# **Condensed** Quarterly Financial Statements

U N A U D I T E D

September 30, 2014

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# Condensed Balance Sheet

**Expressed in thousands of US dollars**

| | September 30, 2014 | June 30, 2014 |
|---|---|---|
| **Assets** | | |
| Cash | $ 17,120 | $ 26,886 |
| Investments - Trading (including securities transferred under repurchase agreements) - Note B | 1,330,441 | 1,342,158 |
| Derivative assets - Note B | 243,644 | 203,008 |
| Nonnegotiable, Noninterest-bearing demand obligations - Note C | 111,788 | 113,434 |
| Estimated reinsurance recoverables - Note E | 123,200 | 127,300 |
| Prepaid premiums ceded to reinsurers | 135,260 | 148,252 |
| Other assets - Notes B and G | 37,337 | 46,511 |
| Total assets | $ 1,998,790 | $ 2,007,549 |
| **Liabilities and Shareholders' Equity** | | |
| LIABILITIES | | |
| Securities sold under repurchase agreements and payable for cash collateral received - Note B | $ 58,542 | $ 66,967 |
| Derivative liabilities - Note B | 240,837 | 202,611 |
| Unearned premiums and commitments fees | 241,351 | 262,435 |
| Other liabilities - Notes B and G | 61,840 | 78,918 |
| Reserve for claims - Note E | | |
| Specific reserve for claims | 8,500 | 9,700 |
| Insurance portfolio reserve | 409,600 | 412,700 |
| Reserve for claims - gross | 418,100 | 422,400 |
| Total liabilities | 1,020,670 | 1,033,331 |
| CONTINGENT LIABILITIES - Note D | | |
| SHAREHOLDERS' EQUITY | | |
| Capital stock - Note C | | |
| Authorized capital (186,537 shares- Sep 30, 2014; 186,537 shares-June 30, 2014) | | |
| Subscribed capital (177,281 shares- Sep 30, 2014; 177,281 shares-June 30, 2014) | 1,918,180 | 1,918,180 |
| Less uncalled portion of subscriptions | 1,552,166 | 1,552,166 |
| Paid-in Capital | 366,014 | 366,014 |
| Retained earnings | 641,367 | 638,032 |
| Accumulated other comprehensive loss - Note H | (29,261) | (29,828) |
| Total shareholders' equity | 978,120 | 974,218 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 1,998,790 | $ 2,007,549 |

See accompanying notes to the financial statements

# Condensed Statement of Income

**Expressed in thousands of US dollars**

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| INCOME | | |
| Income from guarantees - Note D | $ 19,958 | $ 17,137 |
| Income from investments - Note B | 1,800 | 16,650 |
| Total income | 21,758 | 33,787 |
| EXPENSES | | |
| Provision for claims and other exposures - Note E | | |
| Increase (decrease) in net reserves, excluding translation (gains) losses | 6,400 | (4,100) |
| Translation (gains) losses | (6,600) | 2,500 |
| Provision for claims and other exposures, net | (200) | (1,600) |
| Administrative expenses | 9,427 | 8,817 |
| Expense from pension and other post retirement benefit plans - Note F | 1,486 | 1,411 |
| Total expenses | 10,713 | 8,628 |
| Translation (losses) gains - Investments and other assets | (7,710) | 1,956 |
| NET INCOME | $ 3,335 | $ 27,115 |

See accompanying notes to the financial statements

# Condensed Statement of Comprehensive Income

**Expressed in thousands of US dollars**

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| NET INCOME…….……. | $ 3,335 | $ 27,115 |
| OTHER COMPREHENSIVE INCOME - Note H | | |
| Amortization of unrecognized net actuarial losses…… | 508 | 408 |
| Amortization of unrecognized prior service costs……. | 59 | 43 |
| Total other comprehensive income ……. | 567 | 451 |
| COMPREHENSIVE INCOME ……...…….. | $ 3,902 | $ 27,566 |

# Condensed Statement of Changes in Shareholders' Equity

**Expressed in thousands of US dollars**

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| CAPITAL STOCK | | |
| Balance at beginning of the fiscal year…..……..…… | $ 366,014 | $ 365,629 |
| Paid-in subscriptions.……...…… | - | - |
| Ending Balance……...…… | 366,014 | 365,629 |
| RETAINED EARNINGS | | |
| Balance at beginning of the fiscal year.……..…… | 638,032 | 567,992 |
| Net income…….…… | 3,335 | 27,115 |
| Ending Balance……..…….. | 641,367 | 595,107 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | |
| Balance at beginning of the fiscal year.……..…… | (29,828) | (22,966) |
| Other comprehensive income ……....…..…… | 567 | 451 |
| Ending Balance.……...…… | (29,261) | (22,515) |
| TOTAL SHAREHOLDERS' EQUITY..……...…… | $ 978,120 | $ 938,221 |

