

FINANCIAL STATEMENTS

Latin American Reserve fund-FLAR

As at June 30, 2020

With Independent Auditor's Report

External Auditor's Report

To the members of the Assembly of Representatives and the Directorship of the Latin American Reserve Fund - FLAR (Fondo Latinoamericano de Reservas)

Opinion

I have audited the accompanying financial statements of Latin American Reserve Fund - FLAR (Fondo Latinoamericano de Reservas - the Fund), which comprise the statement of financial position as at June 30, 2020 and the corresponding statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and the summary of significant accounting policies and other explanatory notes.

In my opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of Latin American Reserve Fund - FLAR (Fondo Latinoamericano de Reservas) as at June 30, 2020, and its financial performance and its cash flows for the six-month period then ended, in conformity with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is enough and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

LIUDMILA
RIAÑO
GONZALEZ

Firmado digitalmente
por LIUDMILA RIAÑO
GONZALEZ

Liudmila Riaño G.
Independent Accountant
Professional Card 63486-T
Partner of Ernst & Young Audit S.A.S. TR- 530

Bogotá D.C., Colombia
October 23th, 2020.

FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND - FLAR

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020 AND DECEMBER 31, 2019
(In U.S. dollars)

ASSETS	Notes	6/30/2020	12/31/2019
Cash	7	9,950,615	9,152,685
Investments:			
Deposits in commercial banks	8	1,809,207,313	1,178,103,151
Internally managed portfolios			
Trading securities at fair value	9	1,601,738,958	850,123,532
Securities at amortized cost	9	1,760,302,337	2,818,829,434
Internally managed portfolios total		3,362,041,295	3,668,952,966
Externally managed portfolios			
Trading securities at fair value	9	610,718,171	610,138,213
Securities at amortized cost	9	42,779,615	37,346,834
Externally managed portfolios total		653,497,786	647,485,047
Derivative instruments	10	1,932,495	2,316,244
Accounts receivable related to financial assets sold with future settlement			
Trading securities sold in internally managed portfolios with future settlement date	9	-	81,215,527
Trading securities sold in externally managed portfolios with future settlement date	9	17,540,767	46,698,316
Time deposits with future settlement date		66,646,081	2,767,404
Account receivables total	9	84,186,848	130,681,247
Trust fees		209,181	360,459
Loans to Central Banks	11	207,156,542	1,354,014,558
Allowance for expected credit losses on loans to Central Banks	11	(5,416,086)	(42,789,092)
Foreign exchange operations portfolio	19	92,209,976	92,544,199
Loans to Central banks, net		293,950,432	1,403,769,665
Property and equipment, net	13	2,185,375	4,445,642
Other assets		189,575	491,943
Total assets		6,217,350,915	7,045,759,049

LIABILITIES AND EQUITY OF THE FUND	Notes	6/30/2020	12/31/2019
LIABILITIES			
Demand deposits	14	12,620,018	172,411,771
Term deposits and interest payables	14	2,850,259,594	3,086,545,272
Received deposits - subtotal		2,862,879,612	3,258,957,043
Derivative instruments	10	143,180	81,130
Accounts payable related to financial assets purchased with future settlement			
Trading securities purchased in internally managed portfolios with future settlement date	9	165,750,105	211,212,510
Trading securities purchased in externally managed portfolios with future settlement date	9	24,657,839	56,649,714
Accounts Payable total	9	190,407,944	267,862,224
Interest payable	14	1,564,639	6,041,006
Other liabilities	15	2,337,317	2,388,079
Received credit risk fees for granted loans	11	3,517,924	13,327,625
Total liabilities		3,060,850,616	3,548,657,107
EQUITY OF THE FUND			
Subscribed capital	16	3,937,500,000	3,937,500,000
Less - Receivable capital installments	16	1,248,240,433	875,291,747
Paid-in Capital	16	2,689,259,567	3,062,208,253
Retained earnings - reserves		319,004,766	307,774,880
Other comprehensive Income - Surplus from revaluation of real state and equipment - (IFRS Retained earnings)		1,401,620	3,590,058
Net Income for the period		146,834,346	123,528,751
Total equity of the Fund		3,156,500,299	3,497,101,942
Total liabilities and equity of the Fund		6,217,350,915	7,045,759,049

The attached Notes are an integral part of the Financial Statements

José Darío Uribe Escobar
Executive President


Néstor Eduardo Benjumea Lizarazo
Accounting Manager


FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND - FLAR

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE SEMESTERS ENDED ON JUNE 30, 2020 AND 2019
(In U.S. dollars)**

	Notes	6/30/2020	6/30/2019
INTEREST INCOME			
Interest on loans to Central Banks	11	37,501,510	57,267,269
Interest on trading securities	9	17,720,582	20,020,681
Interest on deposits in commercial banks	8	7,570,113	26,003,747
Total interest income		62,792,205	103,291,697
INTEREST EXPENSE			
Term deposits	14	(13,916,349)	(44,612,911)
Demand deposits	14	(333,412)	(1,323,019)
Total interest expense		(14,249,761)	(45,935,930)
Net interest income		48,542,444	57,355,767
GAINS (LOSSES) ON TRADING ACTIVITIES			
<i>Externally Managed Portfolios</i>			
Realized gains (losses) on trading securities		1,299,426	1,207,198
Unrealized gains (losses) on trading securities		5,867,824	6,220,717
Realized gains (losses) on derivatives	10	(5,011,978)	(2,128,471)
Unrealized gains (losses) on derivatives	10	(18,508)	1,050
<i>Internally Managed Portfolios</i>			
Realized gains (losses) on trading securities		24,830,475	20,506,875
Unrealized gains (losses) on trading securities		5,404,985	9,177,091
Realized (losses) gains on derivatives	10	(1,212,153)	(759,645)
Unrealized (losses) on derivatives	10	(14,204)	(92,466)
Gains in activities with trading securities and derivatives		31,145,867	34,132,349
EXPECTED CREDIT LOSSES			
Expected credit losses on loans granted	12	(5,212,831)	(953,460)
Expected credit losses on securities at amortized cost	12	275,092	(182,216)
Recovery of prior year expected credit losses on granted loans	12	42,585,837	-
Expected credit losses - Total		37,648,098	(1,135,676)
OTHER INCOME			
Fees from credit risk on loans granted	17	34,791,104	3,630,849
Gains (losses) on foreign exchange portfolio	17	-	486,081
Trust fees	17	313,123	442,215
Others		496,333	420,954
Other income - Total		35,600,560	4,980,099
OTHER EXPENSES			
Gains (losses) on foreign exchange portfolio		(334,223)	
Personnel expenses	17	(2,192,997)	(2,021,290)
Operational expenses	17	(1,570,126)	(1,806,019)
Other financial expenses	17	(796,826)	(485,638)
Incentive for loan performance	17	(343,761)	-
Others		(864,690)	(469,375)
Other expenses - Total		(6,102,623)	(4,782,322)
Net Income		146,834,346	90,550,217
Other Comprehensive Income/(loss) - PP&E Revaluation	13	(2,188,438)	
Total Comprehensive Income		144,645,908	90,550,217

The attached Notes are an integral part of the Financial Statements


José Darío Uribe Escobar
Executive President


Néstor Eduardo Benjumea Lizarazo
Accounting Manager


FONDO LATINOAMERICANO DE RESERVAS -FLAR-

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIODS ENDED ON JUNE 30 2020, 2019, DECEMBER 31 2019 AND 2018
(In U.S. dollars)



