' Equity.....	33
Statement of Cash Flows.....	34
Statement of Subscription to Capital Stock and Voting Power.....	35-38
Statement of Guarantees Outstanding.....	39-40
Notes to Financial Statements.....	41-74

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

August 4, 2016

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

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with 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, 2016. 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. The independent audit

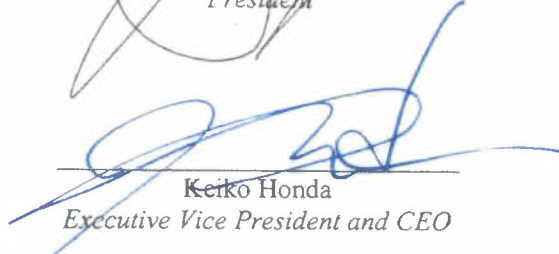
August 4, 2016

firm that audited the financial statements has issued an attestation report on management's assertion on MIGA's internal control over external financial reporting.

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



Jim Yong Kim
President



Kerko Honda
Executive Vice President and CEO



Santiago Gerardo Assalini
Director, Corporate Risk



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

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the Multilateral Investment Guarantee Agency (MIGA) maintained effective internal control over external financial reporting as of June 30, 2016, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). MIGA's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

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

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, management's assertion that MIGA maintained effective internal controls over financial reporting as of June 30, 2016 is fairly stated, in all material respects, based on the criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of MIGA, which comprise the balance sheets as of June 30, 2016 and 2015, 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 4, 2016 expressed an unqualified opinion on those financial statements.

KPMG LLP

August 4, 2016



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

Independent Auditors' Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the Multilateral Investment Guarantee Agency (MIGA), which comprise the balance sheets as of June 30, 2016 and 2015, 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 accounting principles generally accepted in the United States of America; 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.

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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of subscriptions to capital stock and voting power and the statement of guarantees outstanding as of June 30, 2016 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 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.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion, included in the accompanying Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting, that MIGA maintained effective internal control over financial reporting as of June 30, 2016, 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 4, 2016 expressed an unqualified opinion on management's assertion.

KPMG LLP

Washington, D.C.
August 4, 2016

Balance Sheet**June 30, 2016 and June 30, 2015****Expressed in thousands of US dollars**

	2016	2015
Assets		
CASH.....	\$ 7,087	\$ 9,710
INVESTMENTS - Trading (including securities transferred under repurchase agreements) - Note B.....	1,348,699	1,376,179
Securities purchased under resale agreements - Note B.....	42,001	-
Derivative assets - Note B.....	332,708	271,517
NONNEGOTIABLE, NON INTEREST - BEARING		
DEMAND OBLIGATIONS - Note C.....	110,292	109,891
OTHER ASSETS		
Receivable for investment securities sold - Note B.....	11,440	5,634
Reinsurance recoverable - Note E.....	216,139	124,670
Prepaid premium ceded to reinsurers.....	182,267	136,874
Net assets under retirement benefit plans - Note F	-	17,601
Miscellaneous assets - Note G.....	88,589	15,565
	<u>498,435</u>	<u>300,344</u>
TOTAL ASSETS.....	<u>\$ 2,339,222</u>	<u>\$ 2,067,641</u>
Liabilities and Shareholders' Equity		
LIABILITIES		
Payable for investment securities purchased - Note B.....	\$ 10,192	\$ 34,697
Securities sold under repurchase agreements and payable for cash collateral received - Note B.....	2,691	27,869
Derivative liabilities - Note B.....	348,531	270,494
Other liabilities - Notes E, F and G.....	136,096	50,437
Unearned premiums and commitment fees.....	307,705	247,261
Reserve for claims - Note E		
Specific reserves for claims.....	4,458	-
Insurance portfolio reserve.....	541,043	465,710
Reserve for claims - gross.....	<u>545,501</u>	<u>465,710</u>
TOTAL LIABILITIES.....	<u>1,350,716</u>	<u>1,096,468</u>
CONTINGENT LIABILITIES - Note D		
SHAREHOLDERS' EQUITY		
Capital stock - Note C		
Authorized capital (186,587 shares - June 30, 2016 and June 30, 2015)		
Subscribed capital (177,331 shares - June 30, 2016 and June 30, 2015)	1,918,721	1,918,721
Less uncalled portion of subscriptions.....	<u>1,552,599</u>	<u>1,552,599</u>
	366,122	366,122
Retained earnings.....	684,023	627,210
Accumulated other comprehensive loss - Note H.....	<u>(61,639)</u>	<u>(22,159)</u>
TOTAL SHAREHOLDERS' EQUITY.....	<u>988,506</u>	<u>971,173</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	<u>\$ 2,339,222</u>	<u>\$ 2,067,641</u>

See accompanying notes to the financial statements

Statement of Income

For the fiscal years ended June 30, 2016 and June 30, 2015

Expressed in thousands of US dollars

	2016	2015
INCOME		
Income from guarantees		
Premium income - Note D.....	\$139,801	\$ 128,142
Premium ceded - Note D.....	(64,089)	(56,580)
Ceding commission and other fees - Note D.....	15,603	12,553
Brokerage and other charges - Note D.....	(4,922)	(5,084)
Total.....	<u>86,393</u>	<u>79,031</u>
Income from investments - Note B.....	<u>22,916</u>	<u>24,122</u>
Total income.....	<u>109,309</u>	<u>103,153</u>
EXPENSES		
Provision for claims - Note E		
Increase in net reserves, excluding translation gains.....	4,954	65,479
Translation gains.....	(846)	(14,600)
Provision for claims, net.....	4,108	50,879
Administrative expenses.....	42,802	38,977
Expenses from pension and other post retirement benefit plans - Note F.....	5,254	5,941
Translation losses - Investments and other assets.....	332	18,178
Total expenses and translation losses.....	<u>52,496</u>	<u>113,975</u>
NET INCOME (LOSS).....	<u>\$ 56,813</u>	<u>\$ (10,822)</u>

Statement of Comprehensive Income

For the fiscal years ended June 30, 2016 and June 30, 2015

Expressed in thousands of US dollars

	2016	2015
NET INCOME (LOSS).....	\$ 56,813	\$ (10,822)
OTHER COMPREHENSIVE INCOME (LOSS) - Note H		
Net actuarial (losses) gains on benefit plans.....	(39,422)	7,433
Prior service (costs) credits on benefit plans.....	(58)	236
Total other comprehensive (loss) income	(39,480)	7,669
COMPREHENSIVE INCOME (LOSS).....	\$ 17,333	\$ (3,153)

Statement of Changes in Shareholders' Equity

For the fiscal years ended June 30, 2016 and June 30, 2015

Expressed in thousands of US dollars

	2016	2015
CAPITAL STOCK		
Balance at beginning of the fiscal year.....	\$ 366,122	\$ 366,014
Paid-in subscriptions.....	-	108
Ending Balance.....	366,122	366,122
RETAINED EARNINGS		
Balance at beginning of the fiscal year.....	627,210	638,032
Net income (loss).....	56,813	(10,822)
Ending Balance.....	684,023	627,210
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of the fiscal year.....	(22,159)	(29,828)
Other comprehensive (loss) income.....	(39,480)	7,669
Ending Balance.....	(61,639)	(22,159)
TOTAL SHAREHOLDERS' EQUITY	\$ 988,506	\$ 971,173

