



Condensed Quarterly Financial Statements

U N A U D I T E D

March 31, 2020

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Condensed Balance Sheets

Expressed in thousands of US dollars (unless otherwise stated)

	March 31, 2020	June 30, 2019
Assets		
Cash.....	\$ 72,267	\$ 85,819
Investments - Trading (including securities transferred under repurchase agreements) - Note B.....	1,789,912	1,569,504
Derivative assets, net - Note C.....	3,068	428
Non-negotiable, non interest - bearing demand obligations - Note D.....	109,496	109,917
Reinsurance recoverable - Note F.....	383,291	354,800
Prepaid premium ceded to reinsurers.....	391,473	266,181
Other assets - Notes B, G and I.....	26,289	32,980
TOTAL ASSETS.....	\$ 2,775,796	\$ 2,419,629
Liabilities and Shareholders' Equity		
LIABILITIES		
Reserve for claims, gross - Note F.....		
Specific reserves for claims.....	\$ 3,729	\$ 3,124
Insurance portfolio reserve.....	609,066	566,635
Reserve for claims - gross.....	612,795	569,759
Unearned premiums and commitment fees.....	616,340	422,545
Derivative liabilities, net - Note C.....	1,484	6,901
Other liabilities - Notes B, H and I.....	132,839	100,681
Securities sold under repurchase agreements and payable for excess cash collateral received - Note B.....	28,024	61
TOTAL LIABILITIES.....	1,391,482	1,099,947
CONTINGENT LIABILITIES - Note E		
SHAREHOLDERS' EQUITY		
Capital stock - Note D		
Authorized capital (186,665 shares - March 31, 2020; 186,587 Shares - June 30, 2019)		
Subscribed capital (177,409 shares - March 31, 2020; 177,331 Shares - June 30, 2019)	1,919,565	1,918,721
Less uncalled portion of subscriptions.....	1,553,274	1,552,599
	366,291	366,122
Retained earnings.....	1,070,188	1,007,608
Accumulated other comprehensive loss - Note J.....	(52,165)	(54,048)
TOTAL SHAREHOLDERS' EQUITY.....	1,384,314	1,319,682
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$ 2,775,796	\$ 2,419,629

See accompanying notes to condensed quarterly financial statements

Condensed Statements of Income

Expressed in thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2020	2019	2020	2019
INCOME				
Net premium income - Note E.....	\$ 28,801	\$ 29,040	\$ 87,862	\$ 87,915
Income from investments - Note B.....	19,289	11,471	35,533	28,679
Miscellaneous income.....	84	49	89	86
Total income.....	<u>48,174</u>	<u>40,560</u>	<u>123,484</u>	<u>116,680</u>
EXPENSES				
Increase in reserves, net - Note F				
Increase in reserves, excluding translation gains.....	9,285	2,469	16,229	12,785
Translation gains.....	<u>(1,688)</u>	<u>(1,580)</u>	<u>(2,750)</u>	<u>(2,522)</u>
Increase in reserves, net.....	7,597	889	13,479	10,263
Administrative expenses (including Pension service cost) - Notes G and I..	16,297	14,127	44,849	41,396
Pension credit (excluding Pension service cost) - Note G.....	(245)	(449)	(729)	(1,341)
Translation losses - Investments and other assets.....	2,049	1,841	3,305	3,029
Increase in reserves and total expenses.....	<u>25,698</u>	<u>16,408</u>	<u>60,904</u>	<u>53,347</u>
NET INCOME.....	<u>\$ 22,476</u>	<u>\$ 24,152</u>	<u>\$ 62,580</u>	<u>\$ 63,333</u>

See accompanying notes to condensed quarterly financial statements

Condensed Statements of Comprehensive Income

Expressed in thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2020	2019	2020	2019
NET INCOME.....	\$ 22,476	\$ 24,152	\$ 62,580	\$ 63,333
OTHER COMPREHENSIVE INCOME - Note J				
Amortization of unrecognized net actuarial losses.....	564	271	1,693	811
Amortization of unrecognized prior service costs.....	64	60	190	191
Total other comprehensive income.....	628	331	1,883	1,002
COMPREHENSIVE INCOME.....	\$ 23,104	\$ 24,483	\$ 64,463	\$ 64,335

Condensed Statements of Changes in Shareholders' Equity

Expressed in thousands of US dollars

	Nine Months Ended	
	March 31,	
	2020	2019
CAPITAL STOCK		
Balance at beginning of the fiscal year.....	\$ 366,122	\$ 366,122
Paid-in subscriptions.....	169	-
Ending Balance.....	366,291	366,122
RETAINED EARNINGS		
Balance at beginning of the fiscal year.....	1,007,608	925,176
Net income.....	62,580	63,333
Ending Balance.....	1,070,188	988,509
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of the fiscal year.....	(54,048)	(30,480)
Other comprehensive income.....	1,883	1,002
Ending Balance.....	(52,165)	(29,478)
TOTAL SHAREHOLDERS' EQUITY	\$ 1,384,314	\$ 1,325,153

See accompanying notes to condensed quarterly financial statements

Condensed Statements of Cash Flows

Expressed in thousands of US dollars

	Nine Months Ended	
	March 31,	
	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Net income.....	\$ 62,580	\$ 63,333
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Increase in reserves, net - Note F.....	13,479	10,263
Translation losses - Investments and other assets	3,305	3,029
Net change in:		
Investments - Trading, net.....	(192,446)	(86,785)
Prepaid premiums ceded to reinsurers.....	(130,519)	(42,480)
Other assets and liabilities.....	28,693	5,955
Unearned premiums and commitment fees.....	201,496	53,738
Net cash (used in) provided by operating activities	<u>(13,412)</u>	<u>7,053</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Capital Subscription payments.....	85	-
Net cash provided by financing activities.....	<u>85</u>	<u>-</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	<u>(225)</u>	<u>391</u>
Net (decrease) increase in cash.....	(13,552)	7,444
Cash at beginning of the fiscal year.....	85,819	41,419
CASH AT END OF THE PERIOD.....	<u><u>\$ 72,267</u></u>	<u><u>\$ 48,863</u></u>

See accompanying notes to condensed quarterly financial statements

Notes to 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 audited financial statements for the fiscal year ended June 30, 2019 and notes included therein. The condensed comparative information that has been derived from the June 30, 2019 audited financial statements has not been audited.