	Note	Subscribed and Paid-in Capital	Institutional reserves	Net income for the period	Other Comprehensive Income	Total equity
BALANCE AS OF DECEMBER 31, 2018		<u>2,981,456,451</u>	<u>298,145,646</u>	<u>102,449,084</u>	<u>3,590,058</u>	<u>3,385,641,239</u>
Additional capital contribution and reserves - Republic of Costa Rica	16	3,156,816	315,682			3,472,498
Earnings appropriation according to agreement No. 204 of FLAR's Assembly of Representatives, March 19, 2019	16	77,594,986	9,313,552	(86,908,538)	-	-
Earnings appropriation for payment of loan installments granted to the Central Bank of Venezuela, according to agreement No. 204 of FLAR Assembly of Representatives, March 19, 2019	11- 16	-	-	(15,540,545)	-	(15,540,545)
Net income for the six months ended June 30, 2019		-	-	90,550,216	-	90,550,216
BALANCE AS OF JUNE 30, 2019		<u>3,062,208,253</u>	<u>307,774,880</u>	<u>90,550,217</u>	<u>3,590,058</u>	<u>3,464,123,408</u>
Net income for the six months ended December 31, 2019				32,978,533		32,978,533
BALANCE AS OF DECEMBER 31, 2019		<u>3,062,208,253</u>	<u>307,774,880</u>	<u>123,528,750</u>	<u>3,590,058</u>	<u>3,497,101,941</u>
Earnings appropriation for payment of installments on loans granted to the Central Bank of Venezuela, according to agreement No. 210 of FLAR Assembly of Representatives, March 24, 2020	11	-	-	(18,398,339)	-	(18,398,339)
Reimbursement of Paid-in Capital for payment via set-off of the total outstanding loan balance of the loan granted to the Central Bank of Venezuela as of March 26, 2020	11	(466,849,211)	-	-	-	(466,849,211)
Earnings appropriation according to agreement No. 210 of FLAR Assembly of Representatives, March 24, 2020	16	93,900,525	11,229,886	(105,130,411)	-	-
Net income for the six months ended June 30, 2020		-	-	146,834,346	-	146,834,346
Other Comprehensive Income (loss) - P&E Revaluation (IFRS application)	13				(2,188,438)	(2,188,438)
BALANCE AS OF JUNE 30, 2020		<u>2,689,259,567</u>	<u>319,004,766</u>	<u>146,834,346</u>	<u>1,401,620</u>	<u>3,156,500,299</u>

The attached Notes are an integral part of the Financial Statements


José Darío Uribe Escobar
Executive President


Néstor Eduardo Benjumea Lizarazo
Accounting Manager

FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND - FLAR



STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30 2020 AND 2019
(In U.S. dollars)

	Note	6/30/2020	6/30/2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net income		146,834,346	90,550,216
Adjustments to reconcile the net income with the net cash provided by operating activities:			
Depreciation expense	13	99,251	99,421
Provided by payments of obligations of loans granted (non-cash movement)	11	(18,398,339)	(15,540,545)
Provided by interests and fees on loans granted (non-cash movement)	11	(30,399,380)	-
Unrealized (gains) losses in:			
Trading securities		(5,404,986)	(9,177,091)
Fees received on granted loans	11	(9,809,701)	(3,230,849)
Expected credit losses on loans granted	12	(37,373,006)	953,460
Expected credit losses on investments at amortized cost	12	(275,092)	182,216
Externally managed portfolios		(5,867,825)	(6,220,717)
Derivative operations	10	32,712	91,416
Gains (losses) on fixed assets	13	(330)	3,726
COP Deposits		(1,197,156)	(944,304)
Net decrease in externally managed portfolios		(2,978,025)	(7,045,472)
Provided by loan operations with Central Banks		706,955,556	125,000,000
Provided by foreign exchange operations portfolio-SDR	19	334,223	(486,081)
Redemption and sales of trading securities		345,489,765	27,959,668
Used in deposits in commercial banks		(629,809,997)	(313,883,523)
Provided (Used) by received demand deposits		(159,791,753)	64,568,946
Provided (Used) by term deposits liabilities		(300,164,353)	39,965,868
Net (increase) decrease in derivative operations		413,087	(26,416)
Increase in other assets	13	302,368	302,425
(Decrease) increase in other liabilities		(50,761)	(234,533)
Accrued interests on deposits from central banks and official institutions		(18,395,584)	(43,464,269)
Interests paid on deposits from central banks and official institutions		13,919,218	44,237,565
Accrued interests on loans granted, investments and commercial deposits		35,882,587	104,131,131
Interests received on loans granted, investments and commercial deposits		(29,521,796)	(103,044,501)
Net cash provided by (used in) operating activities		825,028	(5,252,243)
CASH FLOW BY INVESTMENT ACTIVITIES:			
Purchases of fixed assets	13	(27,532)	(154,013)
Sales of fixed assets	13	434	24,564
Net cash provided by (used in) investment activities		(27,098)	(129,449)
CASH FLOW BY FINANCING ACTIVITIES:			
New contributions to paid-in capital and reserves		-	3,472,498
Net cash provided by (used in) financing activities		-	3,472,498
NET (DECREASE) INCREASE IN CASH		797,930	(1,909,194)
CASH AT THE BEGINNING OF THE YEAR		9,152,685	11,087,346
CASH AT THE END OF THE PERIOD		9,950,615	9,178,152
ADDITIONAL INFORMATION ON OPERATIONS THAT DID NOT IMPLY CASH MOVEMENT			
Appropriation of Net Income to paid-in capital and reserves		93,900,525	86,908,539
Central Bank of Venezuela Set-off payment of liabilities from reimbursement of Paid-in Capital		(436,449,832)	-

The attached Notes are an integral part of the Financial Statements


José Darío Uribe Escobar
Executive President


Néstor Eduardo Benjumea Lizarazo
Accounting Manager



1. ORGANIZATION AND OPERATIONS

Fondo Latinoamericano de Reservas (Latin American Reserve Fund - FLAR) is a legal entity, constituted in accordance with public international law, governed by the provisions of the Articles of its Constitutive Agreement. This agreement was signed by the governments of Bolivia, Colombia, Ecuador, Peru and Venezuela on June 10, 1988, and became effective on March 12, 1991, when the last instrument of ratification was deposited on Banco de la República de Colombia (Central Bank of Colombia). When the Constitutive Agreement entered into force, the agreement for the constitution of the Andean Reserve Fund (FAR), signed in Caracas on November 12, 1976, was automatically repealed, and FLAR assumed all the assets, liabilities and equity of FAR.

Other countries became FLAR members in the following years: Costa Rica on September 1, 2000; Uruguay on June 4, 2008; and Paraguay on March 19, 2015.

FLAR's objectives are a) to support the balance of payments of member countries by granting long and short term credits and to guarantee loans to third parties; b) to contribute to the harmonization of the exchange, monetary and financial policies of member countries, facilitating the fulfillment of acquired commitments within the framework of the Cartagena Agreement and the Treaty of Montevideo of 1980; and c) to improve the investment conditions of the international reserves of member countries.

For the fulfillment of its purposes, FLAR has immunity on its properties, other assets and all deposits and other resources entrusted to FLAR, whether these consist of liabilities, represent equity or are the product of fiduciary operations, concerning any form of forced attachment that may alter FLAR's control over such assets and liabilities, by effect of administrative actions of any of the member countries and with respect to restrictions, regulations, control measures or moratoriums established by them.

FLAR has its headquarters in the city of Bogotá DC, Republic of Colombia; and may establish branches, agencies, or offices of representation in any other city of the member countries or outside them, if so agreed by the Board of Directors. To date, FLAR has no agencies or branches.



1. ORGANIZATION AND OPERATIONS (CONTINUED)

FLAR's business model is based on being a multilateral financial organization whose main objective is to provide counter-cyclical financial assistance to its members, who are sovereign and who have always given FLAR preferential creditor treatment over their obligations.

In line with this, FLAR expects its members to continue paying their credits, even when they are in arrears to other creditors, and in the exceptional case that they fall behind in their obligations to FLAR, it expects to recover substantially the amounts owed. FLAR's expected loss model reflects significantly lower losses than a private party could have in its exposures to member countries.

FLAR is financed with paid capital from members, demand deposits from central banks and other institutions, and debt issued on capital markets. Its income comes mainly from interest income and commissions on loans to member countries, interest and capital gains on investment portfolios, income from intermediation activities and commissions for asset management services, and portfolio custody provided to central banks and official institutions.

At multilaterals, expected and realized credit losses differ significantly from those reported by commercial banks, largely because members give multilaterals Preferred Creditor Treatment (PCT). In line with this, FLAR's impairment model is aligned with its nature as a multilateral entity and its institutional objectives.

2. BASIS OF PRESENTATION AND STATEMENT OF RESPONSIBILITY

FLAR's financial statements for the six months ended June 30, 2020 and December 31, 2019 are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Management is responsible for the information contained in these financial statements, integrally applying the requirements of IAS 1 Presentation of Financial Statements.