Statement of Cash Flows

For the fiscal years ended June 30, 2016 and June 30, 2015

Expressed in thousands of US dollars

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss).....	\$ 56,813	\$ (10,822)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Provision for claims, net - Note E.....	4,108	50,879
Translation losses - Investments and other assets.....	332	18,178
Net change in:		
Investments - Trading, net.....	(54,097)	(78,529)
Other assets.....	(117,298)	(12,621)
Other liabilities.....	46,396	4,326
Unearned premiums and commitment fees.....	61,498	16,273
Net cash used in operating activities	<u>(2,248)</u>	<u>(12,316)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Capital subscription payments.....	-	54
Net cash provided by financing activities.....	<u>-</u>	<u>54</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	<u>(375)</u>	<u>(4,914)</u>
Net decrease in cash.....	(2,623)	(17,176)
Cash at beginning of the fiscal year.....	<u>9,710</u>	<u>26,886</u>
CASH AT END OF THE FISCAL YEAR.....	<u><u>\$ 7,087</u></u>	<u><u>\$ 9,710</u></u>

Statement of Subscriptions to Capital Stock and Voting Power

As of June 30, 2016

Expressed in thousands of US dollars

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

See accompanying notes to the financial statements

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

As of June 30, 2016

Expressed in thousands of US dollars

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

See accompanying notes to the financial statements

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

As of June 30, 2016

Expressed in thousands of US dollars

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

See accompanying notes to the financial statements

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

As of June 30, 2016

Expressed in thousands of US dollars

Members	Shares ¹	SUBSCRIPTIONS (NOTE C)			VOTING POWER	
		Total Subscribed	Amount Paid-in	Amount Subject to Call	Number of Votes	% of Total
Solomon Islands	50	\$ 541	\$ 108	\$ 433	276	0.13
South Africa	1,662	17,983	3,414	14,569	1,888	0.87
South Sudan	155	1,677	335	1,342	381	0.17
Spain	2,265	24,507	4,652	19,855	2,491	1.14
Sri Lanka	478	5,172	982	4,190	704	0.32
Sudan	206	2,229	445	1,784	432	0.20
Suriname	82	887	177	710	308	0.14
Swaziland	58	628	126	502	284	0.13
Sweden	1,849	20,006	3,798	16,208	2,075	0.95
Switzerland	2,643	28,597	5,429	23,168	2,869	1.31
Syrian Arab Republic	296	3,203	608	2,595	522	0.24
Tajikistan	130	1,407	267	1,140	356	0.16
Tanzania	248	2,683	509	2,174	474	0.22
Thailand	742	8,028	1,524	6,504	968	0.44
Timor-Leste	50	541	108	433	276	0.13
Togo	77	833	167	666	303	0.14
Trinidad and Tobago	358	3,874	735	3,139	584	0.27
Tunisia	275	2,976	565	2,411	501	0.23
Turkey	814	8,807	1,672	7,135	1,040	0.48
Turkmenistan	66	714	143	571	292	0.13
Uganda	233	2,521	478	2,043	459	0.21
Ukraine	1,346	14,564	2,765	11,799	1,572	0.72
United Arab Emirates	656	7,098	1,347	5,751	882	0.40
United Kingdom	8,565	92,673	17,593	75,080	8,791	4.03
United States	32,564	352,342	67,406	284,936	32,790	15.02
Uruguay	202	2,186	437	1,749	428	0.20
Uzbekistan	175	1,894	379	1,515	401	0.18
Vanuatu	50	541	108	433	276	0.13
Venezuela, R.B. de	1,427	15,440	3,087	12,353	1,653	0.76
Vietnam	388	4,198	797	3,401	614	0.28
Yemen, Republic of	155	1,677	335	1,342	381	0.17
Zambia	318	3,441	688	2,753	544	0.25
Zimbabwe	236	2,554	511	2,043	462	0.21
Total - Jun 30, 2016 ²	177,331	\$ 1,918,721	\$ 366,122	\$ 1,552,599	218,237	100.00
Total - June 30, 2015	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, 2016

Expressed in thousands of US dollars

Host Country	Gross Exposure (Note D)				Ceded Exposure ¹	Net Exposure
	US Dollars	Euro	Swiss Franc	Total		
Afghanistan	\$ 152,760	\$ 1,497		\$ 154,257	\$ 48,676	\$ 105,581
Albania		307,113		307,113	103,140	203,973
Angola	69,993	419,704		489,697	352,812	136,885
Bangladesh	320,031			320,031	231,254	88,777
Belarus		116,476		116,476	58,238	58,238
Benin	1,026	6,571		7,597	103	7,494
Bolivia	17,559			17,559		17,559
Bosnia and Herzegovina		144,232		144,232	9,743	134,489
Brazil ²	346,797			346,797	140,661	206,136
Bulgaria		58,344		58,344	29,172	29,172
Burundi		6,922		6,922		6,922
Cameroon	180,000	90,314		270,314	60,000	210,314
China	9,855			9,855		9,855
Colombia	95,000	2,224		97,224		97,224
Congo, Democratic Republic of	174,926			174,926	132,399	42,527
Costa Rica	98,753			98,753	57,815	40,938
Cote d'Ivoire	767,275	52,388		819,663	533,494	286,169
Djibouti	80,669			80,669	44,433	36,236
Dominican Republic	84,680			84,680	12,702	71,978
Egypt, Arab Republic of	196,880	7,772		204,652	59,680	144,972
El Salvador	131,712			131,712		131,712
Ethiopia	9,836			9,836		9,836
Gabon		6,043		6,043		6,043
Georgia	92,278			92,278		92,278
Ghana	285,335			285,335	27,032	258,303
Guinea		44,238		44,238	4,424	39,814
Guinea-Bissau		9,124		9,124	912	8,212
Honduras	326,946			326,946	54,250	272,696
Hungary	-	450,549		450,549	307,677	142,872
Indonesia	200,000			200,000		200,000
Iran, Islamic Republic of	54,976			54,976	5,498	49,478
Iraq	8,316			8,316		8,316
Jamaica	40,861			40,861	8,172	32,689
Jordan	228,492			228,492	79,800	148,692
Kenya	162,844	62,420		225,264	24,216	201,048
Kosovo		91,203		91,203		91,203
Lao People's Democratic Republic	50,338			50,338	25,169	25,169
Lebanon	35,460			35,460		35,460
Libya		8,471		8,471		8,471
Macedonia, former Yugoslav Republic of		10,589		10,589		10,589
Madagascar		1,429		1,429		1,429
Mali	11,419			11,419	1,142	10,277
Mauritania	5,400	2,573		7,973	540	7,433
Moldova		16,978		16,978		16,978
Mongolia	1,000,000			1,000,000	847,500	152,500
Mozambique	125,938			125,938	63,982	61,956
Nicaragua	88,972			88,972		88,972

See accompanying notes to the financial statements

Statement of Guarantees Outstanding (cont'd)