See accompanying notes to the financial statements

# Condensed Statement of Cash Flows

**Expressed in thousands of US dollars**

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income..……...……. | $ 3,335 | $ 27,115 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Provision for claims and other expenses, net - Note E…… | (200) | (1,600) |
| Translation losses (gains) - Investments and other assets | 7,710 | (1,956) |
| Net changes in: | | |
| Investments - Trading, net……...…….. | (20,344) | (56,133) |
| Other assets and liabilities…….. | 9,192 | (54,504) |
| Unearned premiums and commitment fees…… | (7,052) | 88,903 |
| Net cash (used in) provided by operating activities | (7,359) | 1,825 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH……..…….. | (2,407) | (424) |
| Net (decrease) increase in cash…….…… | (9,766) | 1,401 |
| Cash at beginning of the fiscal year……...…… | 26,886 | 11,841 |
| CASH AT END OF THE PERIOD……...…..…….. | $ 17,120 | $ 13,242 |

See accompanying notes to the financial statements

# Notes to Condensed Quarterly Financial Statements

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

### Basis of Preparation

These unaudited condensed quarterly financial statements should be read in conjunction with the June 30, 2014 audited financial statements and notes included therein. The condensed comparative information that has been derived from the June 30, 2014 audited financial statements has not been audited.

Multilateral Investment Guarantee Agency's (MIGA) condensed quarterly financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with accounting principles generally accepted in the United States of America (U.S. GAAP). The policy adopted is that considered most appropriate to the circumstances of MIGA having regard to its legal requirements and to the practices of other international insurance entities. Accounting policies used in the presentation of the interim financial statements are consistent with the accounting policies used in the financial statements for the fiscal year ended June 30, 2014.

The preparation of financial statements in conformity with IFRS and U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Due to the inherent uncertainty involved in making those 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 insurance portfolio loss reserve, and valuation of pension and post-retirement benefits-related liabilities and the related net periodic cost of such benefit plans.

Certain reclassifications of the prior year's information have been made to conform with the current period's presentation.

On November 12, 2014, the Executive Vice President and Chief Executive Officer and the Acting Director, Finance and Risk Management, authorized the condensed quarterly financial statements for issue, which was also the date through which MIGA's management evaluated subsequent events.

### Differences between US GAAP and IFRS

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

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

# Notes to Condensed Quarterly Financial Statements

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

**Note B: Investments**

The investment securities held by MIGA are carried and reported at fair value, or at face value which approximates fair value. As of September 30, 2014, the majority of the Investments – Trading is comprised of time deposits and government and agency obligations (35.2% and 28.5%, respectively), with all instruments classified as Level 1 and Level 2 within the fair value hierarchy.

A summary of MIGA's investment portfolio at September 30, 2014 and June 30, 2014 are as follows:

*In thousands of US Dollars*

| | *Fair Value* | |
|---|---|---|
| | *September 30, 2014* | *June 30, 2014* |
| Equity securities - US | $ 59,760 | $ 60,585 |
| Equity securities - non US | 62,727 | 63,390 |
| Comingled funds | 8,150 | 8,712 |
| Government and agency obligations | 378,720 | 329,107 |
| Time deposits | 468,837 | 562,932 |
| Asset-backed securities | 352,247 | 317,432 |
| Total investments - Trading | $ 1,330,441 | $ 1,342,158 |

# Notes to Condensed Quarterly Financial Statements

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

*In thousands of US Dollars*

| | *Fair Value* | |
|---|---|---|
| | *September 30,2014* | *June 30, 2014* |
| Investments – Trading | $ 1,330,441 | $ 1,342,158 |
| Cash held in investment portfolio [a] | 9,230 | 18,666 |
| Receivable for investment securities sold[b] | 7,238 | 11,546 |
| | 1,346,909 | 1,372,370 |
| Derivative assets | | |
| Currency forward contracts | 243,495 | 201,866 |
| Others[c] | 149 | 1,142 |
| | 243,644 | 203,008 |
| Derivative liabilities | | |
| Currency forward contracts | (240,789) | (202,443) |
| Others[c] | (48) | (168) |
| | (240,837) | (202,611) |
| Payable for investment securities purchased[d] | (7,485) | (23,976) |
| Securities sold under repurchase agreements and payable for cash collateral received | (58,542) | (66,967) |
| Net investment portfolio | $ 1,283,689 | $ 1,281,824 |

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

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

*c. These relate to To-Be-Announced (TBA) securities.*

*d. This amount is included in Other liabilities on the Condensed Balance Sheet.*

As of September 30, 2014, investments are denominated primarily in United States dollars with instruments in non-dollar currencies representing 10.4 percent (11.3 percent – June 30, 2014) of the portfolio, of which the Euro-denominated instruments accounted for 10.0 percent (11.0 percent – June 30, 2014).