The financial statements have been prepared on the historical cost basis except for the trading financial assets and derivative financial instruments, which were prepared at fair value, as long as they are not classified at amortized cost. These financial statements are presented in U.S. dollars, unless otherwise specified.



2. BASIS OF PRESENTATION AND STATEMENT OF RESPONSIBILITY (CONTINUED)

Financial statements

The audited Financial Statements as of June 30 and December 31 are presented to the Board of Directors on a semi-annual basis.

These comparative financial statements of FLAR for the first half of 2020 comprise: the statements of financial position and the statements of changes in equity, as of June 30, 2020 and December 31, 2019; for purposes of an adequate comparison in the accumulation of profits for the period reported, the statement of comprehensive income and the statement of cash flows are presented for the six-month period as of June 30, 2020 and 2019.

The significant accounting policies on which these financial statements are prepared are described in Note 3.

Accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses, and other commitments. Actual results could differ from these estimates.

The most significant estimates and judgments used in applying accounting policies refer to:

- The assumptions used to calculate the fair value of level 2 and 3 financial instruments.
- The valuation of financial assets measured at amortized cost to determine the existence of impairment losses.
- The variables used within the expected loss model for loans granted, deposits in commercial banks and securities at amortized cost.
- The useful life of real estate, equipment, and intangible assets.
- The assumptions used in the actuarial calculation of the legal pension plan liability and post-employment benefits, such as inflation rates, mortality rates, discount rates and the consideration of future salary increases, detailed in Note 14 *Other liabilities*.



2. BASIS OF PRESENTATION AND STATEMENT OF RESPONSIBILITY (CONTINUED)

Accounting estimates and judgments (continued)

Management considers these are its best estimates based on the information available on the events analyzed as of the date of preparation of the accompanying financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis (with support from independent external experts for actuarial calculations and the fair value of property and equipment). In the event of material changes, their recognition would be prospective and treated as a change in an accounting estimate in the future financial statements.

Functional currency and foreign currency transactions

The functional currency of FLAR is the US Dollar. Transactions in currencies other than the US Dollar are considered in foreign currency and are presented at the exchange rates prevailing at the date of the operations. Foreign currency assets and liabilities are converted according to the exchange rates in effect as of the date of financial statements.

Net profits or losses from operations denominated in currencies other than the US dollar are included in other income or expenses for each period. The Colombian Peso / US Dollar exchange rate as of June 30, 2020 was COP 3,758.91 and as of December 31, 2019 was COP3,277.14.

Accounting accrual basis

Following the principles mentioned in IAS 1 P.27, the financial statements have been prepared on an accrual basis, except for the preparation of the cash flow statement.

Cash Flows

FLAR prepares the cash flow statement according to the nature of its operations under the indirect method. It begins with the presentation of earnings for the year, classifies non-monetary items that deplete earnings, presents flows from operating, investing and financing activities, and finally discloses complementary information to the flows related to non-cash operations.



2. BASIS OF PRESENTATION AND STATEMENT OF RESPONSIBILITY (CONTINUED)

Relative importance and materiality

The acknowledgment and presentation of economic facts are determined according to their relative importance. An economic fact is considered material when, due to its nature or amount, its knowledge or ignorance, taking into account the circumstances, may significantly alter the evaluation of the economic conditions made by the information users.

Management, in preparing the financial statements, including the notes thereto, defined materiality for presentation purposes as 5% of assets, liabilities, shareholders' equity and net income for the year, and individually to each major account in the reporting period.

Fair value measurement

Fair value is defined as the price that would be received for selling an asset or would be paid for transferring a liability in an orderly transaction among market participants, at the valuation date, regardless of whether that price is observable or estimated using another valuation technique directly.

When estimating the fair value of an asset or a liability, FLAR takes into account the characteristics of the asset or liability and whether market participants would take those characteristics into account when pricing the asset or liability on the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set forth below have been applied consistently under the IFRS framework in a comprehensive manner for all periods presented by FLAR, unless otherwise stated:

Financial instruments

Date of recognition

Financial assets and liabilities, except for loans, are initially recognized on the trading date, when FLAR becomes a party to the contractual provisions of the instruments.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Date of recognition (continued)

This includes transactions on a regular basis, i.e., purchases or sales of financial assets that require the delivery of assets within the time frame generally established by regulation or market convention. Loans are recognized when the funds are transferred to the accounts of the member countries.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing FLAR instruments, as described in notes 5 - Main policies on asset management, 9 - Financial instruments measured at fair value (FVTPL) and at amortized cost and 21 - Risk management.

Financial instruments are initially valued at fair value, transaction costs are directly attributable to the acquisition or issuance of financial assets and liabilities (other than financial assets at fair value with changes in the income statement) are added to or deducted from the fair value of the financial assets or liabilities, as appropriate, at initial recognition.

Profits or losses on a financial asset that is measured at fair value and that is not part of a hedging relationship are recognized in results.

Profits or losses on a financial asset that is measured at amortized cost and that is not part of a hedging relationship are recognized in results when the financial asset is written off, for expected credit losses or is reclassified, as well as through the amortization process.

Investments presented at fair value with changes in profits and losses are tradable and those at amortized cost are intended to be held for cash flows that are solely payments of principal and interest on the outstanding principal amount.

Financial asset and liability measurement categories

FLAR classifies all its financial assets based on the business model for asset management and the contractual terms of the asset, measured according to the following categories:



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial asset and liability measurement categories (continued)

- Securities at fair value through profit or loss (FVTPL), as stated in notes 5 and 9.
- Securities at amortized cost, as established in notes 5 and 9.

FLAR classifies and measures its derivatives, as explained in notes 5 and 10.

Financial liabilities deposits are measured at amortized cost, as explained in note 5 and 14.

Determination of fair value

To show how fair values have been obtained, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below:

Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities that FLAR can access at the valuation date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

FLAR may designate financial instruments at fair value through profit or loss FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in notes 3, 5 and 10.

Process of valuation of investments at fair value

The valuation of investments at market prices is performed daily by FLAR's Operations Management; any change in value is recorded in the results. The valuation process and accounting are described below:



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medium- and long-term securities: These securities, which include bonds from different types of issuers (corporate, supranational, government and quasi-governments) and MBS (Mortgage Backed Securities) guaranteed by US agencies, are valued using the bid price provided by external price providers, in line with standard market practice. The primary pricing provider is ICE-Interactive Data Corp. FLAR's investments in this category are highly liquid with daily prices available from pricing sources.

Derivatives: Bond and interest rate futures are valued at the only market closing price published by the respective exchanges where they are traded. Exchange rate forward contracts use the daily spot rate for a given currency, the forward points for that same currency against the base currency and the interest rate of the base currency to determine the present value of the gain or loss generated at a future date.

Cross operations are opened in two transactions that are valued against the base currency. The initial or agreed value in base currency will be the same for both transactions. The source of prices and rates for the valuation of these derivatives is the Abacus system provided by the Wilshire firm domiciled in California - United States of America.

Money market: Deposits, certificates of deposit and commercial paper acquired at a discount are valued at amortized cost considering the cash flows corresponding to each instrument. Other money market instruments are valued at market value.

Recognition of investments at market value with changes in income:

As of January 1, 2020, FLAR adopted the change of method in the recording of all its transactions on its trading date, i.e., each transaction related to financial assets and liabilities is initially recorded on the date on which it is traded, the date on which FLAR becomes part of the contractual provisions of the financial instrument.

This includes transactions on a regular basis, among which are purchases or sales that involve delivery or receipt of the instruments within the time frame generally established by regulation or market convention. See note 7.

Historical cost: Corresponds to the amount of cash or cash equivalent, given/received, or the value of the consideration given/received to acquire an asset or constitute a liability at the time of its acquisition.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities

Loans and securities at amortized cost

FLAR measures its bank loans and other financial securities at amortized cost only if the following conditions are met

- The financial asset is maintained within a business model with the objective of maintaining financial assets to collect the contractual cash flows.
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the outstanding principal amount

Business model evaluation

FLAR determines its business model at the level that best reflects its main objectives:

- Short term intermediation.
- Management of investment portfolios derived from issues in the capital markets.
- Management of investment portfolios derived from the capital contributions of member countries.
- Lending to central banks and
- Management of investment portfolios of third parties in which FLAR acts as a fiduciary.