As of June 30, 2016

Expressed in thousands of US dollars

Host Country	Gross Exposure (Note D)				Ceded Exposure ¹	Net Exposure
	US Dollars	Euro	Swiss Franc	Total		
Niger		5,226		5,226		5,226
Nigeria	\$ 691,206			691,206	471,156	220,050
Pakistan	266,133		81,993	348,126	88,870	259,255.73
Panama ³	521,952			521,952	312,392	209,560
Peru	6,156			6,156	1,231	4,925
Russian Federation	89,050	340,142		429,192	165,718	263,474
Rwanda	95,378			95,378	15,378	80,000
Saudi Arabia	15,313			15,313	-	15,313
Senegal	10,000	110,717		120,717	81,579	39,138.37
Serbia		447,407		447,407	154,796	292,611
Sierra Leone		5,257		5,257	-	5,257
South Africa	8,640	779,020	11,530	799,190	658,491	140,699
Swaziland	7,964			7,964	3,982	3,982
Tanzania	28,890			28,890	-	28,890
Thailand	45,338			45,338	22,669	22,669
Tunisia		93,736		93,736	34,447	59,289
Turkey	833,807	861,336		1,695,143	1,158,422	536,721
Turkmenistan	11,477			11,477	-	11,477
Uganda	146,226			146,226	66,425	79,801
Ukraine	127,771	8,153		135,924	44,222	91,702
Uruguay	439,349			439,349	345,000	94,349
Uzbekistan	31,032			31,032	10,257	20,775.38
Vietnam	715,039			715,039	588,737	126,302
Zambia	32,584			32,584		32,584
	9,578,632	4,568,168	93,523	14,240,323	7,548,408	6,691,915
Adjustment for Dual-Country Contracts ⁴						
Lao PDR/Thailand	(45,338)			(45,338)	(22,669)	(22,669)
Mozambique/Swaziland	(7,964)			(7,964)	(3,982)	(3,982)
	(53,302)			(53,302)	(26,651)	(26,651)
Total - June 30, 2016 ⁵	\$ 9,525,330	\$ 4,568,168	\$ 93,523	\$ 14,187,021	\$ 7,521,757	\$ 6,665,264
Total - June 30, 2015	\$ 7,625,025	\$ 4,815,138	\$ 98,166	\$ 12,538,328	\$ 4,830,433	\$ 7,707,895

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

2. Net exposure to Brazil increased by \$97 million on account of exposure exchange agreement with IBRD (Note D).

3. Net exposure to Panama reduced by \$100 million on account of exposure exchange agreement with IBRD (Note D).

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

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

Notes to Financial Statements

Purpose

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

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

Note A: Summary of Significant Accounting and Related Policies

Basis of Preparation

MIGA's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Through June 30, 2015, MIGA dual complied with both U.S. GAAP and International Financial Reporting Standards (IFRS). The transition to U.S. GAAP as MIGA's sole basis of financial reporting effective July 1, 2015, did not have a material impact on the financial statements and related disclosures. The policy adopted is that considered most appropriate to the circumstances of MIGA having regard to its legal requirements and to the practices of other international insurance entities.

The preparation of financial statements in conformity with 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 loss reserves, and valuation of pension and post-retirement benefits-related liabilities and the related net periodic cost of such benefit plans.

On August 4, 2016, 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, mortgage /asset-backed securities (ABS) and government and agency obligations based on its investment authorization approved by the Board. Government and agency obligations include highly rated fixed-rate bonds, notes, bills and other obligations issued or unconditionally guaranteed by governments of countries or other official entities, including government agencies or by multilateral organizations.

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

Notes to Financial Statements

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

For trading securities, unrealized net gains and losses are recognized in earnings. Income from investments includes net gains and losses 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. The Insurance Portfolio Reserve is calculated based on the long-term historical experiences of the non-commercial risk insurance industry.

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

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

Notes to Financial Statements

Impairment of Reinsurance Assets

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

Currency Translation

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

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

Valuation of Capital Stock

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

Revenue Recognition

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

MIGA cedes to reinsurers in the normal course of business by obtaining treaty and facultative reinsurance to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio. Premiums ceded follow the same approach as for direct insurance contracts and are recognized as expenses 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.

Notes to Financial Statements

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 Statement of Income relation to exposures subsequently ceded, and instead 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 Statement of Income.

Statement of Cash Flows

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

Fair Value Measurements

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

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

For financial instruments for which quoted market prices are not 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.

Notes to Financial Statements

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

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

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

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

Accounting and Reporting Developments

In August 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the effective date*. The ASU defers the effective date of ASU 2014-09 on *Revenue from Contracts with Customers* for public business entities, certain not-for-profit entities and employees benefit plans to annual periods, and interim periods within, beginning after December 15, 2017. For other entities, ASU 2014-09 will become effective for annual periods beginning on December 15, 2018 and subsequent interim reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. MIGA is currently evaluating the impact of this ASU on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial instruments – Overall (subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*: The ASU makes targeted improvements to existing US GAAP as follows: requires equity investments to be measured at FV with changes recognized in net income; simplifies impairment assessment of equity investments without readily determinable FV; eliminates certain disclosures about the FV of amortized cost instruments; requires that public entities use the exit price when measuring FV for disclosure purposes; requires, for liabilities measured at FV under the FV option, to present separately in OCI the portion of the total change in the FV resulting from a change in the instrument-specific credit risk (“own credit” risk); requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables); and clarifies guidance on deferred tax asset (DTA) related to AFS securities. For public business entities, this ASU will become effective for annual periods beginning on December 15, 2017 and subsequent interim reporting periods. For other entities, fiscal years beginning after December 15, 2018 and subsequent interim periods. MIGA is currently evaluating the impact of this ASU on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU introduces a new model for the accounting of credit losses of loans and other financial assets measured at amortized cost. Current U.S. GAAP requires an “incurred loss” methodology for recognizing credit losses. The new model, referred to as the current expected credit losses (CECL) model, requires an entity to estimate the credit losses expected over the life of an exposure, considering historical information, current information, and reasonable and supportable forecasts. Additionally, the ASU requires enhanced disclosures about credit quality and significant estimates and judgements used in estimating credit

Notes to Financial Statements

losses. For MIGA, the ASU will be effective from the quarter ending September 30, 2021, with early adoption permitted. MIGA is currently evaluating the impact of the ASU on its financial statements.

Note B: Investments

The investment securities held by MIGA are carried and reported at fair value. As of June 30, 2016, the majority of the Investments – Trading is comprised of Government and agency obligations and Asset-backed securities (46.5% and 27.4%, respectively), with all instruments being classified as Level 1 and Level 2 within the fair value hierarchy.