# Notes to Condensed Quarterly Financial Statements

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 in the Statement of Income:

*In thousands of US Dollars*

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Interest income | $ 3,268 | $ 2,258 |
| Dividend income | 760 | 1,135 |
| Realized - Gains (Losses) | 1,564 | (1,406) |
| Unrealized - (Losses) Gains | (3,792) | 14,663 |
| | $ 1,800 | $ 16,650 |

The following table summarizes MIGA's Income from derivative instruments which mainly relates to interest rate futures, options, and covered forwards during the three months ended September 30, 2014 and September 30, 2013:

*In thousands of US Dollars*

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Interest Income | $ 30 | $ 57 |
| Realized - (Losses) Gains | (53) | 217 |
| Unrealized - Gains (Losses) | 195 | (264) |
| | $ 172 | $ 10 |

***Securities Lending***:
MIGA may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resale) of government and agency obligations and asset-backed securities. These transactions are conducted under legally enforceable master netting arrangements, which allow MIGA to reduce its gross credit exposure related to these transactions. For Balance Sheet presentation purposes, MIGA presents its securities lending and repurchases, as well as re-sales, on a gross basis. As of September 30, 2014, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements.

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

# Notes to Condensed Quarterly 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*

| | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Securities transferred under repurchase agreements | $ 58,573 | $ 66,385 |
| Liabilities relating to securities transferred under repurchase agreements | $ 58,497 | $ 66,379 |

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

***Fair Value Measurements***

FASB's ASC 820-10, *Fair Value Measurements and Disclosures* and IFRS 7, *Financial Instruments: Disclosures*, define fair value, establish a consistent framework for measuring fair value, establish a fair value hierarchy based on the quality of inputs used to measure fair value and expand disclosure requirements about fair value measurements.

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

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

*Fair Value Hierarchy*

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

# Notes to Condensed Quarterly 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.

The following tables present MIGA's fair value hierarchy for investment assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and June 30, 2014:

*In thousands of US Dollars*

| | *Fair Value Measurements on a Recurring Basis As of September 30, 2014* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| **Assets:** | | | | |
| Equity securities - US | $ 59,760 | $ - | $ - | $ 59,760 |
| Equity securities - non US | 62,727 | - | - | 62,727 |
| Comingled funds | - | 8,150 | - | 8,150 |
| Government and agency obligations | 179,389 | 199,331 | - | 378,720 |
| Time deposits | 33,609 | 435,228 | - | 468,837 |
| Asset backed securities | - | 352,247 | - | 352,247 |
| Total investments - Trading | 335,485 | 994,956 | - | 1,330,441 |
| Derivative assets | | | | |
| Currency forward contracts | - | 243,495 | - | 243,495 |
| Others[a] | 62 | 87 | - | 149 |
| Total derivative assets | 62 | 243,582 | - | 243,644 |
| Total | $ 335,547 | $ 1,238,538 | $ - | $ 1,574,085 |
| **Liabilities:** | | | | |
| Securities sold under repurchase agreements[b] | $ - | $ 58,497 | $ - | $ 58,497 |
| Derivative liabilities | | | | |
| Currency forward contracts | - | 240,789 | - | 240,789 |
| Others[a] | 12 | 36 | - | 48 |
| Total derivative liabilities | 12 | 240,825 | - | 240,837 |
| Total | $ 12 | $ 299,322 | $ - | $ 299,334 |

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

*b. Excludes $44,199 relating to payable for cash collateral received.*

# Notes to Condensed Quarterly Financial Statements

*In thousands of US Dollars*

| | *Fair Value Measurements on a Recurring Basis As of June 30, 2014* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| **Assets:** | | | | |
| Equity securities - US | $ 60,585 | $ - | $ - | $ 60,585 |
| Equity securities - non US | 63,390 | - | - | 63,390 |
| Comingled funds | - | 8,712 | - | 8,712 |
| Government and agency obligations | 182,899 | 146,208 | - | 329,107 |
| Time deposits | 68,696 | 494,236 | - | 562,932 |
| Asset backed securities | - | 317,432 | - | 317,432 |
| Total investments - Trading | 375,570 | 966,588 | - | 1,342,158 |
| Derivative assets | | | | |
| Currency forward contracts | - | 201,866 | - | 201,866 |
| Others[a] | 1 | 1,141 | - | 1,142 |
| Total derivative assets | 1 | 203,007 | - | 203,008 |
| Total | $ 375,571 | $ 1,169,595 | $ - | $ 1,545,166 |
| **Liabilities:** | | | | |
| Securities sold under repurchase agreements[b] | $ - | $ 66,373 | $ - | $ 66,373 |
| Derivative liabilities | | | | |
| Currency forward contracts | - | 202,443 | - | 202,443 |
| Others[a] | 150 | 18 | - | 168 |
| Total derivative liabilities | 150 | 202,461 | - | 202,611 |
| Total | $ 150 | $ 268,834 | $ - | $ 268,984 |

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

*b. Excludes $594,199 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 three months ended September 30, 2014 or September 30, 2013.

***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 September 30, 2014. However, market deterioration could cause this to change in future periods.