Assets are recognized in two ways: at fair value those securities that are traded in active markets which set daily prices and any change in market value affects the results for the period. At amortized cost those whose objective is to maintain them to obtain the contractual cash flows; therefore, they are recorded at amortized cost, affecting the results of the period with the interest and the respective amortization.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business model evaluation (continued)

All liabilities are recognized at amortized cost using the effective interest method, with an effect on results. It is important to note that these operations, assets and liabilities, are mostly concentrated in a period of less than three months.

Effective interest rate method – The effective interest rate method is a method for calculating the amortized cost of a debt instrument and the allocation of income or financial cost during the relevant period.

The effective interest rate is the rate that discounts future estimated cash flows (including all fees and basis points paid or received that are integral parts of the effective interest rate, transaction costs and other premiums or discounts) during the expected life of the debt instrument, or a shorter period when appropriate, at the carrying figures at the moment of initial recognition.

For disclosure purposes, FLAR presents aggregated data for the principal and interest of investments in trading securities.

Income is recognized based on the effective interest rate for debt instruments other than those financial assets classified as at fair value through profit and loss.

Derivative contracts and hedging transactions

FLAR investment guidelines, contained in the Board of Directors Agreement No. 324 dated April 30, 2005 and its modifications, authorize the use of interest rate swaps, interest rate and bonds futures and foreign currency forward agreements, within market and counterpart risk limits established in the Agreement mentioned above.

FLAR carries out these transactions using exchange-traded futures and over-the-counter transactions with financial institutions with a long-term credit rating equal to or greater than any of the following: Standard & Poor's A-, Moody's A3, and Fitch A-.

The general objective of current derivatives is to hedge risks of the investment portfolio of international reserves and improve the performance of the portfolio. FLAR does not designate derivatives to hedge specific assets for accounting purposes. For this reason, they are classified on the subscription date as trading assets, measuring them at fair value with an impact on the income statement.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative contracts and hedging transactions (continued)

They are recorded as financial assets when their fair value generates a right and as financial liabilities when their fair value generates an obligation.

Taking into account the aforementioned, gains and losses are recorded immediately in the income statement.

FLAR does not apply hedge accounting to its derivative instruments; therefore, changes in the fair value of the derivative instruments are included in the income statement.

Financial assets at fair value through profits or losses

The assets at fair value with changes in profits and losses FVTPL will be those that are expected to be disposed of at any time by FLAR or its portfolio managers, which are designated by FLAR and will be valued at market prices or rates according to the criteria and hierarchy levels established for their valuation.

- i. A financial asset will be classified as FVTPL if:
 - It is mainly acquired to be sold within a short period; or
 - It is, on its initial recognition, part of a portfolio of identified financial instruments that are managed jointly by FLAR, and for which there is a recent actual pattern of short-term profit-taking; or
 - It is a derivative that is not designated, and it is effective as a hedge instrument.
- ii. A financial asset that is not held for trading purposes might be designated as a financial asset at fair value through profits or losses at the time of initial recognition if:
 - With such designation, a valuation inconsistency that would otherwise arise is removed or significantly reduced; or
 - The financial asset is part of a group of financial assets, financial liabilities or both, which is managed and its performance is assessed on a fair value basis, according to the documented risk management and investment strategy of FLAR, and information on the same basis is internally provided on that group;



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through profits or losses (Continued)

- It is part of an agreement containing one or more embedded derivative instruments and IFRS 9 -Financial Instruments- allows the whole hybrid contract to be designated at fair value with changes through profits or losses.
- iii. Financial assets at fair value through profits or losses are recorded at fair value, recognizing any profit or loss from their change in fair value in the income statement. The net gain or loss recognized in income includes any dividend or interest obtained from the financial assets and is included in the item of "Profits (Losses) in marketable securities transactions". Fair value is determined as described in Note 2 - *Presentation Basis*.

Impairment of financial assets

FLAR developed the accounting impairment model under IFRS 9, taking into account the usual practices of similar multilateral organizations and the *de facto* Preferred Creditor Treatment "PCT" that sovereigns give to these organizations. The latter refers to the fact that sovereigns traditionally continue to pay their financial obligations to multilaterals, even when they have defaulted on private sector creditors and, in cases where they are in arrears to multilaterals, they generally settle them earlier than they do to private sector creditors. *De facto* preferential creditor treatment has been critical to the fact that multilaterals have historically experienced lower default rates and higher recovery rates than commercial lenders in their sovereign exposures.

Financial assets other than financial assets at fair value with changes in profits and losses are subject to testing for impairment at the end of each reporting period, some of which are: loans granted, active deposits and securities at amortized cost.

For financial assets that are recorded at amortized cost, the amount of the impairment loss is recognized as the difference between the carrying value of the asset and the present value of future cash flows, discounted at the financial asset's effective interest rate.

At FLAR, the application of the impairment requirements of IFRS 9 is based on the context of the nature of FLAR's financing and its unique institutional situation:



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

- The *de facto* Preferred Creditor Treatment, which has been tested several times during the more than 40 years of its existence.
- FLAR's unique relationship with its member countries, which is based on the principle of mutual cooperation. All members have paid-in capital in FLAR.
- FLAR's monitoring of borrowers' economies to validate reasonable payment capacity.

Among FLAR's particularities is the attribution of the Board of Directors, based on the General Policy approved by the Assembly of Representatives, to approve the reimbursement of a portion of the capital paid to a member country when it has operations in arrears for more than 180 days and complies, in addition, with one of the following indicators as of the date of evaluation by the Board of Directors: i) An accumulated fall in the real gross domestic product of more than 30% in the last three years and/or ii) An annual inflation rate of more than 100% in the last three years.

Once the reimbursement has been made, a setoff between FLAR's liabilities and the member's debts is carried out. In addition to this General Policy, FLAR's Regulations provide that the profits of each financial year that FLAR must pay to its member countries may be compensated against the obligations that any of them has with FLAR and which are in arrears. In both cases, the obligations are settled for the net amount, with the paid-in capital contributions and the profits to be paid in each financial period acting as if they were a collateral guarantee or a subsequent financial agreement when the situation so requires.

Therefore, the expected loss model reflects that FLAR's credit exposure is significantly lower than the sovereign risk to which a commercial entity would be exposed.

Below are the stages of impairment defined by FLAR for loans granted and securities at amortized cost:

Stage 1 - Assets with no signs of deterioration in their credit quality. This category includes loans that are up to date or have a delay of up to 180 days and the investments that are up to date or that have a delay that does not exceed the grace period contained in the prospectus and, if not provided up to 30 days. In this case, provision is made for expected credit losses over a 12-month horizon, following the methodology explained above. Additionally, interest is accrued under the conditions of the loan or investment.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Stage 2 - Assets with a significant decrease in their credit quality. The conditions for this classification depend on the asset class.

- **Loans:** A loan granted falls into this category when it presents delays or is in arrears of more than 180 days in its payments, or FLAR has contractually declared on default, whichever comes first. In this case, and from that moment on, a provision is made for the expected credit losses during the next 12- months, which corresponds to 10% of the balance of the debt. Given the nature of the loans that FLAR makes to its member countries and the relationship it has with them, it is expected that the loans will be paid back, even though they may be more than 180 days past due on their payments.
- **Investments:** An investment falls into this category when it has arrears exceeding the grace period (according to the prospectus) or more than 30 days if it does not have a grace period. In this case, the provision is made in the default category, assuming an expected recovery rate of 55%. At this point it is important to mention that the investment guidelines establish that whenever an investment stops complying with the guidelines, there is a period of 30 days to liquidate it, so investments would be classified at this stage if it was not possible (or would be considered inconvenient) to liquidate them in that time frame.