A summary of MIGA's investment portfolio at June 30, 2016 and June 30, 2015 are as follows:

In thousands of US dollars

	<i>Fair Value</i>	
	<i>June 30, 2016</i>	<i>June 30, 2015</i>
Government and agency obligations	\$ 627,130	\$ 548,930
Asset-backed securities	370,075	366,590
Time deposits	351,494	460,659
Total investments - Trading	<u>\$ 1,348,699</u>	<u>\$ 1,376,179</u>

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of June 30, 2016 and June 30, 2015:

In thousands of US dollars

	<i>Fair Value</i>	
	<i>June 30, 2016</i>	<i>June 30, 2015</i>
Investment - Trading	\$ 1,348,699	\$ 1,376,179
Cash held in investment portfolio ^a	2,552	2,545
Securities purchased under resale agreements	42,001	-
Receivable for investment securities sold	11,440	5,634
	<u>1,404,692</u>	<u>1,384,358</u>
Derivative assets		
Currency forward contracts	332,353	271,258
Others ^b	355	259
	<u>332,708</u>	<u>271,517</u>
Derivative liabilities		
Currency forward contracts	(348,223)	(270,265)
Others ^b	(308)	(229)
	<u>(348,531)</u>	<u>(270,494)</u>
Payable for investment securities purchased	(10,192)	(34,697)
Securities sold under repurchase agreement and payable for cash collateral received	(2,691)	(27,869)
Net investment portfolio	<u>\$ 1,375,986</u>	<u>\$ 1,322,815</u>

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

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

Notes to Financial Statements

As of June 30, 2016, investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 10.7 percent (10.1 percent – June 30, 2015) of the portfolio, of which the Euro-denominated instruments accounted for 10.5 percent (9.8 percent – June 30, 2015) 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.

The following table summarizes MIGA's Income from investments during the fiscal year ended June 30, 2016 and June 30, 2015:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2016	June 30, 2015
Interest income	\$ 17,192	\$ 14,201
Dividend income	-	2,063
Realized - (losses) gains	(292)	10,244
Unrealized - gains (losses)	6,016	(2,386)
	<u>\$ 22,916</u>	<u>\$ 24,122</u>

The following table summarizes MIGA's income (loss) from derivative instruments, reported as part of Income from investments, which mainly relates to interest rate futures, options, and covered forwards for the fiscal year ended June 30, 2016 and June 30, 2015:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2016	June 30, 2015
Interest income	\$ 2,384	\$ 499
Realized losses	(697)	(649)
Unrealized losses	(41)	(103)
	<u>\$ 1,646</u>	<u>\$ (253)</u>

Notes to Financial Statements

Fair Value Disclosures

The following tables present MIGA's fair value hierarchy for investment assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and June 30, 2015:

In thousands of US dollars

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

a. These relate to TBA securities, exchange traded options and futures.

Notes to Financial Statements

In thousands of US dollars

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

a. These relate to TBA securities, exchange traded option and futures.

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

Inter-Level Transfers:

MIGA's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

There were no inter-level transfers during the fiscal year ended June 30, 2016 and June 30, 2015.

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 Sheet presentation purposes, MIGA presents its securities lending and repurchases, as well as re-sales, on a gross basis. As of June 30, 2016 and June 30, 2015, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements.

Notes to Financial Statements

The following is a summary of the carrying amount of the securities transferred under repurchase agreements, and the related liabilities:

In thousands of US dollars

	June 30, 2016	June 30, 2015
Securities transferred under repurchase agreements	\$ 2,718	\$ 27,840
Liabilities relating to securities transferred under repurchase agreements	\$ 2,691	\$ 27,825

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.

As of June 30, 2016 and June 30, 2015, there were no liabilities relating to securities transferred under repurchase or securities lending agreements that had not settled at that date.

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

The following tables present the disaggregation of the gross obligation by class of collateral pledged and the remaining contractual maturities for repurchase agreements that are accounted for as secured borrowings as of June 30, 2016 and June 30, 2015:

In thousands of US dollars

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

Notes to Financial Statements

In thousands of US dollars

	June 30, 2015		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	Up to 30 days	Total
Repurchase or security lending agreements			
Government and agency obligations ^a	\$ 27,825	\$ -	\$ 27,825
Total liabilities relating to securities transferred under repurchase or security lending agreements	\$ 27,825	\$ -	\$ 27,825

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

In the case of resale agreements, MIGA receives collateral in the form of liquid securities and is permitted to re-pledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded as Investments on MIGA's Balance Sheet as the accounting criteria for treatment as a sale have not been met. As of June 30, 2016, MIGA has received securities with a fair value of \$42,095,615 (\$Nil - June 30, 2015) under resale agreements.

Credit Exposure:

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

Asset backed securities (ABS) are diversified among credit cards, student loans, home equity loans and mortgage backed securities. Since these holdings are investment grade, neither concentration risk nor credit risk represents a significant risk to MIGA as of June 30, 2016. However, market deterioration could cause this to change in future periods.

Notes to Financial Statements

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, 2016 and June 30, 2015:

In thousands of US dollars

Type of contracts	June 30, 2016	June 30, 2015
Currency forward contracts		
Credit exposure	\$ 244	\$ 2,994
Exchange traded options and futures ^a		
Notional long position	12,400	20,800
Notional short position	173,600	685,000
Others ^b		
Notional long position	84,000	85,000
Notional short position	5,000	1,000
Credit exposure	355	259

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, 2016 and June 30, 2015. 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, 2016					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Currency forward contracts	\$ 332,353	\$ -	\$ 332,353	\$ 348,223	\$ -	\$ 348,223
Others ^a	355	-	355	389	(81)	308
	<u>\$ 332,708</u>	<u>\$ -</u>	<u>\$ 332,708</u>	<u>\$ 348,612</u>	<u>\$ (81)</u>	<u>\$ 348,531</u>
Amounts subject to legally enforceable master netting agreement			(332,361)			(332,361)
Net derivative positions at counterparty level			<u>\$ 347</u>			<u>\$ 16,170</u>

a. These relate to TBA securities, exchange traded options and futures.

	June 30, 2015					
	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	\$ 271,258	\$ -	\$ 271,258	\$ 270,265	\$ -	\$ 270,265
Others ^a	259	-	259	382	(153)	229
	<u>\$ 271,517</u>	<u>\$ -</u>	<u>\$ 271,517</u>	<u>\$ 270,647</u>	<u>\$ (153)</u>	<u>\$ 270,494</u>
Amounts subject to legally enforceable master netting agreement			(269,939)			(269,939)
Net derivative positions at counterparty level before collateral			<u>\$ 1,578</u>			<u>\$ 555</u>
Less:						
Cash collateral received ^b			(44)			
Net derivative exposure after collateral			<u>\$ 1,534</u>			

a. These relate to TBA securities, exchange traded options and futures.

b. Does not include excess collateral received.