Multilateral Investment Guarantee Agency's (MIGA or the Agency) condensed quarterly financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accounting policies used in the presentation of the interim statements are consistent with the accounting policies used in the financial statements for the fiscal year ended June 30, 2019.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. Significant judgments have been made in areas which management views as most critical with respect to the establishment of the reserve for claims and the related reinsurance recoverable.

On May 13, 2020, the Executive Vice President and the Vice President and Chief Risk, Legal & Administrative Officer, authorized the condensed quarterly financial statements for issuance, which was also the date through which MIGA's management evaluated subsequent events.

Reporting Developments

Evaluated Accounting Standards:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The ASU and its subsequent amendments require that a lessee recognizes on the balance sheet the assets and liabilities that arise from all leases with a lease term of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows by the lessee will primarily depend on the classification of the lease as finance or operating. The accounting applied by a lessor remained largely unchanged, with some targeted improvements. MIGA does not have direct leasing arrangements with any lessors, hence the Agency's adoption of the ASUs effective from the quarter ended September 30, 2019 did not have an impact on its financial statements.

Accounting Standards under Evaluation:

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 losses. For MIGA, the financial assets within the scope of this ASU largely relate to reinsurance recoverable. The ASU will be effective from the quarter ending September 30, 2023, with early adoption permitted. MIGA is currently evaluating the impact of the ASU on its financial statements.

(Continued)

Notes to Financial Statements

Note B: Investments

The investment securities held by MIGA are carried and reported at fair value. As of March 31, 2020, the majority of the Investments – Trading is comprised of Government and agency obligations and Time deposits (49.2% and 39.0%, respectively), with all instruments classified as Level 1 and Level 2 within the fair value hierarchy.

A summary of MIGA's investment portfolio as of March 31, 2020 and June 30, 2019 is as follows:

In thousands of US dollars

	<i>Fair Value</i>	
	<i>March 31, 2020</i>	<i>June 30, 2019</i>
Government and agency obligations	\$ 880,564	\$ 612,562
Time deposits	697,403	756,783
Asset-backed securities	211,945	200,159
Total investments - Trading	<u>\$ 1,789,912</u>	<u>\$ 1,569,504</u>

MIGA manages its investments on a net portfolio basis. The following table summarizes MIGA's net portfolio position as of March 31, 2020 and June 30, 2019:

In thousands of US dollars

	<i>Fair Value</i>	
	<i>March 31, 2020</i>	<i>June 30, 2019</i>
Investments - Trading	\$ 1,789,912	\$ 1,569,504
Cash held in investment portfolio ^a	67,697	80,818
Receivable for investment securities sold ^b	6,651	11,065
	<u>1,864,260</u>	<u>1,661,387</u>
Derivative assets		
Currency forward contracts	3,780	322
Currency swaps	1,086	430
Others ^c	1,055	184
	<u>5,921</u>	<u>936</u>
Derivative liabilities		
Currency forward contracts	(623)	(2,407)
Currency swaps	(3,481)	(643)
Others ^c	(233)	(4,297)
	<u>(4,337)</u>	<u>(7,347)</u>
Payable for investment securities purchased ^d	(14,110)	(5,165)
Securities sold under repurchase agreement and payable for cash collateral received ^e	(28,024)	(123)
Net investment portfolio	<u>\$ 1,823,710</u>	<u>\$ 1,649,688</u>

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, swaptions, exchange traded options and futures contracts.

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

e. Includes Cash Collateral received of \$NIL thousand (June 30, 2019 - \$123 thousand), of which excess cash collateral totaled \$NIL thousand (June 30, 2019 - \$61 thousand).

(Continued)

Notes to Financial Statements

The following table summarizes the currency composition of MIGA's net investment portfolio as of March 31, 2020 and June 30, 2019:

In thousands of US dollars

	March 31, 2020		June 30, 2019	
	Carrying Value	%	Carrying Value	%
US Dollars	\$ 1,687,594	92.5	\$ 1,499,261	90.9
EURO	132,668	7.3	147,449	8.9
Other	3,448	0.2	2,978	0.2
	<u>\$ 1,823,710</u>	<u>100.0</u>	<u>\$ 1,649,688</u>	<u>100.0</u>

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

The following table summarizes MIGA's Income from investments during the three and nine months ended March 31, 2020 and March 31, 2019:

In thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Interest income	\$ 7,878	\$ 8,824	\$ 24,260	\$ 24,495
Realized gains (losses)	784	(285)	(3,627)	2,030
Unrealized gains	10,627	2,932	14,900	2,154
	<u>\$ 19,289</u>	<u>\$ 11,471</u>	<u>\$ 35,533</u>	<u>\$ 28,679</u>

The following table summarizes MIGA's income from derivative instruments, reported as part of Income from investments and included in the table above, which mainly relates to interest rate futures, options, covered forwards and currency swaps for the three and nine months ended March 31, 2020 and March 31, 2019:

In thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Interest income	\$ 665	\$ 119	\$ 2,267	\$ 712
Realized gains (losses)	412	(849)	(3,320)	2,323
Unrealized gains (losses)	1,380	(1,090)	4,990	(4,973)
	<u>\$ 2,457</u>	<u>\$ (1,820)</u>	<u>\$ 3,937</u>	<u>\$ (1,938)</u>

(Continued)

Notes to Financial Statements

Fair Value Disclosures

The following tables present MIGA's fair value hierarchy for investment assets measured at fair value on a recurring basis:

In thousands of US dollars

	<i>Fair Value Measurements on a Recurring Basis</i>			
	<i>As of March 31, 2020</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Government and agency obligations	\$ 299,693	\$ 580,871	\$ -	\$ 880,564
Time deposits	37,003	660,400	-	697,403
Asset-backed securities	-	211,945	-	211,945
Total investments - Trading	<u>\$ 336,696</u>	<u>\$ 1,453,216</u>	<u>\$ -</u>	<u>\$ 1,789,912</u>

In thousands of US dollars

	<i>Fair Value Measurements on a Recurring Basis</i>			
	<i>As of June 30, 2019</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Time deposits	\$ 22,005	\$ 734,778	\$ -	\$ 756,783
Government and agency obligations	217,308	395,254	-	612,562
Asset-backed securities	-	200,159	-	200,159
Total investments - Trading	<u>\$ 239,313</u>	<u>\$ 1,330,191</u>	<u>\$ -</u>	<u>\$ 1,569,504</u>

During the three and nine months ended March 31, 2020 and March 31, 2019, there were no fair value hierarchy inter-level transfers.