# Notes to Condensed Quarterly Financial Statements

***Derivative Instruments:***

MIGA uses currency forward contracts to manage the currency risk embedded in its insurance portfolio reserve and 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:

*In thousands of US Dollars*

| Type of contracts | September 30, 2014 | June 30, 2014 |
|---|---|---|
| Currency forward contracts | | |
| Credit exposure | $ 3,078 | $ 24 |
| Exchange traded options and futures [a] | | |
| Notional long position | 56,307 | 1,591 |
| Notional short position | 650,300 | 711,300 |
| Others[b] | | |
| Notional long position | 105,000 | 144,000 |
| Notional short position | 2,000 | 2,000 |
| Credit exposure | 87 | 1,141 |

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

*b. These relate to TBA securities.*

# Notes to Condensed Quarterly Financial Statements

***Offsetting Assets and Liabilities:***

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

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

The following tables summarize information on derivative receivables and payables (before and after netting adjustments) that are reflected on MIGA's Condensed Balance Sheet as of September 30, 2014 and June 30, 2014. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. The net derivative asset positions have been further reduced by the cash collateral received.

*In thousands of US dollars*

| | September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Derivative Assets | | | Derivative Liabilities | | |
| | Gross Amounts of Recognized Assets on the Balance Sheet | Gross Amounts Offset on the Balance Sheet | Net Amounts of Assets Presented on the Balance Sheet | Gross Amounts of Recognized Liabilities on the Balance Sheet | Gross Amounts Offset on the Balance Sheet | Net Amounts of Liabilities Presented on the Balance Sheet |
| Currency forward contracts | $ 243,495 | $ - | $ 243,495 | $ 240,789 | $ - | $ 240,789 |
| Others[a] | 210 | (61) | 149 | 49 | (1) | 48 |
| **Total** | $ 243,705 | $ (61) | $ 243,644 | $ 240,838 | $ (1) | $ 240,837 |
| Amounts subject to legally enforcable master netting agreement | | | (240,433) | | | (240,433) |
| **Net Derivative positions at counterparty level before collateral** | | | $ 3,211 | | | $ 404 |
| Less: | | | | | | |
| Cash collateral received | | | - | | | |
| **Net derivative exposure after collateral** | | | $ 3,211 | | | |

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

# Notes to Condensed Quarterly Financial Statements

*In thousands of US dollars*

| | June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Derivative Assets | | | Derivative Liabilities | | |
| | Gross Amounts of Recognized Assets on the Balance Sheet | Gross Amounts Offset on the Balance Sheet | Net Amounts of Assets Presented on the Balance Sheet | Gross Amounts of Recognized Liabilities on the Balance Sheet | Gross Amounts Offset on the Balance Sheet | Net Amounts of Liabilities Presented on the Balance Sheet |
| Currency forward contracts | $ 201,866 | $ - | $ 201,866 | $ 202,443 | $ - | $ 202,443 |
| Others[a] | 1,154 | (12) | 1,142 | 192 | (24) | 168 |
| **Total** | $ 203,020 | $ (12) | $ 203,008 | $ 202,635 | $ (24) | $ 202,611 |
| Amounts subject to legally enforcable master netting agreement | | | (201,866) | | | (202,016) |
| **Net Derivative positions at counterparty level before collateral** | | | $ 1,142 | | | $ 595 |
| Less: | | | | | | |
| Cash collateral received[b] | | | 594 | | | |
| **Net derivative exposure after collateral** | | | $ 548 | | | |

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

*b. Does not include excess collateral received.*

## Note C: Capital Stock

At September 30, 2014, MIGA's authorized capital stock comprised 186,537 (186,537 – June 30, 2014) shares, of which 177,281 (177,281 – June 30, 2014) shares had been subscribed. Each share has a par value of SDR10,000, valued at the rate of $1.082 per SDR. Of the subscribed capital as of September 30, 2014, $366,014,000 ($366,014,000 – June 30, 2014) has been paid in; and the remaining $1,552,166,000 ($1,552,166,000 - June 30, 2014) is subject to call. At September 30, 2014, MIGA had $111,788,000 ($113,434,000 – June 30, 2014) in the form of non-negotiable, non-interest bearing demand obligations (promissory notes).