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, 2016, MIGA's authorized capital stock comprised 186,587 (186,587 – June 30, 2015) shares, of which 177,331 (177,331 – June 30, 2015) 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, 2016, \$366,122,000 (\$366,122,000 – June 30, 2015) has been paid in; and the remaining \$1,552,599,000 (\$1,552,599,000 - June 30, 2015) is subject to call. At June 30, 2016, MIGA had \$110,292,000 (\$109,891,000 – June 30, 2015) 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, 2016 and June 30, 2015 is as follows:

	Initial Capital		Capital Increase		Total	
	Shares	(US\$000)	Shares	(US\$000)	Shares	(US\$000)
At June 30, 2016						
Authorized:						
At beginning of fiscal year	108,028	\$ 1,168,863	78,559	\$ 850,008	186,587	\$ 2,018,871
New membership	-	-	-	-	-	-
At end of fiscal year	<u>108,028</u>	<u>\$ 1,168,863</u>	<u>78,559</u>	<u>\$ 850,008</u>	<u>186,587</u>	<u>\$ 2,018,871</u>
Subscribed:						
At beginning of fiscal year	108,028	\$ 1,168,863	69,303	\$ 749,858	177,331	\$ 1,918,721
New membership	-	-	-	-	-	-
At end of fiscal year	<u>108,028</u>	<u>\$ 1,168,863</u>	<u>69,303</u>	<u>\$ 749,858</u>	<u>177,331</u>	<u>\$ 1,918,721</u>
Uncalled portion of the Subscription		(935,091)		(617,508)		(1,552,599)
Paid-in Capital		<u>\$ 233,772</u>		<u>\$ 132,350</u>		<u>\$ 366,122</u>
At June 30, 2015						
Authorized:						
At beginning of fiscal year	107,978	\$ 1,168,322	78,559	\$ 850,008	186,537	\$ 2,018,330
New membership	50	541	-	-	50	541
At end of fiscal year	<u>108,028</u>	<u>\$ 1,168,863</u>	<u>78,559</u>	<u>\$ 850,008</u>	<u>186,587</u>	<u>\$ 2,018,871</u>
Subscribed:						
At beginning of fiscal year	107,978	\$ 1,168,322	69,303	\$ 749,858	177,281	\$ 1,918,180
New membership	50	541	-	-	50	541
At end of fiscal year	<u>108,028</u>	<u>\$ 1,168,863</u>	<u>69,303</u>	<u>\$ 749,858</u>	<u>177,331</u>	<u>\$ 1,918,721</u>
Uncalled portion of the Subscription		(935,091)		(617,508)		(1,552,599)
Paid-in Capital		<u>\$ 233,772</u>		<u>\$ 132,350</u>		<u>\$ 366,122</u>

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 financial obligation by a state-owned enterprise.

Premium rates applicable are set forth in the contracts. Payments against all claims under a guarantee may not exceed the maximum amount of coverage issued under the guarantee. Under breach of contract coverage, payments against claims may not exceed the lesser of the amount of guarantee and the arbitration award.

Notes to Financial Statements

Contingent Liability

The maximum amount of contingent liability (gross exposure) of MIGA under guarantees issued and outstanding at June 30, 2016 totaled \$14,187,021,000 (\$12,538,328,000 – June 30, 2015). 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, 2016, MIGA's actual exposure to insurance claims, exclusive of standby and future interest coverage is \$11,069,996,000 (\$9,394,398,000 – June 30, 2015).

Trust Fund Activities

MIGA also acts as administrator of some investment guarantee trust funds. MIGA, on behalf of the trust funds, issues guarantees against loss caused by non-commercial risks to eligible investors on qualified investments in the countries specified in the trust fund agreements. Under the trust fund agreements, MIGA, as administrator of the trust funds, is not liable on its own account for payment of any claims under contracts of guarantees issued by MIGA on behalf of such trust funds. Contract of guarantees issued by MIGA on behalf of trust funds and outstanding as of June 30, 2016, totaled \$30,820,480 (\$21,209,800 – June 30, 2015).

In addition, MIGA administers the Conflict Affected and Fragile Economies Facility (CAFEF), a donor partner-funded trust fund established in April 2013. Under the CAFEF reinsurance structure, MIGA issues guarantees and cedes to the CAFEF an initial loss layer of which MIGA shares a portion, for eligible projects. As of June 30, 2016, amounts ceded to CAFEF under this type of structure, totaled \$24,192,000 (\$20,886,000 – June 30, 2015).

Reinsurance

MIGA obtains treaty and facultative reinsurance (both public and private) to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio, and not for speculative reasons. All reinsurance contracts are ceded on a proportionate basis. However, MIGA is exposed to reinsurance non-performance risk in the event that reinsurers fail to pay their proportionate share of the loss in case of a claim. MIGA manages this risk by requiring that private sector reinsurers be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch), and that such ratings be above a minimum threshold. In addition, MIGA may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments and with multilateral agencies that represent an acceptable counterparty risk. MIGA has established limits, at both the project and portfolio levels, which restrict the amount of reinsurance that may be ceded. The project limit states that MIGA may cede no more than 90 percent of any individual project. The portfolio limit states that MIGA may not reinsure more than 50 percent of its aggregate gross exposure.

Of the \$14,187,021,000 outstanding contingent liability (gross exposure) as at June 30, 2016 (\$12,538,328,000– June 30, 2015), \$7,495,065,000 (\$4,804,973,000 – June 30, 2015) was ceded through contracts of reinsurance and \$24,192,000 (\$20,886,000 – June 30, 2015) was ceded to CAFEF. After adjusting for the impact of the Exposure Exchange Agreement with IBRD (See Note G, Transactions with Affiliated Organizations) of \$2,500,000 (\$4,574,000 – June 30, 2015), the net exposure amounted to \$6,665,264,000 as at June 30, 2016 (\$7,707,895,000 – June 30, 2015).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of June 30, 2016, total insurance assumed by MIGA, primarily with official investment insurers, amounted to \$200,610,000 (\$241,659,000 – June 30, 2015).

Notes to Financial Statements

Premiums, fees and commission relating to direct, assumed, and ceded contracts for the fiscal years ended June 30, 2016 and June 30, 2015 were as follows:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2016	June 30, 2015
Premiums written		
Direct	\$ 183,664	\$ 111,637
Assumed	2,047	2,038
Ceded	(113,142)	(45,202)
	<u>72,569</u>	<u>68,473</u>
Premium income		
Direct	137,613	125,934
Assumed	2,188	2,208
	<u>\$ 139,801</u>	<u>\$ 128,142</u>
Premium ceded	(64,089)	(56,580)
Brokerage and other charges	(4,922)	(5,084)
Ceding commission and other fees	15,603	12,553
Income from guarantees	<u>\$ 86,393</u>	<u>\$ 79,031</u>

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 provisioning for claims.

Project-specific risk assessment is performed by a cross-functional team. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings of a specific coverage. The decision to issue an insurance contract is subject to approval by MIGA's senior management and concurrence or approval by the Board of Directors. For insurance contracts that are issued under the Small Investment Program (SIP), the Board has delegated approval to MIGA's senior management. In order to avoid excessive risk concentration, MIGA sets exposure limits per country and per project. As of June 30, 2016, the maximum net exposure which may be assumed by MIGA is \$820 million (\$820 million – June 30, 2015) in each host country and \$250 million (\$250 million – June 30, 2015) 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 350 percent of the sum of MIGA's unimpaired subscribed capital, retained earnings, accumulated other comprehensive income (loss) and insurance portfolio reserve plus 100 percent of gross exposure ceded by MIGA through contracts of reinsurance. Accordingly, at June 30, 2016, the maximum level of guarantees outstanding (including reinsurance) may not exceed \$17,581,348,000 (\$14,852,701,000 – June 30, 2015).