Valuation Methods and Assumptions:

Investment Securities:

Investment securities are classified based on management's intention on the date of purchase, their nature, and MIGA's policies governing the level and use of such investments. These securities are carried and reported at fair value or at face value, which approximates fair value.

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities, futures contracts, exchange-traded equity securities, Asset-backed Securities (ABS) and Mortgage-backed Securities (MBS). For instruments for which market quotations are not 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 marked observable inputs such as yield curves, credit spreads, and constant prepayment rates. 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 reported at face value which approximates fair value, as they are short-term in nature.

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Notes to Financial Statements

Securities purchased under resale agreements, Securities sold under repurchase agreements, and Securities lent under Securities lending agreements:

These securities are of a short-term nature and reported at face value, which approximates fair value.

Securities Lending, Borrowing and Repurchases:

MIGA may engage in securities lending and repurchases against adequate collateral, as well as secured borrowing and reverse repurchases (resale) of government and agency obligations and ABS. 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 March 31, 2020 and June 30, 2019, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements.

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

In thousands of US dollars

	March 31, 2020	June 30, 2019
Securities transferred under repurchase agreements	\$ 28,268	\$ -
Liabilities relating to securities transferred under repurchase agreements	\$ 28,024	\$ -

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

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

(Continued)

Notes to Financial Statements

The following table presents the disaggregation of the gross obligation by class of collateral pledged and the remaining contractual maturities for repurchase agreements that were accounted for as secured borrowings as of March 31, 2020:

In thousands of US dollars

	March 31, 2020		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	Up to 30 days	Total
Repurchase or security lending agreements			
Government and agency obligations	\$ 12,443	\$ 15,581	\$ 28,024
Total liabilities relating to securities transferred under repurchase or security lending agreements	<u>\$ 12,443</u>	<u>\$ 15,581</u>	<u>\$ 28,024</u>

There were no repurchase agreements that were accounted for as secured borrowings as of June 30, 2019.

In the case of resale agreements, MIGA receives collateral in the form of liquid securities and is permitted to repledge 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 Sheets as the accounting criteria for treatment as a sale have not been met. As of March 31, 2020 and June 30, 2019, MIGA had not received securities under resale agreements.

Credit Exposure:

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

ABS holdings are investment grade, and therefore, do not pose a significant credit risk to MIGA as of March 31, 2020. However, market deterioration could cause this to change in future periods.

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Notes to Financial Statements

Note C: Derivative Instruments

MIGA uses currency forward contracts, currency swaps, options, futures contracts and TBA securities to enhance the returns from and manage the currency risk in its investment portfolio.

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps. Currency forward contracts, currency swaps and interest rate swaps are plain vanilla and are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

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 March 31, 2020 and June 30, 2019:

In thousands of US dollars

Type of contracts	March 31, 2020	June 30, 2019
Currency forward contracts and currency swaps		
Credit exposure	\$ 4,865	\$ 752
Exchange traded options and futures ^a		
Notional long position	52,600	65,300
Notional short position	500	389,900
Others ^b		
Notional long position	61,000	55,000
Notional short position	25,000	2,000
Credit exposure	780	184

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 International Swaps and Derivatives Association, Inc. (ISDA) 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.

(Continued)

Notes to Financial Statements

The following tables summarize information on derivative assets and liabilities (before and after netting adjustments) that are reflected on MIGA's Condensed Balance Sheet as of March 31, 2020 and June 30, 2019. The effects of legally enforceable master netting agreements are applied on an aggregate basis to the total derivative asset and liability position. The net derivative asset positions have been further reduced by the cash collateral received.

In thousands of US dollars

	March 31, 2020					
	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	\$ 137,630	\$ (133,850)	\$ 3,780	\$ 58,751	\$ (58,128)	\$ 623
Currency swaps	83,045	(81,959)	1,086	113,190	(109,709)	3,481
Others ^a	1,055	-	1,055	233	-	233
	<u>\$ 221,730</u>	<u>\$ (215,809)</u>	<u>\$ 5,921</u>	<u>\$ 172,174</u>	<u>\$ (167,837)</u>	<u>\$ 4,337</u>
Amounts subject to legally enforceable master netting agreement			(2,853)			(2,853)
Net derivative positions at counterparty level before collateral			<u>\$ 3,068</u>			<u>\$ 1,484</u>
Less:						
Cash collateral received			-			
Net derivative exposure after collateral^c			<u>\$ 3,068</u>			

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

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

In thousands of US dollars

	June 30, 2019					
	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	\$ 60,712	\$ (60,390)	\$ 322	\$ 200,121	\$ (197,714)	\$ 2,407
Currency swaps	31,386	(30,956)	430	13,170	(12,527)	643
Others ^a	184	-	184	4,297	-	4,297
	<u>\$ 92,282</u>	<u>\$ (91,346)</u>	<u>\$ 936</u>	<u>\$ 217,588</u>	<u>\$ (210,241)</u>	<u>\$ 7,347</u>
Amounts subject to legally enforceable master netting agreement			(446)			(446)
Net derivative positions at counterparty level			<u>\$ 490</u>			<u>\$ 6,901</u>
Less:						
Cash collateral received ^b			(62)			
Net derivative exposure after collateral			<u>\$ 428</u>			

a. These relate to TBA securities and futures contracts.

b. Does not include excess cash collateral received of \$61 thousand.