# Notes to Condensed Quarterly Financial Statements

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

| | Initial Capital | | Capital Increase | | Total | |
|---|---|---|---|---|---|---|
| | Shares | (US$000) | Shares | (US$000) | Shares | (US$000) |
| **At September 30, 2014** | | | | | | |
| Authorized | 107,978 | $ 1,168,322 | 78,559 | $ 850,008 | 186,537 | $2,018,330 |
| Subscribed | 107,978 | $ 1,168,322 | 69,303 | $ 749,858 | 177,281 | $1,918,180 |
| Uncalled portion of the Subscription | (86,382) | (934,658) | (57,071) | (617,508) | (143,453) | (1,552,166) |
| Paid-in Capital | 21,596 | $ 233,664 | 12,232 | $ 132,350 | 33,828 | $ 366,014 |
| **At June 30, 2014** | | | | | | |
| Authorized | 107,978 | $ 1,168,322 | 78,559 | $ 850,008 | 186,537 | $2,018,330 |
| Subscribed: | | | | | | |
| At beginning of fiscal year | 107,800 | $ 1,166,396 | 69,303 | $ 749,858 | 177,103 | $1,916,254 |
| New membership | 178 | 1,926 | - | - | 178 | 1,926 |
| At end of fiscal year | 107,978 | 1,168,322 | 69,303 | 749,858 | 177,281 | 1,918,180 |
| Uncalled portion of the Subscription | (86,382) | (934,658) | (57,071) | (617,508) | (143,453) | (1,552,166) |
| Paid-in Capital | 21,596 | $ 233,664 | 12,232 | $ 132,350 | 33,828 | $ 366,014 |

**Note D: Guarantees**

***Guarantee Program***

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

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

# Notes to Condensed Quarterly Financial Statements

***Contingent Liability***

The maximum amount of contingent liability (gross exposure) of MIGA under guarantees issued and outstanding at September 30, 2014 totaled $12,049,554,000 ($12,408,770,000 – June 30, 2014). A contract of guarantee issued by MIGA may permit the guarantee holder, at the start of each contract period, to elect coverage and place amounts both on current and standby. MIGA is currently at risk for amounts placed on current. The maximum amount of contingent liability is MIGA's maximum exposure to insurance claims, which includes "standby" coverage for which MIGA is committed but not currently at risk. At September 30, 2014, MIGA's actual exposure to insurance claims, exclusive of standby coverage is $9,356,521,000 ($9,727,068,000 – June 30, 2014).

***Trust Fund Activities***

MIGA also acts as administrator of some investment guarantee trust funds. MIGA, on behalf of the trust funds, issues guarantees against loss caused by non-commercial risks to eligible investors on qualified investments in the countries specified in the trust fund agreements. Under the trust fund agreements, MIGA, as administrator of the trust funds, is not liable on its own account for payment of any claims under contracts of guarantees issued by MIGA on behalf of such trust funds. Guarantees issued by MIGA on behalf of trust funds as of September 30, 2014, totaled $21,400,700 ($20,259,400 – June 30, 2014).

In addition, MIGA administers the Conflict Affected and Fragile Economies Facility (CAFEF), a donor partner-funded trust fund established in April 2013. Under the CAFEF structure, MIGA issues guarantees and cedes to the CAFEF an initial loss layer of which MIGA shares a portion, for eligible projects. As of September 30, 2014, amounts ceded to CAFEF totaled $5,207,000 ($5,250,000 – June 30, 2014).

***Reinsurance***

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

Of the $12,049,554,000 outstanding contingent liability (gross exposure) as at September 30, 2014 ($12,408,770,000– June 30, 2014), $5,008,110,000 was ceded through contracts of reinsurance ($5,290,855,000 – June 30, 2014) and $5,207,000 ($5,250,000 – June 30, 2014) was ceded to CAFEF. Net exposure amounted to $7,036,237,000 as at September 30, 2014 ($7,112,665,000 – June 30, 2014).

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of September 30, 2014, total insurance assumed by MIGA, primarily with official investment insurers, amounted to $254,367,000 ($263,118,000 – June 30, 2014).

# Notes to Condensed Quarterly Financial Statements

Premiums, fees and commission relating to direct, assumed, and ceded contracts for the three months ended September 30, 2014 and September 30, 2013 were as follows:

*In thousands of US dollars*

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Premiums written | | |
| Direct | $ 13,922 | $ 100,987 |
| Assumed | 43 | 1,189 |
| Ceded | (1,528) | (77,842) |
| | $ 12,437 | $ 24,334 |
| Premiums earned | | |
| Direct | $ 31,690 | $ 25,528 |
| Assumed | 548 | 555 |
| | 32,238 | 26,083 |
| Premium ceded | (14,520) | (10,309) |
| Brokerage and other charges | (979) | (946) |
| Fees and Commission | 3,219 | 2,309 |
| Income from guarantees | $ 19,958 | $ 17,137 |

***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.

# Notes to Condensed Quarterly Financial Statements

As of September 30, 2014, the maximum net exposure which may be assumed by MIGA is $720 million ($720 million – June 30, 2014) in each host country and $220 million ($220 million – June 30, 2014) for each project.

As approved by the Board of Directors and the Council of Governors, the maximum aggregate amount of contingent liabilities that may be assumed by MIGA is 350 percent of the sum of MIGA's unimpaired subscribed capital, retained earnings, accumulated other comprehensive income (loss) and insurance portfolio reserve plus 100 percent of gross exposure ceded by MIGA through contracts of reinsurance. Accordingly, at September 30, 2014, the maximum level of guarantees outstanding (including reinsurance) may not exceed $14,880 million ($15,145 million – June 30, 2014).

