



MIGA Financial Sector Solutions: CAPITAL OPTIMIZATION

Overview

MIGA's **capital optimization product** is designed for global retail banks with significant exposures to central banks in emerging markets. MIGA can insure mandatory reserves held by a parent bank's emerging-market subsidiaries, which reduces the counterparty risk and can lead to a reduction in the bank's risk-weighted assets (RWA) on a consolidated basis. The RWA capacity that is freed up can then be used to grow the bank's loan book.

How It Works

While a subsidiary's local bank regulator places a zero-risk weight on mandatory reserves when calculating RWA of the subsidiary, the parent home country regulator assesses a risk weight on these reserves on the group's consolidated balance sheet. The risk weight of these local mandatory reserves varies depending on the country risk as determined by the parent bank and validated by the parent bank's home regulator. While the risk weight varies at the consolidated holding level, it can be as high as 150 percent—adding to the counterparty risk and the bank's consolidated RWA.

When a parent bank obtains MIGA's

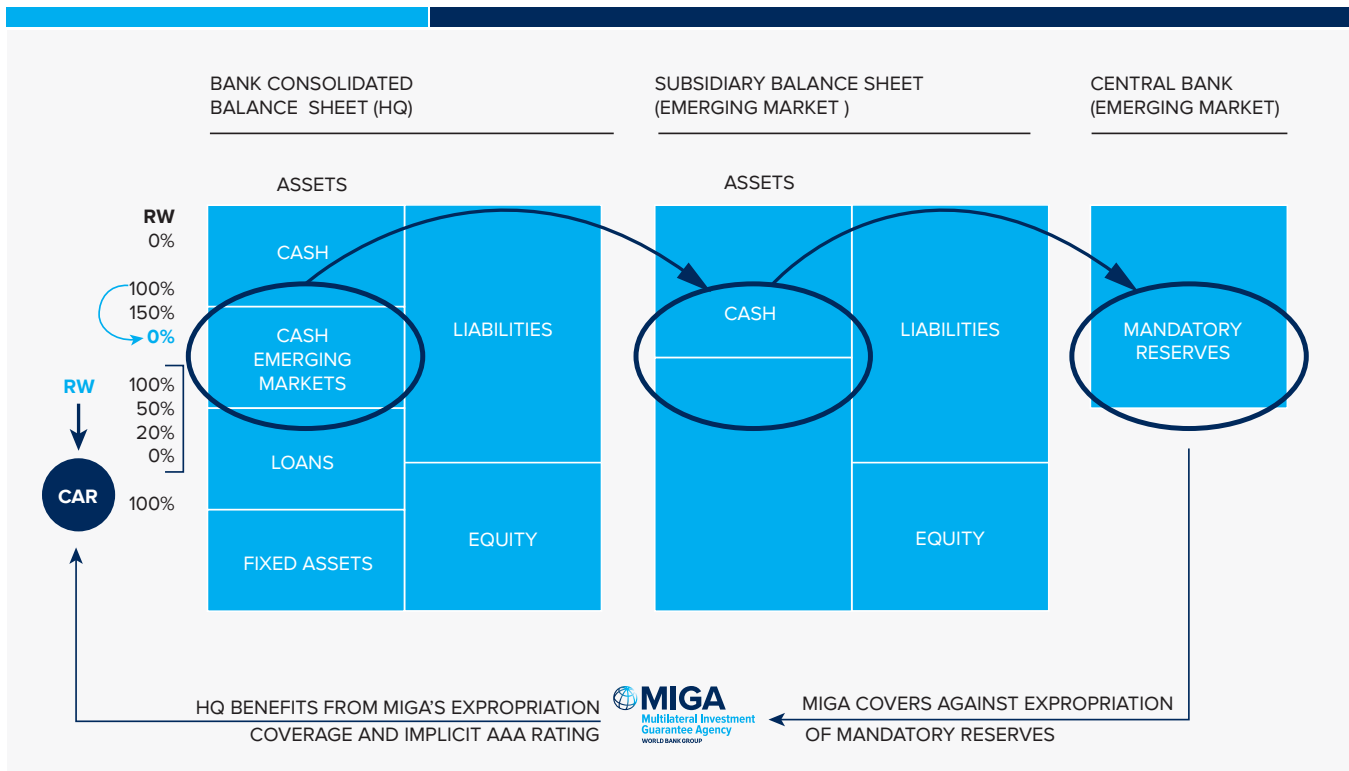
Benefits:

- Reduces RWA/frees up space under the RWA limit because of the high risk weight of mandatory reserves held in emerging-market central banks
- Puts subsidiary banks on the same footing as locally owned banks by reducing the equity required to support mandatory reserves
- Enables equity investments made by the parent company in local banks to support increased lending, thus increasing the potential reach, development impact, and financial returns of the foreign investment

coverage against the **expropriation of mandatory reserves** by the host country, this coverage could result in a reduction of the risk weight, recognized by regulators and the rating agencies. MIGA can cover an equivalent amount of existing or new equity, retained earnings, and/or shareholder loans. MIGA then links these in the insurance contract to a covered expropriation event against funds held at central banks in emerging markets.

If the covered event occurs (that is,

expropriation of mandatory reserves maintained at the emerging-market central bank), MIGA provides payment to the guarantee holder. Coverage can be up to 95 percent of the mandatory reserves held in the host country.



The MIGA Advantage

- MIGA can provide coverage for local or foreign currency
- MIGA's status as a member of the World Bank Group significantly strengthens its ability to resolve potential disputes to the satisfaction of all parties and may help deter government actions that otherwise could disrupt guaranteed investments
- Competitive pricing—strong value addition from MIGA coverage
- Model has already been market-tested
- Access to MIGA and World Bank Group technical expertise and network, including environmental and social risk management

CAPITAL OPTIMIZATION AT WORK

Reducing Deleveraging Risks in Emerging-Market Subsidiary

Société Générale has supported the growth of its Serbian subsidiary through equity injections. It approached MIGA to help reduce the risk weighting for the mandatory reserves maintained by Banka Srbija a.d. Beograd with the Serbian Central Bank. MIGA issued guarantees of €150 million covering new and existing equity investments for a period of up to 10 years against the risk of expropriation of funds. The resulting capital relief frees equity previously tied up for country-risk purposes and creates headroom for generating new risk-weighted assets for productive investments in Serbia's economy.

A Portfolio Approach for a Microfinance Institution

Germany-based ProCredit operates a global emerging-market network of 21 microfinance subsidiaries worldwide. To streamline the process of obtaining expropriation of funds coverage from MIGA, ProCredit used a portfolio approach to insure a maximum amount of €221 million in guarantees for the bank's subsidiaries in Africa, Eastern Europe, and Latin America.

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