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, 2016 and June 30, 2015 are as follows:

In thousands of US dollars

	June 30, 2016		June 30, 2015	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	\$ 5,029,036	\$ 7,629,847	\$ 4,196,454	\$ 6,696,704
% of Total Gross Exposure	35.4	53.8	33.5	53.4
Net Exposure	\$ 1,651,670	\$ 2,809,156	\$ 2,071,372	\$ 3,524,962
% of Total Net Exposure	24.8	42.1	26.9	45.7

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, 2016 and June 30, 2015 is as follows:

In thousands of US dollars

	June 30, 2016			June 30, 2015		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
East Asia & Pacific	\$ 1,975,232	\$ 513,826	7.7	\$ 1,013,962	\$ 502,756	6.5
Europe & Central Asia	4,037,936	1,996,550	30.0	5,085,678	2,946,978	38.2
Latin America & Caribbean	2,200,961	1,268,737	19.0	1,868,906	1,421,885	18.4
Middle East & North Africa	730,084	506,227	7.6	774,349	520,330	6.8
South Asia	822,414	453,614	6.8	794,864	483,888	6.3
Sub-Saharan Africa	4,420,394	1,926,310	28.9	3,000,569	1,832,058	23.8
	<u>\$14,187,021</u>	<u>\$6,665,264</u>	<u>100.0</u>	<u>\$12,538,328</u>	<u>\$7,707,895</u>	<u>100.0</u>

Notes to Financial Statements

The sectoral distribution of MIGA's portfolio at June 30, 2016 and June 30, 2015 is shown in the following table:

In thousands of US dollars

Sector	June 30, 2016			June 30, 2015		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Agribusiness	\$ 118,203	\$ 117,906	1.7	\$ 194,558	\$ 193,868	2.5
Financial	3,822,790	1,771,011	26.6	4,199,098	2,484,180	32.2
Infrastructure	7,254,963	3,436,119	51.6	6,030,850	3,656,537	47.5
Manufacturing	534,507	442,650	6.6	736,889	594,947	7.7
Mining	1,000,000	152,500	2.3	89,726	62,647	0.8
Oil and Gas	1,088,189	477,609	7.2	915,145	377,720	4.9
Tourism, Retail and Services	368,369	267,469	4.0	372,062	337,996	4.4
	<u>\$14,187,021</u>	<u>\$6,665,264</u>	<u>100.0</u>	<u>\$12,538,328</u>	<u>\$7,707,895</u>	<u>100.0</u>

Note E: Reserve for Claims and other Exposures

MIGA's gross reserve for claims and other exposures at June 30, 2016 amounted to \$545,501,000 (\$465,710,000 - June 30, 2015) and the related estimated reinsurance recoverables amounted to \$216,139,000 (\$124,670,000- June 30, 2015).

The following table provides an analysis of the changes in the gross reserve for claims and other exposures for the fiscal years ended June 30, 2016 and June 30, 2015:

In thousands of US dollars

	June 30, 2016	June 30, 2015
Gross reserve balance	\$ 465,710	\$ 422,400
Less: Reinsurance recoverables	<u>(124,670)</u>	<u>(127,300)</u>
Net reserve balance, beginning of the year	341,040	295,100
Increase to net reserves before translation losses (gains)	4,954	65,479
Foreign currency translation losses (gains)	<u>(846)</u>	<u>(14,600)</u>
Provision for claims, net of reinsurance	4,108	50,879
Less: Claims paid, net of reinsurance payments received	<u>-</u>	<u>(4,939)</u>
Net reserve balance ^a	345,148	341,040
Add: Reinsurance recoverables ^b	<u>200,353</u>	<u>124,670</u>
Gross reserve balance, end of the period ^c	<u>\$ 545,501</u>	<u>\$ 465,710</u>

a. As of June 30, 2016 represents 5.2% of Total Net Exposure (June 30, 2015 - 4.4%).

b. As of June 30, 2016, excludes \$15,786k reinsurance recoverables associated with retroactive reinsurance contracts (June 30, 2015 - \$Nil).

c. As of June 30, 2016, represents 3.8% of Total Gross Exposure (June 30, 2015 - 3.7%).

Notes to Financial Statements

Reinsurance Recoverables

The following table provides an analysis of the composition of reinsurance recoverables at June 30, 2016 and June 30, 2015:

In thousands of US dollars

	June 30, 2016	June 30, 2015
Prospective reinsurance	200,353	124,670
Retroactive reinsurance	\$ 15,786	\$ -
	<u>\$ 216,139</u>	<u>\$ 124,670</u>

As of June 30, 2016, the deferred gains reflecting the shortfall between the retroactive reinsurance contracts associated reserves and the related premium paid totaled \$12,126,000 (\$Nil – June 30, 2015).

The net increase in provision for claims for the fiscal year ended June 30, 2016 and June 30, 2015 reflected the following changes in the Insurance portfolio reserve and Specific reserve for claims:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2016	June 30, 2015
<i>Increase (Decrease) in Net Reserves:</i>		
Insurance portfolio reserve	\$ 496	\$ 68,279
Specific reserve for claims	4,458	(2,800)
Increase in net reserves, excluding translation gains	4,954	65,479
Translation gains	(846)	(14,600)
Increase, net	<u>\$ 4,108</u>	<u>\$ 50,879</u>

For the fiscal year ended June 30, 2016, MIGA's claims provisioning methodology and the related assumptions remained unchanged. Excluding translation effects, the \$4,954,000 increase in reserves during the fiscal year ended June 30, 2016 is primarily associated with one pending claim as of that date. Conversely, the \$65,479,000 increase in the prior fiscal year was primarily attributable to the increase in net guarantee exposure and net host country risk rating downgrades.

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

Notes to Financial Statements

Specific Reserve for Claims

The specific reserve for claims is composed of reserves for pending claims and reserves for contracts where a claimable event, or events that may give rise to a claimable event, may have occurred, but in relation to which no claim has been filed, but where a loss is probable. The parameters used in calculating the specific reserves, i.e., claims probability, severity and expected recovery, are assessed on a quarterly basis for each contract for which a reserve is created or maintained. At June 30, 2016, the specific reserves amounted to \$4,458,000 (\$Nil – June 30, 2015).

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

Specific Reserve development

<i>In thousands of US dollars</i>										
Reporting Period	Up to FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Estimate of cumulative - claims:										
At end of fiscal year	59,100	2,800	13	30,300	5,000	4,200	5,200	-	403	4,458
One year later	53,100	1,491	13	2,900	-	9,100	268	-	-	
Two years later	24,200	2,291	13	-	-	5,932	273	-		
Three years later	7,700	2,500	13	-	-	4,781	-			
Four years later	7,400	491	13	-	-	-				
Five years later	4,200	491	13	-	-					
Six years later	4,100	491	13	-						
Seven years later	700	491	-							
Eight years later	-	-								
Nine years later	-									

Specific reserves at June 30, 2016

Reporting Period	Up to FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Total
Estimate of cumulative claims at July 1, 2015	700	491	13	-	-	4,781	273	-	403	4,458	11,119
Cumulative payments	(700)	(491)	(13)	-	-	(4,781)	(273)	-	(403)	-	(6,661)
Specific reserves at June 30, 2016	-	-	-	-	-	-	-	-	-	4,458	4,458

Notes to Financial Statements

Note F: Pension and Other Post Retirement Benefits

MIGA, IBRD and IFC participate in a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members.