***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 September 30, 2014 and June 30, 2014 are as follows:

*In thousands of US Dollars*

| | September 30, 2014 | | June 30, 2014 | |
|---|---|---|---|---|
| | Exposure in Top Five Countries | Exposure in Top Ten Countries | Exposure in Top Five Countries | Exposure in Top Ten Countries |
| Gross Exposure | $ 4,099,284 | $ 6,817,010 | $ 4,299,076 | $ 7,167,867 |
| % of Total Gross Exposure | 34.0 | 56.6 | 34.7 | 57.8 |
| Net Exposure | $ 2,061,781 | $ 3,377,984 | $ 2,147,556 | $ 3,485,360 |
| % of Total Net Exposure | 29.3 | 48.0 | 30.2 | 49.0 |

A regionally diversified portfolio is desirable for MIGA as an insurer, because correlations of claims occurrences are typically higher within a region than between regions. When a correlation is higher, the probability of simultaneous occurrences of claims will be higher.

The regional distribution of MIGA’s portfolio at September 30, 2014 and June 30, 2014 is as follows:

*In thousands of US dollars*

| | September 30, 2014 | | | June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Gross Exposure | Net Exposure | % of Total Net Exposure | Gross Exposure | Net Exposure | % of Total Net Exposure |
| Africa | $ 3,050,015 | $ 1,827,763 | 26.0 | $ 3,154,315 | $1,889,639 | 26.6 |
| East Asia & Pacific | 1,038,990 | 516,505 | 7.3 | 972,699 | 407,766 | 5.7 |
| South Asia | 709,830 | 400,066 | 5.7 | 794,587 | 473,987 | 6.7 |
| Europe & Central Asia | 4,924,302 | 2,723,213 | 38.7 | 5,251,563 | 2,874,564 | 40.4 |
| Latin America & Caribbean | 1,503,334 | 1,022,565 | 14.5 | 1,413,342 | 930,232 | 13.1 |
| Middle East & North Africa | 823,083 | 546,125 | 7.8 | 822,264 | 536,477 | 7.5 |
| | $ 12,049,554 | $ 7,036,237 | 100.0 | $12,408,770 | $7,112,665 | 100.0 |

# Notes to Condensed Quarterly Financial Statements

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

*In thousands of US dollars*

| | September 30, 2014 | | | June 30, 2014 | | |
|---|---|---|---|---|---|---|
| **Sector** | Gross Exposure | Net Exposure | % of Total Net Exposure | Gross Exposure | Net Exposure | % of Total Net Exposure |
| Infrastructure | $ 5,437,991 | $ 3,242,617 | 46.1 | $ 5,499,934 | $3,203,687 | 45.0 |
| Financial | 4,218,371 | 2,307,623 | 32.8 | 4,380,235 | 2,343,118 | 32.9 |
| Tourism, Retail and Services | 251,345 | 251,238 | 3.6 | 273,463 | 272,057 | 3.8 |
| Manufacturing | 969,892 | 635,005 | 9.0 | 972,678 | 622,630 | 8.8 |
| Oil and Gas | 945,270 | 400,893 | 5.7 | 926,585 | 380,649 | 5.4 |
| Mining | 89,863 | 62,730 | 0.9 | 217,632 | 153,379 | 2.2 |
| Agribusiness | 136,822 | 136,131 | 1.9 | 138,243 | 137,145 | 1.9 |
| | $12,049,554 | $ 7,036,237 | 100.0 | $12,408,770 | $7,112,665 | 100.0 |

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

MIGA's gross reserve for claims and other exposures at September 30, 2014 amounted to $418,100,000 ($422,400,000- June 30, 2014) and estimated reinsurance recoverables amounted to $123,200,000 ($127,300,000- June 30, 2014).

The following table provides an analysis of the changes in the gross reserve for claims and other exposures for the three months ended September 30, 2014 and for the fiscal year ended June 30, 2014:

*In thousands of US Dollars*

| | Three Months Ended September 30, 2014 | Fiscal Year Ended June 30, 2014 |
|---|---|---|
| Gross reserve balance | $ 422,400 | $ 381,100 |
| Less: Estimated reinsurance recoverables | 127,300 | 99,100 |
| Net reserve balance, beginning of the year | 295,100 | 282,000 |
| Increase to net reserves before translation adjustment | 6,400 | 9,800 |
| Foreign currency translation adjustment | (6,600) | 3,300 |
| Provision for claims - net of reinsurance | (200) | 13,100 |
| Net reserve balance | 294,900 | 295,100 |
| Add: Estimated reinsurance recoverables | 123,200 | 127,300 |
| Gross reserve balance, end of the year | $ 418,100 | $ 422,400 |

The net decrease in provision for claims for the three months ended September 30, 2014 and September 30, 2013 reflected the following changes in the Insurance portfolio reserve and Specific reserve for claims:

*In thousands of US Dollars*

| | Three Months Ended | |
|---|---|---|
| | September 30, 2014 | September 30, 2013 |
| *Increase (Decrease) in Net Reserves:* | | |
| Insurance portfolio reserve | $ 900 | $ (1,800) |
| Specific reserve for claims | (1,100) | 200 |
| (Decrease), net | $ (200) | $ (1,600) |

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 claim 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 Condensed Statement of Income.