Stage 3 - Assets with objective evidence of impairment. Like the previous stage, the conditions for this classification depend on the asset class:

- **Loans:** Given the de facto preferred creditor status of FLAR, and the nature of its borrowers, a credit would be cataloged in this stage after the discussion and instruction of the Board of Directors. In this case, a provision would be made for the expected credit losses, up to 100% of the total balances of the debt or the percentage established by the Board of Directors given its assessment of the estimated loss, without writing-off the loan.
- **Investments:** An investment is considered in this state if the debtor declares bankruptcy under the laws of its jurisdiction. In this case, the provision is made in the default category, assuming an expected recovery rate of 55% or a higher value as determined in the settlement process.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Subsequent recoveries of the amounts recorded for provision are reversed to their initial value. Changes in the value of a provision are recognized directly in the income statement.

In the case of financial assets valued at amortized cost, if in any subsequent period the amount of the impairment loss decreases and that decrease can be objectively related to an event that occurs after recognition of the impairment, the previously recognized impairment loss is reverted in the results, up to such an amount that the book value of the investment at the date of the reverse does not exceed the amortized cost that would have been if the impairment had not been recognized.

As of June 30, 2020, and December 31, 2019, FLAR has carried out the periodic evaluation of its financial and non-financial assets, reflecting the following aspects in its financial statements:

- The provision for expected losses on loans granted and securities at amortized cost.
- Impairment of real estate assets.

In addition to the aforementioned, FLAR has determined that there is no indication of additional impairment that needs to be disclosed and recorded in its financial statements.

Write-off of financial assets - FLAR writes-off a financial asset upon expiration of the contractual rights over the cash flows of the financial asset, or when the risks and benefits inherent to the ownership of the financial asset are substantially transferred.

FLAR will recognize its participation in the asset and the associated obligation for the amounts that it would have to pay if FLAR does not transfer or substantially withhold all the risks and rewards inherent to the property and continue to retain control of the transferred asset.

If FLAR substantially retains all the risks and benefits inherent to the ownership of a transferred financial asset. FLAR continues to recognize the financial asset and also recognizes an obligation for the resources received.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

- i. On the write-off of a financial asset in its entirety, the difference between the carrying amount of the asset and the sum of the consideration received and receivable and cumulative gain or loss that has been recognized in other comprehensive income and retained earnings is recognized in the income statement.
- ii. On the partial write-off of a financial asset (for example, when FLAR holds an option to repurchase part of a transferred asset), FLAR allocates the previous carrying amount of the financial asset between the part it continues to recognize by virtue of its continued involvement and the part that it no longer recognizes based on the relative fair values of those parts at the date of the transfer.

The difference between the carrying amount attributable to the portion that is no longer recognized and the sum of the consideration received for the unrecognized portion and any assigned accumulated profit or loss recognized in other comprehensive statement of income is recognized, if it exists, in the period's income statement.

The accumulated profit or loss recognized in other comprehensive income statement is distributed between the portion that is still recognized and the portion that is no longer recognized, on the basis of the relative fair values of those portions.

Property and equipment

FLAR's fixed assets are presented at cost under the revaluation model less accumulated depreciation and accumulated impairment losses, if any, are presented in other comprehensive income.

Depreciation is recognized to bring the costs of the assets to the income statement over their useful lives using the straight-line method. The estimated useful life, the residual value and the method of depreciation are reviewed at the end of each year, and the effect of any change in the estimated amount is recognized on a prospective basis.

An item of property and equipment is written-off when it is sold or when it is not expected to receive future economic benefits from the continuous use of the asset. The profit or loss that arises from the sale or write-off of an item of property and equipment is calculated as the difference between the resources received on the sale and the asset's carrying amount, and it is recognized in the income statement.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Depreciation is calculated by the straight-line method, based on the expected useful life of the assets, on an annual rate basis.

- Ten percent (10%) for furniture, fixtures and office equipment.
- Thirty-three (33%) for computer equipment, twenty percent (20%) for vehicles, and one point twenty (1.20%) for the real estate properties with a remaining useful life of 76.5 years as of June 30, 2020.

FLAR's policy of subsequent measurement for all items of property and equipment is the application of the cost model. FLAR measures annually the fair value of its property and equipment with support from an independent specialized firm.

As of June 30, 2020, FLAR performed an evaluation of the fair value of the property where its headquarters are located and determined that the fixed asset presented changes in its fair value with respect to the book value. Therefore, the value adjustment was made in other comprehensive income. For further details see Note 13 Property and net equipment.

Employees' severance and retirement benefits

Current employees are under a defined contribution system to pension plans. Contributions are recognized as an expense when employees have provided the services that entitle them to this benefit.

Colombian officials are enrolled in a local pension fund, in accordance with the provisions of Colombian law. For expatriate international employees, FLAR has contracted with an international insurance company the savings for pension and a policy that covers the risks of disability and death.

FLAR has three pensioners in its charge on a defined benefits plan; thus, and according to IAS 19 -Employee Benefits- FLAR has an estimated actuarial liability equivalent to the present value of the pension allowances and the health care plan for these pensioners.

In the case of defined benefit plans for pensioners, under IAS 19 -Employee Benefits-, costs are determined using the projected unit credit method, with actuarial valuations performed at the end of each reporting period.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' severance and retirement benefits (continued)

FLAR has appropriated 100% of the estimated liabilities for employee benefits, and has no assets linked to such liabilities. By normative definition, the annual remediation of the obligations must be recognized in comprehensive income. However, due to FLAR's internal policy regarding the materiality of such amounts, these values are presented in the results of the current period.

The cost for past services is recognized in income for the period. Net interest is calculated by applying the discount rate at the beginning of the period of the obligation and the defined benefit liability derived from this obligation. Defined benefit costs are classified as follows:

- Cost of service (including the cost of current service, cost of past services, as well as gains or losses for reductions or liquidations).
- Net interest expenses or revenues.
- Re-measurements

FLAR presents the first two cost components for defined benefits as an expense or an income according to the item, directly in the income statement, as one of the period's ordinary expenses. Profits or losses for service reduction are recorded as costs for past services.

The obligations for benefits upon retirement recognized in the statement of financial position represent the actual losses and profits in FLAR's defined benefit plans related to its pensioners. Any gain arising from this calculation is limited to the present value of any available economic benefit of the reimbursements and reductions of future contributions to the plan.

Short-term employee benefits and other long-term benefits

A liability is recognized for benefits corresponding to current employees' salaries and wages, annual vacations, and sick leave, in the rendered service period, for the non-discounted amount of the benefits expected to be paid for that service.

Liabilities recognized for short-term employee benefits are valued at the non-discounted amount of the benefits expected to be paid for that service.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term employee benefits and other long-term benefits

Liabilities recognized for other long-term benefits are recorded at the present value of the estimated future cash outflows that FLAR expects to make concerning the services provided by the employees as of the reporting date.

The fair values of the pension liability and post-employment benefits as of June 30 were determined and recognized with an actuarial calculation performed by an independent firm. See Note 14 *Other liabilities*.

Financial liabilities and equity instruments

Classification as debt or equity – Debt and/or equity instruments are classified as financial liabilities or as equity in accordance with the substance of the contractual agreement and the definitions of liabilities and equity established both in the IFRS Framework and in accordance with the provisions set forth in *IFRS 7 -Financial Instruments: Disclosures- and IAS 32 -Financial Instruments: Presentation-*.

Equity Instruments – Equity instruments consist of any agreement that evidences a residual interest in FLAR's assets after deducting all its liabilities. The Paid-in capital of FLAR is constituted by the contributions of its members, recognizing the net contribution. Equity instruments issued by FLAR are recognized for the resources received.

Financial liabilities – Financial liabilities are classified as financial liabilities at fair value through profits or losses or as other financial liabilities.

Write-off of financial liabilities – FLAR writes-off financial liabilities if, and only if, FLAR's obligations are fulfilled, paid or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid and to be paid is recognized in the income statement.

Other financial liabilities

Other financial liabilities (including loans and account payables) are subsequently valued at amortized cost using the effective interest rate method.

For disclosure purposes, FLAR presents portfolio investments aggregated by principal and interest.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other financial liabilities (continued)

Equity - A member country may not withdraw, dispose of, or grant as collateral its capital contributions to the Fund unless it denounces the Constitutive Agreement, and the denunciation had produced all its effects. In this case, FLAR will pay the withdrawing member his paid-in capital, less his outstanding obligations to the fund. If there remains any outstanding obligation (in favor of the member or FLAR), a guarantee for payment must be constituted. A member country that withdraws is not entitled to any part of the FLAR reserves until the remaining members withdraw.