(Continued)

Notes to Financial Statements

Fair Value Disclosures

The following table presents MIGA's fair value hierarchy for derivative assets and liabilities measured at fair value on a recurring basis as of March 31, 2020 and June 30, 2019:

In thousands of US dollars

	<i>Fair Value Measurements on a Recurring Basis</i>			
	<i>As of March 31, 2020</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Derivative Assets:				
Currency forward contracts	\$ -	\$ 3,780	\$ -	\$ 3,780
Currency swaps	-	1,086	-	1,086
Others ^a	275	780	-	1,055
	<u>\$ 275</u>	<u>\$ 5,646</u>	<u>\$ -</u>	<u>\$ 5,921</u>
Less:				
Amounts subject to legally enforceable master netting agreements				2,853
Cash collateral received				-
Derivative Assets, net				<u>\$ 3,068</u>
Derivative Liabilities:				
Currency forward contracts	\$ -	\$ 623	\$ -	\$ 623
Currency swaps	-	3,481	-	3,481
Others ^a	-	233	-	233
	<u>\$ -</u>	<u>\$ 4,337</u>	<u>\$ -</u>	<u>\$ 4,337</u>
Less:				
Amounts subject to legally enforceable master netting agreements				2,853
Derivative Liabilities, net				<u>\$ 1,484</u>

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

(Continued)

Notes to Financial Statements

In thousands of US dollars

	Fair Value Measurements on a Recurring Basis			
	As of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Derivative Assets:				
Currency forward contracts	\$ -	\$ 322	\$ -	\$ 322
Currency swaps	-	430	-	430
Others ^a	-	184	-	184
	<u>\$ -</u>	<u>\$ 936</u>	<u>\$ -</u>	<u>\$ 936</u>
Less:				
Amounts subject to legally enforceable master netting agreements				446
Cash collateral received				62
Derivative Assets, net				<u>\$ 428</u>
Derivative Liabilities:				
Currency forward contracts	\$ -	\$ 2,407	\$ -	\$ 2,407
Currency swaps	-	643	-	643
Others ^b	4,296	1	-	4,297
	<u>\$ 4,296</u>	<u>\$ 3,051</u>	<u>\$ -</u>	<u>\$ 7,347</u>
Less:				
Amounts subject to legally enforceable master netting agreements				446
Derivative Liabilities, net				<u>\$ 6,901</u>

a. These relate to TBA securities.

b. These relate to TBA securities and futures contracts.

Note D: Capital Stock

On March 24, 2020, Somalia became the 182nd member of MIGA, with a subscription of 78 shares.

At March 31, 2020, MIGA's authorized capital stock comprised 186,665 (186,587 – June 30, 2019) shares, of which 177,409 (177,331 – June 30, 2019) shares had been subscribed. Each share has a par value of USD10,820. Of the subscribed capital as of March 31, 2020, \$366,291,000 (\$366,122,000 – June 30, 2019) has been paid in; and the remaining \$1,553,274,000 (\$1,552,599,000 - June 30, 2019) is subject to call.

At March 31, 2020, MIGA had \$109,496,000 (\$109,917,000 – June 30, 2019) in the form of non-negotiable, non-interest bearing demand obligations (promissory notes), relating to the initial capital subscriptions.

(Continued)

Notes to Financial Statements

A summary of the changes in MIGA's authorized, subscribed and paid-in capital during the nine months ended March 31, 2020 and fiscal year ended June 30, 2019:

	Initial Capital		Capital Increase		Total	
	Shares	(US\$000)	Shares	(US\$000)	Shares	(US\$000)
At March 31, 2020						
Authorized:						
At beginning of fiscal year	108,028	\$ 1,168,863	78,559	\$ 850,008	186,587	\$ 2,018,871
New membership	78	844	-	-	78	844
At end of period	<u>108,106</u>	<u>\$ 1,169,707</u>	<u>78,559</u>	<u>\$ 850,008</u>	<u>186,665</u>	<u>\$ 2,019,715</u>
Subscribed:						
At beginning of fiscal year	108,028	\$ 1,168,863	69,303	\$ 749,858	177,331	\$ 1,918,721
New membership	78	844	-	-	78	844
At end of period	<u>108,106</u>	<u>\$ 1,169,707</u>	<u>69,303</u>	<u>\$ 749,858</u>	<u>177,409</u>	<u>\$ 1,919,565</u>
Uncalled portion of the Subscription		(935,766)		(617,508)		(1,553,274)
Paid-in Capital		<u>\$ 233,941</u>		<u>\$ 132,350</u>		<u>\$ 366,291</u>
At June 30, 2019						
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>

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Notes to Financial Statements

Note E: Guarantees

Guarantee Program

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

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

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

Contingent Liability

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 on current, standby and future interest. At any given point in time, MIGA is at risk for amounts placed on current. The maximum amount of contingent liability (gross exposure), representing MIGA's exposure to insurance claims (current), as well as standby and future interest coverage for which MIGA is committed but not currently at risk, totaled \$20,981,684,000 as of March 31, 2020 (\$23,326,647,000 – June 30, 2019).

The composition of MIGA's gross exposure as of March 31, 2020 and June 30, 2019 was as follows:

In thousands of US dollars

	March 31, 2020	June 30, 2019
Gross exposure (Maximum amount of contingent liability)*	\$ 20,981,684	\$ 23,326,647
Of which:		
Current amounts*	16,804,525	17,115,626
Standby amounts*	2,682,133	4,171,265
Future interest amounts*	1,533,007	2,039,756

* Amounts represent maximum contingent liability under each category and are not necessarily additive.

Trust Fund Activities

MIGA also acts as administrator of some investment guarantee trust funds. MIGA, on behalf of the trust funds, issues guarantees against losses caused by non-commercial risks to eligible investors on qualified investments in the countries specified in the trust fund agreements. Under the trust fund agreements, MIGA, as administrator of the trust funds, is not liable on its own account for payment of any claims under contracts of guarantees issued by MIGA on behalf of such trust funds. Guarantees issued by MIGA on behalf of trust funds had a total outstanding gross exposure of \$24,823,900 as of March 31, 2020 (\$24,823,900 – June 30, 2019).

Reinsurance and Other Ceded Exposures

MIGA obtains treaty and facultative reinsurance (both public and private) to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio, and not for speculative reasons. All reinsurance contracts are ceded on a proportionate basis. However, MIGA is exposed to reinsurance non-performance risk in the event that reinsurers fail to pay their proportionate share of the loss in case of a claim. MIGA manages this risk by requiring that private sector reinsurers be rated by at least two of the four major

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Notes to Financial Statements

rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch). The minimum rating required for private reinsurers is A by S&P or Fitch, A2 by Moody's and A- by A.M. Best. In addition, MIGA may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments and with multilateral agencies that represent an acceptable counterparty risk. MIGA has established limits, at both the project and portfolio levels, which restrict the amount of reinsurance that may be ceded. As of March 31, 2020, the project limit states that MIGA may cede no more than 90 percent of any individual project. Similarly, the portfolio limit states that MIGA may not reinsure more than 70 percent of its aggregate gross exposure.