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

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

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

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

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

The following table summarizes MIGA's respective share of the costs associated with the SRP, RSBP, and PEBP for the fiscal years ended June 30, 2016 and June 30, 2015:

In thousands of US dollars

	Fiscal Year Ended				Fiscal Year Ended			
	June 30, 2016				June 30, 2015			
Benefit Cost	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Service cost	\$ 5,407	\$ 1,186	\$ 913	\$ 7,506	\$ 5,393	\$ 1,394	\$ 809	\$ 7,596
Interest cost	6,657	1,054	694	8,405	6,549	1,181	645	8,375
Expected return on plan assets	(10,912)	(1,363)	-	(12,275)	(11,001)	(1,297)	-	(12,298)
Amortization of prior service cost ^a	61	151	23	235	61	151	24	236
Amortization of unrecognized net loss ^a	748	-	635	1,383	1,065	244	723	2,032
Net periodic pension cost	\$ 1,961	\$ 1,028	\$ 2,265	\$ 5,254	\$ 2,067	\$ 1,673	\$ 2,201	\$ 5,941

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

Notes to Financial Statements

The following table summarizes the projected benefit obligations, fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for MIGA for the fiscal years ended June 30, 2016 and June 30, 2015. While contributions made to SRP and RSBP are irrevocable, contributions made to PEBP are revocable. As a result, the assets for PEBP do not qualify for off-balance sheet accounting and are included in IBRD's investment portfolio, with MIGA's portion reflected in receivable from IBRD under Note G (Transactions with Affiliated Organizations). The assets of the PEBP are invested in fixed- income and equity instruments.

In thousands of US dollars

	Fiscal Year Ended June 30, 2016				Fiscal Year Ended June 30, 2015			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Projected Benefit Obligation								
Beginning of year	\$ 158,894	\$ 23,774	\$ 16,258	\$ 198,926	\$ 159,958	\$ 27,245	\$ 15,374	\$ 202,577
Service cost	5,407	1,186	913	7,506	5,393	1,394	809	7,596
Interest cost	6,657	1,054	694	8,405	6,549	1,181	645	8,375
Net entity transfers	70	(295)	n.a.	(225)	(4,487)	(338)	n.a.	(4,825)
Participant contributions	1,984	149	384	2,517	1,479	141	53	1,673
Federal subsidy received	n.a.	19	n.a.	19	n.a.	26	n.a.	26
Plan amendments	-	293	-	293	-	-	-	-
Benefits paid	(6,692)	(546)	(548)	(7,786)	(6,127)	(536)	(564)	(7,227)
Actuarial loss (gain)	25,233	2,920	4,157	32,310	(3,871)	(5,339)	(59)	(9,269)
End of Year	\$ 191,553	\$ 28,554	\$ 21,858	\$ 241,965	\$ 158,894	\$ 23,774	\$ 16,258	\$ 198,926
Fair value of plan assets								
Beginning of year	\$ 176,495	\$ 21,679		\$ 198,174	\$ 175,282	\$ 20,171		\$ 195,453
Net entity transfers	70	(295)		(225)	(4,487)	(338)		(4,825)
Participant contributions	1,984	149		2,133	1,479	141		1,620
Actual return on assets	3,370	410		3,780	7,435	995		8,430
Employer contributions	2,849	1,039		3,888	2,913	1,246		4,159
Benefits paid	(6,692)	(546)		(7,238)	(6,127)	(536)		(6,663)
End of Year	\$ 178,076	\$ 22,436		\$ 200,512	\$ 176,495	\$ 21,679		\$ 198,174
Funded Status^a	\$ (13,477)	\$ (6,118)	\$ (21,858)	\$ (41,453)	\$ 17,601	\$ (2,095)	\$ (16,258)	\$ (752)
Accumulated Benefit Obligation	\$ 167,854	\$ 28,554	\$ 18,794	\$ 215,202	\$ 140,820	\$ 23,774	\$ 14,378	\$ 178,972

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

During the fiscal year ended June 30, 2016, the pension plan were amended to reflect the increase in the mandatory retirement age from 62 to 67 for the life insurance benefits. The effect of this change was a \$293,000 increase to the projected benefit obligation at June 30, 2016. During the fiscal year ended June 30, 2015, there were no amendments made to the retirement benefit plans.

Notes to Financial Statements

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

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

In thousands of US dollars

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

Amounts included in Accumulated Other Comprehensive Loss at June 30, 2015

In thousands of US dollars

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

The estimated amounts that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost in the fiscal year ending June 30, 2017 are as follows:

In thousands of US dollars

	SRP	RSBP	PEBP	Total
Net actuarial loss	\$ 2,756	\$ 226	\$ 983	\$ 3,965
Prior service cost	61	174	23	258
Amount estimated to be Amortized into net periodic benefit cost	<u>\$ 2,817</u>	<u>\$ 400</u>	<u>\$ 1,006</u>	<u>\$ 4,223</u>

Notes to Financial Statements

Actuarial Assumptions

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

The expected long-term rate of return for the SRP assets is a weighted average of the expected long term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, change in yields, and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end yields of AA corporate bonds.

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

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2016 and June 30, 2015:

In percent

	SRP		RSBP		PEBP	
	2016	2015	2016	2015	2016	2015
Weighted average assumptions used to determine projected benefit obligations						
Discount rate	3.40	4.30	3.60	4.50	3.50	4.40
Rate of compensation increase	5.30	5.40			5.30	5.40
Health care growth rates-at end of fiscal year			5.30	4.90		
Ultimate health care growth rate			4.00	4.10		
Year in which ultimate rate is reached			2030	2030		
Weighted average assumptions used to determine net periodic pension cost						
Discount rate	4.30	4.20	4.50	4.40	4.36	4.30
Expected return on plan assets	6.20	6.30	6.20	6.30		
Rate of compensation increase	5.40	5.40			5.40	5.40
Health care growth rates-at end of fiscal year			4.90	5.30		
Ultimate health care growth rate			4.10	4.10		
Year in which ultimate rate is reached			2030	2022		

Notes to Financial Statements

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

In thousands of US dollars

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	800	(500)
Effect on postretirement benefit obligation	8,300	(5,800)

Investment Strategy

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

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

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

Notes to Financial Statements

The following table presents the policy asset allocation at June 30, 2016 and the actual asset allocation at June 30, 2016 and June 30, 2015 by asset category for the SRP and RSBP.

In Percent

Asset Class	SRP			RSBP		
	Policy	% of Plan Assets		Policy	% of Plan Assets	
	Allocation 2016 (%)	2016	2015	Allocation 2016 (%)	2016	2015
Fixed income & Cash	26	20	23	26	24	27
Public Equity	33	34	34	33	32	32
Private Equity	20	19	18	20	21	20
Market Neutral Hedge Funds	8	12	12	8	11	11
Real Assets ^a	13	15	13	13	12	10
Total	100	100	100	100	100	100

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

Significant Concentrations of Risk in Plan Assets

The assets of the SRP and RSBP are diversified across a variety of asset classes. Investments in these asset classes are further diversified across funds, managers, strategies, geographies and sectors to limit the impact of any individual investment. In spite of such level of diversification, equity market risk remains the primary source of the overall return volatility of the Plans.