***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 September 30, 2014, the specific reserves amounted to $8,500,000 ($9,700,000 – June 30, 2014) on a gross basis and $6,300,000 ($7,400,000 – June 30, 2014), net of reinsurance.

# Notes to Condensed Quarterly Financial Statements

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

**Specific Reserve development**

*In thousands of US dollars*

| Reporting Period | Up to FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15Q1 |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative - claims: | | | | | | | | | | |
| At end of reporting period | 62,402 | - | 2,800 | 13 | 30,300 | 5,000 | 4,200 | 5,200 | - | - |
| One year later | 57,777 | - | 1,491 | 13 | 2,900 | - | 9,100 | 268 | - | |
| Two years later | 59,100 | - | 2,291 | 13 | - | - | 5,932 | 250 | | |
| Three years later | 53,100 | - | 2,500 | 13 | - | - | 4,750 | | | |
| Four years later | 24,200 | - | 491 | 13 | - | - | | | | |
| Five years later | 7,700 | - | 491 | 13 | - | | | | | |
| Six years later | 7,400 | - | 491 | 13 | | | | | | |
| Seven years later | 4,200 | - | 491 | | | | | | | |
| Eight years later | 4,100 | - | | | | | | | | |
| Nine years later | 4,200 | | | | | | | | | |

**Specific reserves at September 30, 2014**

| Reporting Period | Up to FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15Q1 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims at July 1, 2014 | 4,200 | - | 491 | 13 | - | - | 4,750 | 250 | - | - | 9,704 |
| Cumulative payments | (700) | - | (491) | (13) | - | - | - | - | - | - | (1,204) |
| **Specific reserves at September 30, 2014** | 3,500 | - | - | - | - | - | 4,750 | 250 | - | - | 8,500 |

***Pending Claims***

During the three months ended September 30, 2014, MIGA did not receive any new claims. As of September 30, 2014, MIGA had two pending claims both under its War and Civil Disturbance coverage one for a project in the Central African Republic and the other for a project in Mali. Appropriate reserves are maintained for these matters.

# Notes to Condensed Quarterly Financial Statements

## Note F: Pension and Other Post Retirement Benefits

MIGA, International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (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. In addition, 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 following table summarizes MIGA's respective share of the costs associated with the SRP, RSBP, and PEBP for the three months ended September 30, 2014 and September 30, 2013:

*In thousands of US dollars*

| | Three Months Ended September 30, 2014 | | | | Three Months Ended September 30, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| **Benefit Cost** | SRP | RSBP | PEBP | Total | SRP | RSBP | PEBP | Total |
| Service cost | $ 1,348 | $ 349 | $ 202 | $ 1,899 | $ 1,141 | $ 277 | $ 129 | $ 1,547 |
| Interest cost | 1,637 | 296 | 161 | 2,094 | 1,475 | 262 | 109 | 1,846 |
| Expected return on plan assets | (2,750) | (324) | - | (3,074) | (2,178) | (255) | - | (2,433) |
| Amortization of prior service cost[a] | 15 | 38 | 6 | 59 | 4 | 38 | 1 | 43 |
| Amortization of unrecognized net loss[a] | 266 | 61 | 181 | 508 | 255 | 51 | 102 | 408 |
| **Net periodic pension cost** | $ 516 | $ 420 | $ 550 | $ 1,486 | $ 697 | $ 373 | $ 341 | $ 1,411 |

*a. Included in amounts reclassified into net income (See Note H - Accumulated Other Comprehensive Loss).*

# Notes to Condensed Quarterly 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. Transactions with IFC also include brokerage fees paid for referral services on guarantee projects.

Total fees paid by MIGA to the affiliated organizations during the three months ended September 30, 2014 and September 30, 2013 are as follows:

*In thousands of US dollars*

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Fees charged by IBRD/IDA | $ 2,658 | $ 2,367 |
| Fees charged by IFC | $ 383 | $ 925 |

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

*In thousands of US dollars*

| | September 30, 2014 | | | June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Administrative Services[a] | Pension and Other Postretirement Benefits[b] | Total | Administrative Services[a] | Pension and Other Postretirement Benefits[b] | Total |
| IBRD | $ (5,776) | $ 7,478 | $ 1,702 | $ (4,632) | $ 7,591 | $ 2,959 |
| IFC | (1,974) | - | (1,974) | (2,229) | - | (2,229) |
| | $ (7,750) | $ 7,478 | $ (272) | $ (6,861) | $ 7,591 | $ 730 |

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

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

*Exposure Exchange Agreement 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 exposure 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 September 30, 2014, liabilities related to MIGA's obligation under the existing exposure exchange agreement with IBRD amounted to $2.0 million ($1.8 million – June 30, 2014).