In addition, MIGA administers the Conflict-Affected and Fragile Economies Facility (CAFEF), a donor partner-funded trust fund utilizing a reinsurance structure under which MIGA issues guarantees and cedes to the CAFEF a first loss layer, for eligible projects. As of March 31, 2020, out of \$425,690,000 (\$494,675,000 – June 30, 2019) in gross exposure under this arrangement on MIGA's own account, amounts ceded to CAFEF under the first loss layer totaled \$35,909,600 (\$41,289,200 – June 30, 2019).

MIGA is also able to cede exposures to International Development Association (IDA) under the MIGA Guarantee Facility (MGF), one of the four facilities set up under the IDA18 IFC-MIGA Private Sector Window (PSW) to promote investment in IDA-only and FCS countries. Under this facility, MIGA issues guarantees and cedes exposures to IDA through a risk sharing arrangement on a first loss basis or risk participation akin to reinsurance, for eligible projects. As of March 31, 2020, MIGA's gross exposure on projects utilizing this facility was \$590,359,700 (\$428,762,000 – June 30, 2019), and the amount ceded to IDA under the first loss layer totaled \$157,259,000 (\$88,787,000 – June 30, 2019).

The table below provides a reconciliation between MIGA's gross guarantee exposure and net exposure as of March 31, 2020 and June 30, 2019:

In thousands of US dollars

	March 31, 2020	June 30, 2019
Gross guarantee exposure	\$ 20,981,684	\$ 23,326,647
Less: Ceded exposures		
Facultative and Treaty reinsurers	(12,457,642)	(14,901,586)
CAFEF	(35,910)	(41,289)
IDA PSW - MGF (Note I)	(157,259)	(88,787)
Net guarantee exposure before exposure exchange	<u>8,330,873</u>	<u>8,294,985</u>
Less:		
Exposure exchange with IBRD (Note I)	(3,204)	(191)
Net guarantee exposure	<u>\$ 8,327,669</u>	<u>\$ 8,294,794</u>

MIGA can also provide both public (official) and private insurers with facultative reinsurance. As of March 31, 2020, total insurance exposure assumed by MIGA, primarily with official investment insurers, amounted to \$218,533,000 (\$218,533,000 – June 30, 2019).

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Notes to Financial Statements

Premiums, fees and commission relating to direct, assumed, and ceded contracts for the three and nine months ended March 31, 2020 and March 31, 2019 were as follows:

In thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Premiums written				
Direct	\$ 80,225	\$ 36,343	\$ 338,152	\$ 211,407
Assumed	137	135	2,068	2,076
Ceded	(44,684)	(21,156)	(237,207)	(151,620)
	<u>35,678</u>	<u>15,322</u>	<u>103,013</u>	<u>61,863</u>
Gross premium income				
Direct	56,265	58,837	174,312	177,382
Assumed	543	542	1,657	1,668
	<u>\$ 56,808</u>	<u>\$ 59,379</u>	<u>\$ 175,969</u>	<u>\$ 179,050</u>
Premium ceded	(35,698)	(37,706)	(111,432)	(113,541)
Net Premium Earned	21,110	21,673	64,537	65,509
Ceding commission and other fees	9,113	9,637	28,284	28,765
Brokerage and other charges	(1,422)	(2,270)	(4,959)	(6,359)
Net Premium Income	<u>\$ 28,801</u>	<u>\$ 29,040</u>	<u>\$ 87,862</u>	<u>\$ 87,915</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 reserve for claims.

Project-specific risk assessment is performed by a cross-functional team. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings of a specific coverage. The decision to issue an insurance contract is subject to approval by MIGA's senior management and concurrence or approval by the Board of Directors. For insurance contracts that are issued under the Small Investment Program (SIP), the Board has delegated approval to MIGA's senior management. In order to avoid excessive risk concentration, MIGA sets exposure limits per country and per project. As of March 31, 2020, the maximum net exposure which may be assumed by MIGA is \$1,000 million (\$820 million – June 30, 2019) in each host country and \$300 million (\$250 million – June 30, 2019) for each project.

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Notes to Financial Statements

As approved by the Board of Directors and the Council of Governors, the maximum aggregate amount of contingent liabilities that may be assumed by MIGA is 500 percent (500 percent – June 30, 2019) of the sum of MIGA's unimpaired subscribed capital, retained earnings, accumulated other comprehensive income (loss) and net insurance portfolio reserve plus 100 percent of gross exposure ceded by MIGA through contracts of reinsurance. Accordingly, at March 31, 2020, the maximum level of guarantees outstanding (including reinsurance) may not exceed \$28,319,967,000 (\$30,373,011,000 – June 30, 2019).

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 March 31, 2020 and June 30, 2019 are as follows:

In thousands of US dollars

	March 31, 2020		June 30, 2019	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	\$ 7,933,176	\$ 11,439,591	\$ 9,048,099	\$ 13,265,159
% of Total Gross Exposure	37.8	54.5	38.8	56.9
Net Exposure	\$ 2,149,613	\$ 3,499,347	\$ 2,128,745	\$ 3,452,388
% of Total Net Exposure	25.8	42.0	25.7	41.6

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 March 31, 2020 and June 30, 2019 are shown in the following table:

In thousands of US dollars

	March 31, 2020			June 30, 2019		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
East Asia & Pacific	\$ 2,527,039	\$ 768,180	9.2	\$ 2,624,140	\$ 732,443	8.8
Europe & Central Asia	4,912,241	1,767,104	21.2	6,579,630	2,180,957	26.3
Latin America & Caribbean	3,222,305	1,180,492	14.2	4,323,124	1,349,429	16.3
Middle East & North Africa	3,066,639	1,086,133	13.0	2,979,152	1,047,762	12.6
South Asia	1,397,208	680,462	8.2	1,000,067	498,491	6.0
Sub-Saharan Africa	5,856,252	2,845,298	34.2	5,820,534	2,485,712	30.0
	<u>\$ 20,981,684</u>	<u>\$ 8,327,669</u>	<u>100.0</u>	<u>\$ 23,326,647</u>	<u>\$ 8,294,794</u>	<u>100.0</u>

(Continued)

Notes to Financial Statements

The sectoral distribution of MIGA's portfolio at March 31, 2020 and June 30, 2019 are as follows:

In thousands of US dollars

Sector	March 31, 2020			June 30, 2019		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Agribusiness	\$ 74,148	\$ 73,008	0.9	\$ 77,330	\$ 76,633	0.9
Financial	6,271,120	2,204,690	26.5	7,358,436	2,131,246	25.7
Infrastructure	11,154,308	4,611,145	55.3	12,267,940	4,650,769	56.0
Manufacturing	855,990	550,190	6.6	520,018	413,008	5.0
Mining	1,293,970	338,736	4.1	1,322,916	346,436	4.2
Oil and Gas	381,564	170,813	2.1	784,187	278,917	3.4
Services and Tourism	950,584	379,087	4.5	995,820	397,785	4.8
	<u>\$ 20,981,684</u>	<u>\$ 8,327,669</u>	<u>100.0</u>	<u>\$ 23,326,647</u>	<u>\$ 8,294,794</u>	<u>100.0</u>

Note F: Reserve for Claims and other Exposures

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

The following table provides an analysis of reserve for claims as of March 31, 2020 and June 30, 2019:

In thousands of US dollars

	March 31, 2020			June 30, 2019		
	IPR	Specific Reserve for Claims	Total	IPR	Specific Reserve for Claims	Total
Gross Reserve for Claims	\$ 609,066	\$ 3,729	\$ 612,795	\$ 566,635	\$ 3,124	\$ 569,759
Less: Reinsurance recoverable ^a	(374,189)	-	(374,189)	(344,631)	-	(344,631)
Net Reserve for Claims	<u>\$ 234,877</u>	<u>\$ 3,729</u>	<u>\$ 238,606</u>	<u>\$ 222,004</u>	<u>\$ 3,124</u>	<u>\$ 225,128</u>

a. As of March 31, 2020, excludes \$9,102 thousand (June 30, 2019 - \$10,169 thousand) reinsurance recoverable associated with retroactive reinsurance contracts, which is included in the Reinsurance recoverable on the Condensed Balance Sheet.

(Continued)

Notes to Financial Statements

The following table provides the composition of reinsurance recoverables at March 31, 2020 and June 30, 2019:

In thousands of US dollars

		March 31, 2020	June 30, 2019
Prospective reinsurance	- IPR	\$ 374,189	\$ 344,631
	- Specific reserve for claims	-	-
		374,189	344,631
Retroactive reinsurance	- IPR	9,102	10,169
		<u>\$ 383,291</u>	<u>\$ 354,800</u>

As of March 31, 2020, the excess of reinsurance recoverable associated with the retroactive reinsurance contracts over the related premium ceded amounted to \$2,212,400 (\$3,762,800 – June 30, 2019) and is reported as deferred gains under Other liabilities on the Condensed Balance Sheet.

The net increase in reserves for claims reflected in the Condensed Statement of Income for the three and nine months ended March 31, 2020 and March 31, 2019 comprised of changes in the Insurance portfolio reserve and Specific reserve for claims as follows:

In thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Increase in Reserves:				
Insurance portfolio reserve	\$ 8,698	\$ 2,378	\$ 15,623	\$ 12,731
Specific reserve for claims	587	91	606	54
Increase in reserves, before translation adjustments	9,285	2,469	16,229	12,785
Foreign currency translation adjustments	(1,688)	(1,580)	(2,750)	(2,522)
Increase in reserves, net	<u>\$ 7,597</u>	<u>\$ 889</u>	<u>\$ 13,479</u>	<u>\$ 10,263</u>

For the nine months ended March 31, 2020 and March 31, 2019, MIGA's claims reserving methodology and the related significant assumptions remained unchanged.

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Notes to Financial Statements

The change in Insurance portfolio reserve before translation adjustments for the nine months ended March 31, 2020 and March 31, 2019 were attributable to the following factors:

In thousands of US dollars

	Nine Months Ended	
	March 31, 2020	March 31, 2019
Changes in portfolio size and risk profile, net	\$ 1,369	\$ (3,033)
Changes in host country risk ratings, net	8,579	17,232
Changes in discount rate	5,978	(1,384)
Others	(303)	(84)
Increase, net	<u>\$ 15,623</u>	<u>\$ 12,731</u>

The foreign currency translation adjustment reflects the impact on MIGA's Insurance Portfolio Reserve revaluation of guarantee contracts denominated in currencies other than US dollar and managed by holding equivalent amounts in the same currency 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 Condensed Statements of Income.

Insurance Portfolio Reserve (IPR)

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

The following table provides an analysis of the changes in the gross IPR for the nine months ended March 31, 2020 and fiscal year ended June 30, 2019:

In thousands of US dollars

	Nine Months Ended	Fiscal Year Ended
	March 31, 2020	June 30, 2019
Gross IPR, beginning balance	\$ 566,635	\$ 450,100
Less: Reinsurance recoverables	(344,631)	(239,616)
Net IPR, beginning balance	222,004	210,484
Increase in reserves before translation adjustments	15,623	12,796
Foreign currency translation adjustments	(2,750)	(1,277)
Increase in reserves, net of reinsurance	12,873	11,519
Net IPR, ending balance ^{a,d}	234,877	222,004
Add: Reinsurance recoverables ^b	374,189	344,631
Gross IPR, ending balance ^c	<u>\$ 609,066</u>	<u>\$ 566,635</u>

a. As of March 31, 2020 represents 2.8% of Total Net Exposure (June 30, 2019 - 2.7%).

b. As of March 31, 2020, excludes \$9,102 thousand (June 30, 2019 - \$10,169 thousand) reinsurance recoverables associated with retroactive reinsurance contracts which is included in the Reinsurance recoverables on the Condensed Balance Sheet.

c. As of March 31, 2020 represents 2.9% of Total Gross Exposure (June 30, 2019 - 2.4%).