Risk management practices

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

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

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

Notes to Financial Statements

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

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

Fair Value Measurements

All plan assets are measured at fair value on recurring basis. The following table presents the fair value hierarchy of major categories of plans assets as of June 30, 2016 and June 30, 2015:

	Fair Value Measurements on a Recurring Basis as of June 30, 2016									
	SRP					RSBP				
	Level 1	Level 2	Level 3	Not classified ^a	Total	Level 1	Level 2	Level 3	Not classified ^a	Total
Debt Securities										
Time deposits	\$ 94	\$ -	\$ -	\$ -	\$ 94	\$ 12	\$ -	\$ -	\$ -	\$ 12
Securities purchased under resale agreements	2,572	-	-	-	2,572	343	-	-	-	343
Government and agency securities	20,971	5,538	-	-	26,509	3,199	809	-	-	4,008
Corporate and convertible bonds	-	3,088	-	-	3,088	-	413	-	-	413
Asset backed securities	-	1,383	-	-	1,383	-	167	-	-	167
Mortgage backed securities	-	2,683	-	-	2,683	-	322	-	-	322
Total Debt Securities	23,637	12,692	-	-	36,329	3,554	1,711	-	-	5,265
Equities										
US common stocks	8,322	-	-	-	8,322	850	-	-	-	850
Non-US common stocks	29,091	-	-	-	29,091	3,382	-	-	-	3,382
Mutual Funds	2,809	-	-	-	2,809	346	-	-	-	346
Real estate investments trusts (REITs)	4,958	-	-	-	4,958	514	-	-	-	514
Total Equity Securities	45,180	-	-	-	45,180	5,092	-	-	-	5,092
Commingled funds	-	-	-	19,627	19,627	-	-	-	2,587	2,587
Private equity ^a	-	-	-	34,801	34,801	-	-	-	4,752	4,752
Real estate (including infrastructure and timber) ^a	-	-	-	20,965	20,965	-	-	-	2,281	2,281
Hedge funds ^a	-	-	-	21,231	21,231	-	-	-	2,459	2,459
Derivative assets/liabilities	12	45	-	-	57	-	7	-	-	7
Other assets/liabilities, net ^b	-	-	-	(114)	(114)	-	-	-	(7)	(7)
Total Assets	\$ 68,829	\$ 12,737	\$ -	\$ 96,510	\$ 178,076	\$ 8,646	\$ 1,718	\$ -	\$ 12,072	\$ 22,436

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

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

Notes to Financial Statements

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

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

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

Valuation methods and assumptions

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

Debt securities

Debt securities include time deposits, U.S. treasuries and agencies, debt obligations of foreign governments and debt obligations in corporations of domestic and foreign issuers. Fixed-income also includes investments in asset backed securities such as collateralized mortgage obligations and mortgage-backed securities. These securities are valued by independent pricing vendors at quoted market prices for the same or similar securities, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Some debt securities are valued using techniques which require significant unobservable inputs.

Notes to Financial Statements

The selection of these inputs may involve some judgment. Management believes its estimates of fair value are reasonable given its processes for obtaining securities prices from multiple independent third-party vendors, ensuring that valuation models are reviewed and validated, and applying its approach consistently from period to period. Unless quoted prices are available, money market instruments and securities purchased under resale agreements are reported at face value which approximates fair value.

Equity securities

Equity securities (including REITs) are invested in companies in various industries and countries. Investments in public equity listed on securities exchanges are valued at the last reported sale price on the last business day of the fiscal year.

Commingled funds

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

Private equity

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

Real estate

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

Hedge fund investments

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

Investments in hedge funds and commingled funds can typically be redeemed at NAV “as a practical expedient 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, 2016:

In thousands of US dollars

	SRP	RSBP		PEBP
		Before Federal Subsidy	Federal Subsidy	
July 1, 2016 - June 30, 2017	\$ 6,181	\$ 403	\$ -	\$ 673
July 1, 2017 - June 30, 2018	6,472	446	-	694
July 1, 2018 - June 30, 2019	6,934	496	-	741
July 1, 2019 - June 30, 2020	7,522	557	-	813
July 1, 2020 - June 30, 2021	8,386	628	-	882
July 1, 2021 - June 30, 2026	48,984	4,330	-	5,664

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, 2016 is \$2,926,000 and \$988,000, respectively.

Notes to Financial Statements

Note G: Transactions with Affiliated Organizations

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

Total fees paid by MIGA reflected in the Statement of Income for the fiscal year ended June 30, 2016 and June 30, 2015 are as follows:

In thousands of US dollars

	Fiscal Year Ended	
	June 30, 2016	June 30, 2015
Fees charged by IBRD/IDA	\$ 10,147	\$ 10,452
Fees charged by IFC	2,974	2,907

At June 30, 2016 and June 30, 2015, MIGA had the following (payables to) receivables from its affiliated organizations with regard to administrative services and pension and other postretirement benefits:

In thousands of US dollars

	June 30, 2016			June 30, 2015		
	Administrative & Other Services ^a	Pension and Other Postretirement Benefits ^b	Total	Administrative & Other Services ^a	Pension and Other Postretirement Benefits ^b	Total
IBRD	\$ (5,367)	\$ 8,594	\$ 3,227	\$ (4,104)	\$ 8,074	\$3,970
IFC	(4,793)	-	(4,793)	(3,971)	-	(3,971)
	\$ (10,160)	\$ 8,594	\$(1,566)	\$ (8,075)	\$ 8,074	\$ (1)

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

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

Notes to Financial Statements

Exposure Exchange with IBRD

During FY14, MIGA entered into an exposure exchange agreement with IBRD under which MIGA and IBRD agreed to exchange \$120 million each of notional amount of exposures on their respective balance sheets with one another. Under the agreement, IBRD provided a guarantee on principal and interest pertaining to MIGA's guarantee exposure under its Non-Honoring of Sovereign's Financial Obligation in exchange for MIGA's guarantee on IBRD's loan principal and interest exposure. As of June 30, 2016 and June 30, 2015, the outstanding off-balance sheet amounts relating to this exposure exchange agreement were as follows:

In thousands of US dollars

	June 30, 2016	June 30, 2015
IBRD's exposure assumed by MIGA	\$ 97,072	\$ 108,786
MIGA's exposure assumed by IBRD	99,572	113,360
Net amount	<u>\$ (2,500)</u>	<u>\$ (4,574)</u>

As of June 30, 2016, the recorded liabilities related to MIGA's obligation under the existing exposure exchange agreement with IBRD amounted to \$4.0 million (\$4.3 million – June 30, 2015) and is included in Insurance portfolio reserve on the Balance Sheet.

Note H: Accumulated Other Comprehensive Income (Loss)

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) for the fiscal years ended June 30, 2016 and June 30, 2015:

In thousands of US dollars

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

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

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

Notes to Financial Statements

In thousands of US dollars

	Fiscal Year Ended June 30, 2015			
	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	\$ (31,082)	\$ (2,181)	\$ (29,828)
Changes during the year:				
Changes in fair value AOCL	-	5,401	-	5,401
Amounts reclassified into net income ^b	-	2,032	236	2,268
Net change during the period	-	7,433	236	7,669
Balance, end of period	3,435	(23,649)	(1,945)	(22,159)

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.