# Notes to Condensed Quarterly Financial Statements

### Note H: Accumulated other Comprehensive Loss

The following tables present the changes in Accumulated other Comprehensive Loss (AOCL) for the three months ended September 30, 2014 and September 30, 2013:

*In thousands of US dollars*

| | Three Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| | Cumulative Translation Adjustment[a] | Unrecognized Net Acturial Losses on Benefit Plans | Unrecognized Prior Service Costs on Benefit Plans | Total Accumulated Other Comprehenisve Loss |
| Balance, beginning of fiscal year | $ 3,435 | $ (31,082) | $ (2,181) | $ (29,828) |
| Changes during the period: | | | | |
| Amounts reclassified into net income[b] | - | 508 | 59 | 567 |
| Balance, end of period | $ 3,435 | $ (30,574) | $ (2,122) | $ (29,261) |

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

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

*In thousands of US dollars*

| | Three Months Ended September 30, 2013 | | | |
|---|---|---|---|---|
| | Cumulative Translation Adjustment[a] | Unrecognized Net Acturial Losses on Benefit Plans | Unrecognized Prior Service Costs on Benefit Plans | Total Accumulated Other Comprehenisve Loss |
| Balance, beginning of fiscal year | $ 3,435 | $ (24,814) | $ (1,587) | $ (22,966) |
| Changes during the period: | | | | |
| Amounts reclassified into net income[b] | - | 408 | 43 | 451 |
| Balance, end of period | $ 3,435 | $ (24,406) | $ (1,544) | $ (22,515) |

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

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

# Notes to Condensed Quarterly Financial Statements

**Note I: Fair Value Measurement**

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

**Note J: Risk Management**

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

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

***Risk Categories***

- *Credit Risk – Reinsurance Counterparts*

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

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

*In thousands of US dollars*

| | September 30, 2014 | June 30, 2014 |
|---|---|---|
| AAA | 100,000 | 100,000 |
| AA | 2,030,214 | 2,148,445 |
| AA- | 1,204,868 | 1,277,730 |
| A+ | 1,543,867 | 1,625,788 |
| A | 103,972 | 111,591 |
| BBB | 25,189 | 27,301 |
| Total[a] | 5,008,110 | 5,290,855 |

*a.* Excludes $5,207,000 relating to CAFEF (June 30, 2014 - $5,250,000).

- *Credit Risk – Investment Portfolio*

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

- *Interest Rate Risk*

Interest rate changes affect the market values of MIGA's invested assets. A need to liquidate assets to pay for claims in an unfavorable interest rate environment may generate trading losses and reduce investment income. Changes in interest rates will also affect prepayment speeds of mortgage and asset backed security holdings, which may affect the duration of the asset portfolio. A 100 basis point parallel shift in the yield curve would impact the net income for the three months ended September 30, 2014, by approximately $16.4 million ($11.5 million – three months ended September 30, 2013). This interest rate sensitivity is illustrative only and is based on simplified scenarios. The impact of a parallel shift in interest rates is determined using market value weighted portfolio duration applied to invested asset balance at year end.

- *Foreign Exchange Rate Risk*

The majority of MIGA's assets and contingent liabilities are denominated in USD, but some guarantee contracts are issued in other currencies such as EUR. To the extent that a claim is made in a non-USD currency and requires payment in excess of MIGA's holdings of that currency, MIGA may face a foreign exchange related loss in converting to the needed currency to pay for a claim. A 10% change in the USD/Euro year end exchange rate would impact net income for the three month ended September 30, 2014, by approximately $12.9 million ($7.5 million – three months ended September 30, 2013) and net guarantee exposure by approximately $261.8 million ($281.8 million – fiscal year end June 30, 2014). The impact on the net income is mitigated by an offsetting effect due to exchange rate movement on investment portfolio and other assets. This foreign exchange rate sensitivity is illustrative only and is based on simplified scenarios.

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# Independent Auditors' Review Report

President and Board of Directors
Multilateral Investment Guarantee Agency:

**Report on the Financial Statements**

We have reviewed the condensed financial statements of the Multilateral Investment Guarantee Agency (MIGA), which comprise the condensed balance sheet as of September 30, 2014, and the related condensed statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month periods ended September 30, 2014 and 2013.

***Management's Responsibility***

MIGA's management is responsible for the preparation and fair presentation of the condensed financial information in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards as issued by the International Accounting Standards Board; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards.

***Auditors' Responsibility***

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

***Conclusion***

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards.

***Report on Condensed Balance Sheet as of June 30, 2014***

We have previously audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the balance sheet as of June 30, 2014, and the related statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 7, 2014. In our opinion, the accompanying condensed balance sheet of MIGA as of June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Washington, D.C.
November 12, 2014

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.