FLAR's Assembly of Representatives approved by Agreement 213 of March 24, 2020 a general policy that allows FLAR the possibility of restoring part of the paid-in capital of a member, when such member has one or more loans in arrears for 180 days or more, and the country meets at least one of the following criteria as evaluated by FLAR: i) An accumulated drop in real gross domestic product of more than 30% in the last three years and / or ii) An annual inflation rate higher than 100% in the last three years. The reimbursed capital will be used exclusively to pay by means of sett-off the obligations of the member.

The paid-in capital of the member country is the basis for access and limits on its credit applications (See Note 5).

Reserves - FLAR's Regulation establishes that institutional reserves should not be less than 10% of the paid-in capital. Institutional reserves are constituted with the contribution to the reserve that each member makes when paying capital contributions, and with the amount of profits approved annually by the Assembly.

Capitalization of profits – Each member's share in the profits of the financial year is based on the weighted average of the paid-in capital during the year in reference.

Since 1982, FLAR's policy has been to capitalize profits (after having made contributions to the institutional reserve) to make payments to the subscribed capital.

Gains or losses of capital, interests, and expenses are recognized according to the accrual principle.



3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of revenues and expenses

Fees for trust management and portfolio management services are accrued and recognized during the period in which the services are provided.

Revenue recognition – FLAR, following the IFRS Framework, applies the accrual principle for the general registration of its income and expenses and recognizes revenues from ordinary activities representing the transfer of goods or services.

The primary source of FLAR income includes interest income from loans granted to the central banks of member countries, which are accrued, starting at the disbursement date, according to the agreed conditions and rates for each loan.

Interest income and capital gains from investment portfolios are systematically and periodically recognized in accordance with the conditions of each security bought and sold.

Revenues from deposits placed on intermediation activities and income from fees for portfolio management and custody services provided to central banks and other public institutions are recognized on accrual basis, consistently with the conditions for each contract, and recognized in a way that represents the transfer of goods or services involved with these counterparts.

4. NEW AND MODIFIED IFRS ISSUED

FLAR has applied and evaluated the following new and/or amended IFRS that have been issued and that became effective on January 1, 2019, along with the revision of those issued during 2020.

FLAR has not adopted in advance any standards, interpretations or amendments that have been published but are not yet in effect.

Several amendments and interpretations apply for the first time in 2020, but have no impact on these financial statements:



4. NEW AND MODIFIED IFRS ISSUED (CONTINUED)

Amendments to IFRS 3 - Business Combinations: Definition of a Business

The amendment to IFRS 3 - Business Combinations - clarifies that to be considered a company, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, contribute significantly to the ability to create products. In addition, it clarifies that an enterprise can exist without including all the inputs and processes necessary to create products.

These modifications were evaluated by FLAR and had no impact on the financial statements as of the closing date. FLAR will continue to evaluate the application of the standard in the future in case it requires implementation or additional disclosures.

Amendments to IFRS 7, IFRS 9 - Financial Instruments - and IAS 39 - Financial Instruments: Recognition and Measurement -: Reference Rate Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by the reference rate reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of cash flows based on the benchmarks of the hedged item or the hedging instrument. These reforms are in the process of being reviewed so that when changes are made to the interest rates used by FLAR, the necessary adjustments and disclosures are determined. To date, FLAR has no hedging relationships on interest rates in process of change.

Amendments to IAS 1 - Presentation of Financial Statements - and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material or Materiality

The amendments align the definition of "Material" between IAS 1 and IAS 8 and clarify certain aspects of the definition. The new definition states that "Information is material if its omission, misstatement or obscuration could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of the financial statements, which provide financial information about the reporting entity.



4. NEW AND MODIFIED IFRS ISSUED (CONTINUED)

Amendments to IAS 1 - Presentation of Financial Statements - and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material or Materiality (continued)

The amendments clarify that materiality will depend on the nature or extent of the information, either individually or in combination with other information, in the context of the financial statements. An inaccuracy in the information is material if it can reasonably be expected to influence decisions made by the primary users of the financial statements.

FLAR has reviewed the amendments and the definition of Material or Materiality, and there is no impact on FLAR's financial statements.

Conceptual framework for financial reporting published in May 2020

The Conceptual Framework is not a standard, and none of the concepts it contains overrides the concepts or requirements of any standard. The purpose of the Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies when no applicable standard exists, and to help all parties understand and interpret standards. The revised Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts.

FLAR has reviewed and evaluated these changes and there are no implications for these financial statements.

4.1 IFRS 9 Financial Instruments Impacts COVID-19

Currently, the world is being affected by the pandemic related to the COVID-19 virus. In an effort to contain the spread of the virus, authorities around the world have implemented various preventive and protective measures, such as closures, which have significantly disrupted economic activity.

Although there is still significant uncertainty about the duration and economic impact of this pandemic, economies worldwide have seen their output level affected and their debt has increased due to lower income and fiscal stimulus measures.

The outbreak has increased volatility in global financial markets. FLAR's investment portfolio has a conservative profile and is comprised primarily of short-term investment-grade fixed income securities in US dollars.



4. NEW AND MODIFIED IFRS ISSUED (CONTINUED)

4.1 IFRS 9 Financial Instruments Impacts COVID-19 (continued)

This type of investment tends to benefit in periods of increased risk aversion, and more recently, the measures of the central banks of developed economies to give liquidity to the markets have greatly favored their performance. To date, no elements have been identified that warrant reviewing the expected loss model for investments in treasury portfolios¹.

In the foreseeable future, the treasury portfolio is expected to generate lower income, in line with the lower level of interest rates, compared to the previous two years. Additionally, given the uncertainty about the economic effects of the pandemic, it cannot be ruled out that in the future there will be periods of increases in credit margins or increases in interest rates, which would affect the performance of the treasury portfolios.

FLAR is a multilateral entity whose role is to be a counter-cyclical lender. Throughout its more than 40 years of history, FLAR has been treated as a *de facto* preferred creditor by its members, who have made payments to FLAR even when they have defaulted on their claims with other creditors.

This situation is not expected to change in the near future, so no changes have been made to the expected credit loss model for loans.

Given the exceptional circumstances created by the COVID-19 pandemic, FLAR could face increased demand for credit to support the balance of payments of its members.

To prepare for this scenario, the Board of Directors approved an increase in FLAR's long-term leverage capacity from 65% to 162% of paid capital, and Management began the implementation of a Medium Term Notes debt program that would allow access to financing if deemed appropriate.

Given that the pandemic could have prolonged effects on the external situation of member countries, the Board also approved the creation of a temporary COVID-19 credit line with a maturity of up to five years and a grace period of up to three years, which is longer than any of our existing lines. As of the date of issuance of these financial statements, no requests have been received for this new line of credit.

¹ At the end of April 2020, according to the credit risk rating agencies, there had been no defaults on investment grade securities. In general, this type of event has a low probability of occurrence, according to the historical transition matrices of the risk rating agencies.



4. NEW AND MODIFIED IFRS ISSUED (CONTINUED)

4.2 COVID-19 impacts on operational processes

On the operational front-line, over the past few months, FLAR's staff have worked remotely without any material impact on operations. To support business continuity, critical processes were identified (those where the absence of key personnel could affect daily operations) and contingency plans were determined.

Protocols were also determined that seek to preserve the health and well-being of employees at work at home and also in the few instances where they have to interact in person. We are closely monitoring the evolution of the pandemic and will act accordingly, taking into account the safety and continuity of our operations.

5. MAIN POLICIES ON ASSET MANAGEMENT

Management and allocation of FLAR's investment portfolios – FLAR's financial assets are segregated into different portfolios in accordance to Board of Directors Agreement No. 324 dated April 30, 2005, and its modifications, which summarize the main management guidelines for FLAR's assets; the definition and objectives thereof are described below:

- ***Operations portfolio***

It is composed of the loans granted to the Central Banks of the member countries and the investments related to the loans. It is divided into two sub-portfolios:

- **Sub-Portfolio of Credit Operations:**

This sub-portfolio classifies loans to member countries.