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

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Notes to Financial Statements

Specific Reserve for Claims

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

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

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

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

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

Notes to Financial Statements

The following table provides an analysis of the changes in the gross specific reserve for claims for the nine months ended March 31, 2020 and fiscal year ended June 30, 2019:

In thousands of US dollars

	Nine Months Ended March 31, 2020	Fiscal Year Ended June 30, 2019
Gross Specific reserve for claims, beginning balance	\$ 3,124	\$ 3,121
Less: Reinsurance recoverables	-	-
Net Specific reserve for claims, beginning balance	3,124	3,121
Increase in Specific reserve for claims, before translation adjustments		
- Current year	598	-
- Prior years	8	3
	606	3
Foreign currency translation losses	-	-
Increase in specific reserve for claims, net of reinsurance	606	3
Net Specific reserve for claims, ending balance ^a	3,729	3,124
Add: Reinsurance recoverables	-	-
Gross Specific reserve for claims, ending balance	\$ 3,729	\$ 3,124

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

The gross Specific Reserve for Claims as of March 31, 2020 and June 30, 2019 is comprised of:

In thousands of US dollars

	March 31, 2020	June 30, 2019
Reserve for pending claims	\$ 1,957	\$ 1,948
Probable loss reserve	1,772	1,176
Gross specific reserve	\$ 3,729	\$ 3,124

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

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

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

(Continued)

Notes to Financial Statements

The following tables present information about incurred and paid claims development as of March 31, 2020, net of reinsurance, and cumulative claim frequency. The tables include unaudited information about incurred and paid claims development for the years ended June 30, 2011 through 2019, which is presented as supplementary information:

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

<i>In thousands of US dollars</i>												
Reported Claims											Cumulative number of Probable Loss Reported Reserve Claims	
For the Fiscal Year Ended June 30, (Unaudited)										Period Ended		
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q3		
2011	-	-	-	-	-	-	-	-	-	-	6,082	1
2012		3,833	8,232	5,350	4,303	4,303	4,303	4,303	4,303	4,303	5,593	1
2013			5,166	299	273	273	273	273	273	273	6,905	-
2014				-	-	-	-	-	-	-	1,752	1
2015					363	363	363	363	363	363	-	2
2016						4,458	4,458	4,458	4,458	4,458	-	-
2017							1,215	2,268	2,270	2,279	595	3
2018								-	-	-	1,175	2
2019									-	-	1,176	-
2020										-	1,772	-
Total										<u>11,676</u>		

Political Risk Insurance: Cumulative Claim Payments, Net of Reinsurance

<i>In thousands of US dollars</i>											
For the Fiscal Year Ended June 30, (Unaudited)										Period Ended	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Q3	
2011	-	-	-	-	-	-	-	-	-	-	
2012		-	-	-	4,303	4,303	4,303	4,303	4,303	4,303	
2013			-	-	273	273	273	273	273	273	
2014				-	-	-	-	-	-	-	
2015					363	363	363	363	363	363	
2016						-	4,458	4,458	4,458	4,458	
2017							322	322	322	322	
2018								-	-	-	
2019									-	-	
2020										-	
Total										<u>9,719</u>	
											<u>-</u>
											<u>1,957</u>

(Continued)

Notes to Financial Statements

The following table presents a reconciliation of the net incurred and paid claims development tables to the liability for claims on the Balance Sheet as of March 31, 2020 and June 30, 2019:

In thousands of US dollars

	March 31, 2020	June 30, 2019
Specific Reserve for claims, Net of Reinsurance	\$ 3,729	\$ 3,124
Reinsurance recoverable	-	-
Gross Specific Reserve for Claims	<u>\$ 3,729</u>	<u>\$ 3,124</u>

The following table presents supplementary information about average historical claims duration as of March 31, 2020:

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

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

Note G: Pension and Other Post Retirement Benefits

International Bank for Reconstruction and Development (IBRD) is the plan sponsor and MIGA, IBRD and International Finance Corporation (IFC) participate in a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan and Trust (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members, retirees and beneficiaries.

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

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

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

(Continued)

Notes to Financial Statements

The following table summarizes MIGA's respective share of the costs associated with the SRP, RSBP, and PEBP for the three and nine months ended March 31, 2020 and March 31, 2019:

In thousands of US dollars

Benefit Cost	Three Months Ended March 31, 2020				Nine Months Ended March 31, 2020			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Interest cost	\$ 1,929	\$ 301	\$ 257	\$ 2,487	\$ 5,788	\$ 905	\$ 773	\$ 7,466
Expected return on plan assets	(2,932)	(428)	-	(3,360)	(8,796)	(1,282)	-	(10,078)
Amortization of unrecognized prior service cost ^a	14	44	6	64	42	131	17	190
Amortization of unrecognized net actuarial losses ^a	249	-	315	564	749	-	944	1,693
Net periodic pension (credit) cost, excluding service cost	\$ (740)	\$ (83)	\$ 578	\$ (245)	\$ (2,217)	\$ (246)	\$ 1,734	\$ (729)
Service cost ^b	1,879	437	363	2,679	5,637	1,310	1,090	8,037
Net periodic pension cost	\$ 1,139	\$ 354	\$ 941	\$ 2,434	\$ 3,420	\$ 1,064	\$ 2,824	\$ 7,308

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

b. Included in Administrative Expenses (including Pension service cost) on the Condensed Statement of Income.

In thousands of US dollars

Benefit Cost	Three Months Ended March 31, 2019				Nine Months Ended March 31, 2019			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Interest cost	\$ 2,042	\$ 302	\$ 228	\$ 2,572	\$ 6,125	\$ 907	\$ 683	\$ 7,715
Expected return on plan assets	(2,950)	(402)	-	(3,352)	(8,854)	(1,204)	-	(10,058)
Amortization of unrecognized prior service cost ^a	14	42	4	60	44	131	16	191
Amortization of unrecognized net actuarial losses ^a	59	-	212	271	177	-	634	811
Net periodic pension (credit) cost, excluding service cost	\$ (835)	\$ (58)	\$ 444	\$ (449)	\$ (2,508)	\$ (166)	\$ 1,333	\$ (1,341)
Service cost ^b	1,593	354	285	2,232	4,780	1,061	856	6,697
Net periodic pension cost	\$ 758	\$ 296	\$ 729	\$ 1,783	\$ 2,272	\$ 895	\$ 2,189	\$ 5,356

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

b. Included in Administrative Expenses (including Pension service cost) on the Condensed Statement of Income.

Note H: Other liabilities

The following table provides the composition of Other liabilities as of March 31, 2020 and June 30, 2019:

In thousands of US dollars

	March 31, 2020	June 30, 2019
Payable for pension and other postretirement benefits	\$ 47,924	\$ 47,009
Payable to reinsurers and brokers	31,877	10,981
Payable for investment securities purchased	14,110	5,165
Payable to affiliated organizations - Administrative and other services	20,727	17,203
Deferred gains	2,212	3,763
Miscellaneous	15,989	16,560
	\$ 132,839	\$ 100,681

(Continued)

Notes to Financial Statements

Note I: Transactions with Affiliated Organizations

Shared Services and Joint Business Development Agreement

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

MIGA transacts with affiliated organizations by entering into shared service agreements relating to administrative and shared services such as, office occupancy costs, computing services, and communication charges, among others. Transactions with IBRD and IFC also include brokerage fees paid for referral and due diligence services on jointly-developed guarantee projects.