For all loans, FLAR studies the economic and financial policies that the interested country has adopted, or is preparing to adopt, to mitigate the imbalance of its balance of payments, and which provide FLAR with reasonable assurance that the loan will be repaid.



5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

FLAR has four lines of credit to its member countries:

- **Liquidity:**

Term of up to one year non-renewable and a limit of up to 1 time the paid-in capital (1.1 times for Bolivia and Ecuador)

- **Contingency:**

This line has an availability period of up to 6 months, which can be extended at the debtor's request for two periods of up to 6 months each, with FLAR's authorization. Once disbursed, the term is up to six months, extendable only once and with a limit of up to 2 times the paid-in capital (2.1 times for Bolivia and Ecuador). This line must have a guarantee to FLAR's satisfaction.

- **Support to the balance of payments:**

Term of up to three years and up to one year of grace and a limit of up to 2.5 times the paid-in capital (2.6 times for Bolivia and Ecuador)

- **Covid-19:** Term of up to five years and up to three years of grace and a limit of up to 2.5 times the paid-in capital (2.6 times for Bolivia and Ecuador). This line will be available for applications until December 31, 2021.

- **Sub-Portfolio of currency management of credit operations:**

This portfolio was constituted in May 2018 to manage the foreign currency received in credit operations: Currently, it has positions in Special Drawing Rights - SDRs issued by the IMF. The composition of the portfolio is explained in Note 19 Financing and Investment Instruments.

- **Liquidity Portfolio** – Its main objective is the management of FLAR's working capital. The Asset and Liabilities Committee - ALCO determines the size range and investment strategy for this portfolio, considering, among others, FLAR's operating expenses and possible loan disbursements. Investments in this portfolio should have a maturity not exceeding 397 days.



5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

- ***Aggregate Investment Portfolio*** – It is composed by funds proceeding from the institution's equity, excluding the funds of the Operations and Liquidity Portfolios.

The investment objective of the Aggregate Investment Portfolio is to preserve FLAR's paid-in capital in nominal terms on a three-year investment horizon.

The Aggregate Investment Portfolio will be structured and invested so that its liquidity, together with debt alternatives or other resources, enable FLAR to handle potential credit requests from its member countries. It is understood that for investment periods of less than three years, actual returns could be negative.

The Aggregate Investment Portfolio may be managed both internally and externally, in the latter case, by hiring External Asset Managers (EAM).

Investments in these latter portfolios are presented in this report as Externally Managed Portfolios.

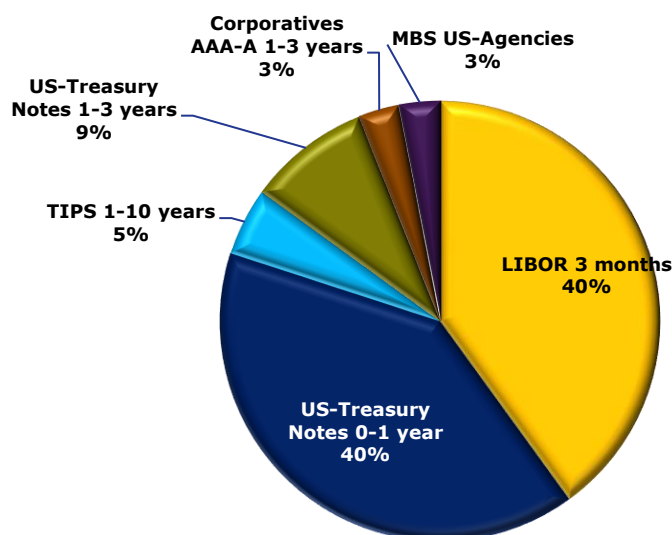
The investment benchmark approved by the Board of Directors in April, 2018 has the following composition: 40% 3-month USD Libor, 40% US treasuries from 0 to 1 year, 9% US Treasuries from 1 to 3 years, 5% TIPS from 1 to 10 years, 3% corporate bonds rated between AAA and A, and 3% in Mortgage Backed Securities guaranteed by US Agencies (MBS). The benchmark will be reviewed by the Board of Directors every three years, or before if necessary.



5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

Aggregate Investment Portfolio (continued)

Exhibit 1
Aggregate Investment Portfolio Benchmark



Source: FLAR

This portfolio is managed actively against the benchmark within a budget of tracking error of 100 basis points.

Specifically, within the scope of the Asset Allocation of the ALCO, this body determines the distribution of resources to be managed internally and externally, the composition of the benchmark indices of the sub-portfolios that compose the Aggregate Investment Portfolio and its duration, subject to the preferences defined by the Board in the Risk Policy included in the investment guidelines.

The maximum size of the sub-portfolios managed by the External Asset Managers will be 66% of the total paid-in capital by the member central banks.



5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

Intermediation Portfolio - The objective of this Portfolio is to invest resources from short-term deposits at FLAR made by official institutions, as well as from commercial paper issues made by FLAR. For this purpose, the exposures to liquidity, interest rate and exchange rate risks shall be matched.

Notwithstanding the preceding, the resources of the Intermediation Portfolio can be used to make disbursements of loans to member countries, up to an amount equivalent to 2.5 times the subscribed capital of a member country of small economic dimension, excluding the Republic of Costa Rica from this calculation.

The Assets and Liabilities Committee "ALCO" periodically evaluates and decides the objective value of the brokerage portfolio, considering the economic and market environment and the investment needs of the member countries. This objective value may not exceed the limit established for this portfolio by the Board of Directors.

- **Asset and liability Management Portfolio** - The objective of the Asset and Liability Management Portfolio will be to invest the funds resulting from issuances of medium-term of FLAR or other asset and liability management requirements of the institution. To this end, the exposure to liquidity, interest rate, and exchange rate risks shall be matched, including derivative transactions tied to the former, if applicable. Currently, there are no resources in this portfolio.

Additionally, the guidelines establish that FLAR must at all times maintain at least 25% of its paid-in capital invested in the Liquidity Portfolio and the Aggregate Investment Portfolio.

Considering the current portfolio structure of FLAR described above, the following is a summary of the assets, aggregated by portfolio, as of June 30, 2020 and December 31, 2019:

Aggregate instruments per Portfolio	June 30, 2020	December 31, 2019
Aggregate Investment Portfolio	\$ 2,399,751,130	\$ 2,325,770,513
Intermediation Portfolio	2,964,567,364	3,290,338,481
Operations Portfolio	201,740,456	1,311,225,466
Sub-Portfolio of currency management of credit operations:	92,209,976	92,544,199
Liquidity Portfolio	553,949,960	19,923,678
Other non-financial assets	5,132,029	5,956,712
Total	\$ 6,217,350,915	\$ 7,045,759,049

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5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

The following is a summary of the results obtained by portfolio during the first half of 2020 and 2019:

June 30, 2020:

Portfolio	Interest income	Profits/Losses Portfolios	Profits/Losses Derivatives	Net Profit/(Loss)	Other (Reversal of provisions and income from credit risk commissions)	Total contribution
Aggregate investment	\$ 15,839,742	\$ 27,512,567	\$ (6,256,844)	\$ 21,255,724	\$ -	\$ 37,095,466
Intermediation	(5,673,829)	10,122,009	-	10,122,009	-	4,448,180
Liquidity	875,021	43,226	-	43,226	-	918,247
Operations						
(Loans to Central Banks)	37,501,510	37,029,245	-	37,029,245	34,791,104	109,321,859
Currency operations	142,135	(476,358)	-	(476,358)	-	(334,223)
Administrative and other expenses	-	-	-	-	(4,615,183)	(4,615,183)
Net Income June 2020	\$48,684,579	\$74,230,689	\$(6,256,844)	\$67,973,846	\$30,175,921	\$146,834,346

June 30, 2019:

Portfolio	Interest income	Profits/Losses Portfolios	Profits/Losses Derivatives	Net Profit/(Loss)	Other (Reversal of provisions and income from credit risk commissions)	Total contribution
Aggregate investment	\$ 13,289,466	\$ 20,653,135	\$ (2,979,532)	\$ 17,673,603	\$ -	\$ 30,963,069
Intermediation	(13,754,752)	16,275,612	-	16,275,612	-	2,520,860
Liquidity	553,783	917	-	917	-	554,700
Operations						
(Loans to Central Banks)	57,267,270	(953,460)	-	(953,460)	3,630,849	59,944,659
Currency operations	525,406	(39,325)	-	(39,325)	-	486,081
Administrative and other expenses	-	-	-	-	(3,919,153)	(3,919,153)
Net Income June 2020	\$57,881,173	\$35,936,879	\$(2,979,532)	\$32,957,347	\$(288,304)	\$90,550,216

Description of FLAR's portfolios investment guidelines

The investment guidelines are contained in Board Agreement 324 dated April 30, 2005 and its amendments. This document establishes the eligible investment instruments and the institutional tolerance to market, credit and liquidity risks.