Total fees paid by MIGA reflected in the Condensed Statements of Income for the three and nine months ended March 31, 2020 and March 31, 2019 are as follows:

In thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Fees charged by IBRD/IDA	\$ 3,744	\$ 2,620	\$ 8,234	\$ 7,477
Fees charged by IFC	364	802	3,087	3,711

At March 31, 2020 and June 30, 2019, MIGA had the following (payables to) receivables from its affiliated organizations with regard to administrative and other services and pension and other postretirement benefits:

In thousands of US dollars

	March 31, 2020			June 30, 2019		
	Administrative & Other Services ^a	Pension and Other Postretirement Benefits ^b	Total	Administrative & Other Services ^a	Pension and Other Postretirement Benefits ^b	Total
IBRD/IDA	\$ (12,233)	\$ 14,030	\$ 1,797	\$ (8,693)	\$ 14,993	\$ 6,300
IFC	(8,494)	-	(8,494)	(8,510)	-	(8,510)
	\$ (20,727)	\$ 14,030	\$ (6,697)	\$ (17,203)	\$ 14,993	\$ (2,210)

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.

(Continued)

Notes to Financial Statements

Exposure Exchange with IBRD

During the fiscal year ended June 30, 2014, 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 March 31, 2020 and June 30, 2019, the outstanding off-balance sheet amounts relating to this exposure exchange agreement were as follows:

In thousands of US dollars

	March 31, 2020	June 30, 2019
IBRD's exposure in Brazil assumed by MIGA	\$ 46,121	\$ 58,794
MIGA's exposure in Panama assumed by IBRD	49,325	58,985
Net amount	<u>\$ (3,204)</u>	<u>\$ (191)</u>

As of March 31, 2020, the recorded liabilities related to MIGA's obligation under the existing exposure exchange agreement with IBRD amounted to \$0.2 million (\$0.4 million – June 30, 2019) and is included in the Insurance portfolio reserve on the Condensed Balance Sheet.

IDA18 IFC-MIGA Private Sector Window (PSW)

As of March 31, 2020, the amounts ceded to IDA under the first loss layer totaled \$157,259,000 (\$88,787,000 – June 30, 2019).

Total premium ceded to IDA and the related ceding commission reflected in the Condensed Statements of Income for the three and nine months ended March 31, 2020 and March 31, 2019 are as follows:

In thousands of US dollars

	Three Months Ended		Nine Months Ended	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Premium ceded	\$ 271	\$ 74	\$ 710	\$ 279
Ceding commission	40	11	106	42

(Continued)

Notes to Financial Statements

Note J: Accumulated Other Comprehensive Loss

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) for the nine months ended March 31, 2020 and March 31, 2019:

In thousands of US dollars

	Nine Months Ended March 31, 2020			
	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	\$ (56,250)	\$ (1,233)	\$ (54,048)
Changes during the period ^b :				
Amounts reclassified into net income ^c	-	1,693	190	1,883
Net change during the year	-	1,693	190	1,883
Balance, end of period	<u>\$ 3,435</u>	<u>\$ (54,557)</u>	<u>\$ (1,043)</u>	<u>\$ (52,165)</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. Changes in fair value relating to provision and other post-retirement benefit plans are assessed annually.

c. See Note G, Pension and Other Post Retirement Benefits.

In thousands of US dollars

	Nine Months Ended March 31, 2019			
	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	\$ (32,428)	\$ (1,487)	\$ (30,480)
Changes during the period ^b :				
Amounts reclassified into net income ^c	-	811	191	1,002
Net change during the year	-	811	191	1,002
Balance, end of period	<u>\$ 3,435</u>	<u>\$ (31,617)</u>	<u>\$ (1,296)</u>	<u>\$ (29,478)</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. Changes in fair value relating to provision and other post-retirement benefit plans are assessed annually.

c. See Note G, Pension and Other Post Retirement Benefits.

(Continued)

Notes to Financial Statements

Note K: Coronavirus Outbreak (COVID-19) Impact Assessment

Since December 31, 2019, the outbreak of the novel strain of Coronavirus (COVID-19) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

As of March 31, 2020, MIGA has sufficient resources to meet its liquidity requirements. MIGA's credit exposures remain within established limits and in compliance with the Agency's existing governance framework.

As of the reporting date, MIGA has invoked home-based work in line with the Agency's Business Continuity Procedure. In addition, MIGA has adopted other prudent measures to ensure the health and safety of its employees, including the imposition of travel restrictions, rescheduling of public events or holding them in virtual format with operations remaining functional, even with the changes in working arrangements.

The duration of the COVID-19 pandemic is difficult to predict at this time, as is the ultimate efficacy of government and central bank interventions. The length and severity of these developments as well as the impact on the future operating performance and financial condition of MIGA cannot be reasonably estimated at this point in time.

Note L: Subsequent Event

On April 23, 2020, a borrower under a loan covered against the risk of non-honoring of financial obligations by a state-owned enterprise defaulted on debt obligations not covered by MIGA, triggering a cross-default to the borrower's listed Medium-Term Note programs. As a result, the borrower's debt obligations may need to be restructured. In light of the borrower's poor financial condition, MIGA may need to pay a claim to the guarantee holder under the MIGA-guaranteed loan. Unless a satisfactory resolution is reached, the effect of this development on MIGA's Q4 financial reporting may be a \$9.1m increase in the Specific Reserves for Claims, gross, a \$7.8m increase in the Reinsurance recoverable, and a \$1.3m increase in Reserves for claims, net, for Q4 FY2020.

(Continued)

INDEPENDENT AUDITORS' REVIEW REPORT

President and Board of Directors
Multilateral Investment Guarantee Agency:

We have reviewed the accompanying condensed balance sheet of the Multilateral Investment Guarantee Agency ("MIGA") as of March 31, 2020, and the related condensed statements of income and comprehensive income for the three-month and nine-month periods ended March 31, 2020 and 2019, and the related changes in shareholders' equity, and cash flows for the nine-month periods ended March 31, 2020 and 2019 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

MIGA's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; 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.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America 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, 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 interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Balance Sheet as of June 30, 2019

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of MIGA as of June 30, 2019, and the related statements of income, 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 8, 2019. In our opinion, the accompanying condensed balance sheet of MIGA as of June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



May 13, 2020