A brief description of the most relevant investment guidelines is provided below:

- Issuer type: Governments, Governmental Agencies, International Financial Institutions, Commercial Banks and Corporations.



5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

Description of FLAR's portfolios investment guidelines (continued)

- Admissible securities: Government Bonds, Governmental Agencies' Bonds, Corporate Bonds, Mortgage Backed Securities (MBS and CMO) issued by agencies of the United States (Government Sponsored Enterprises – GSE), as well as discount notes and commercial papers.
- The maximum maturity for US Treasury bonds, MS and US Treasury bond futures is 30 years. For any other fixed income instruments other than those described above, the maximum maturity is 10 years.
- Admissible investments include short- and medium-term securities with fixed coupon and floating rates.
- Short-term securities must have a short-term credit rating not lower than any of the following: Standard and Poor's A-2, Moody's P-2, and Fitch Ratings F-2.
- Medium-term securities must have a credit rating not lower than any of the following: Moody's A3, Standard & Poor's A-, and Fitch Ratings A-.
- Derivative operations on foreign currencies, bonds, and interest rates. See Note 9 Derivative Instruments.
- The external asset managers may invest up to 5% of their portfolio's market value in financial instruments indexed to the Standard & Poor's 500 (SPX Index). External asset managers may invest up to 3% in instruments that are representative of commodity indexes (Such as the S&P GSCI (SPGCCITR Index) or any of its subcomponents).
- In any case, the combined exposure to equity and commodity indexes may not exceed 5% of the portfolio's market value at the time of the purchase and net short positions are not allowed. The purchase of individual shares or commodities is not allowed.
- Investments in eligible indexes may only be made through Exchange Traded Funds (ETFs), indexed funds, total return swaps, and bonds indexed to the allowed indices, or through future contracts where the underlying is one of the allowed indexes.



5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

Description of FLAR's portfolios investment guidelines (continued)

The summary of main risk policies applied by FLAR, in addition to the investment policies described above, is summarized in Note 21, Risk Management.

6. RECOGNITION OF NEGOTIATED TRANSACTIONS FOR PRESENTATION OF FINANCIAL STATEMENTS

FLAR adopted the change of method in the recording of all its investment operations by applying the trade date from 2020 onwards. Cash is presented on the settlement date and is complemented by the accounts receivable and payable associated with the investments traded on the closing date (See Note 7). The purpose of this change is to improve the presentation of FLAR's financial position.

For purposes of comparability, certain 2019 figures published in the Statement of Financial Position and the explanatory notes were modified. The impact on each individual item in the financial statements affected by the above-mentioned change is presented in the following tables:

	December 31, 2019 ASSETS (settlement date)	Future Settlement Operations	December 31, 2019 ASSETS (Trade Date)
Deposits in commercial banks (Note 8)	\$ 1,178,103,151	\$ -	\$ 1,178,103,151
Internally managed financial securities, at fair value and amortized cost	3,538,955,983	129,996,983	3,408,959,000
Sales transactions of financial securities internally managed, with future settlement date	-	81,215,527	81,215,527
Externally managed financial securities, at fair value and amortized cost (Note 9)	637,533,649	9,951,398	647,485,047
Sales transactions of financial securities externally managed, with future settlement date (Note 9)	-	46,698,316	46,698,316
Liability deposit transactions with future settlement date (Note 7)	-	2,767,404	2,767,404
Total	\$ 5,354,592,783	\$ 270,629,628	\$ 5,365,228,445

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**6. RECOGNITION OF NEGOTIATED TRANSACTIONS FOR PRESENTATION
OF FINANCIAL STATEMENTS (CONTINUED)**

	December 31, 2019 LIABILITIES (settlement date)	Future Settlement Operations	December 31, 2019 LIABILITIES (Trade Date)
Internally managed financial securities purchase operations with future settlement date.	\$ -	\$ 211,212,510	\$ 211,212,510
Externally managed financial securities purchase operations with future settlement date.	-	56,649,714	56,649,714
Demand deposits (Note 14)	172,411,771	-	172,411,771
Term deposits (Note 14)	3,083,777,868	2,767,404	3,086,545,272
Total	\$ 3,256,189,639	\$ 270,629,628	\$ 3,526,819,267

7. CASH

Below is the detail of the cash, presented in the financial position as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Cash		
Cash on hand	\$ 8,593	\$ 8,541
Correspondent banks	8,461,023	7,258,163
Custodian Bank	160,159	1,237,090
Total cash in dollars of the United States of America	8,629,775	8,503,794
Cash in Colombian Pesos expressed in dollars of the United States of America		
Cash on hand	665	763
Local Banks	1,320,175	648,128
Total cash in Colombian pesos expressed in dollars of the United States of America	1,320,840	648,891
Total cash	\$ 9,950,615	\$ 9,152,685
Average rate during the period	0.07%	0.54%
Current rate at the end of the period	0.06%	0.44%

For cash disclosure purposes, below are the investment purchase and sale transactions affecting cash for the internal and external portfolios as of June 30, 2020 and December 31, 2019:

Internal Portfolios:

June 30, 2020 Cash Internal Portfolio	Cash on settlement date	Investment operations with future settlement (liability- outflows)*	Investment operations with future settlement (inflows - assets)
Correspondent Banks	\$ 9,790,456	\$ -	\$ 66,646,081
Custodian Bank	160,159	(165,750,105)	-
Totals	\$ 9,950,615	\$(165,750,105)	\$ 66,646,081

* Correspond to operations with settlement dates in July 2020.

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7. CASH (CONTINUED)

December 31, 2019 Cash Internal Portfolio	Cash on settlement date	Investment operations with future settlement (liability-outflows)*	Investment operations with future settlement (inflows-assets)
Correspondent Banks	\$ 7,915,595	\$ -	\$ 2,767,404
Custodian Bank	1,237,090	(211,212,510)	81,215,527
Totals	\$ 9,152,685	\$ (211,212,510)	\$ 83,982,931

* Correspond to operations with settlement dates in January 2020.

External Portfolios:

June 30, 2020 Cash External Portfolio	Cash on settlement date	Investment operations with future settlement (liability-outflows)*	Investment operations with future settlement (inflows-assets)
Custodian Bank	\$ 8,879,251	\$ (24,657,839)	\$ 17,540,767
Totals	\$ 8,879,251	\$ (24,657,839)	\$ 17,540,767

* Correspond to operations with settlement dates in July and August 2020.

December 31, 2019 Cash External Portfolio	Cash on settlement date	Investment operations with future settlement (liability-outflows)*	Investment operations with future settlement (inflows-assets)
Custodian Bank	\$ 2,366,389	\$ (56,649,714)	\$ 46,698,316
Totals	\$ 2,366,389	\$ (56,649,714)	\$ 46,698,316

* Correspond to operations with settlement dates in January 2020.

Cash has no restrictions on its disposition.

8. DEPOSITS IN COMMERCIAL BANKS

The balances as of June 30, 2020 and December 31, 2019 correspond to the total term deposits at international banks whose short-term credit rating may not be less than any the following: Standard & Poor's A-2, Moody's P-2, and Fitch Ratings F2.

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8. DEPOSITS IN COMMERCIAL BANKS (CONTINUED)

	June 30, 2020	December 31, 2019
Deposits in commercial banks	\$ 1,809,207,313	\$ 1,178,103,151
Average rate for the period	0.85%	2.29%
Average rate of balances at end of the period	0.22%	1.76%
Maximum maturity (1)	196 days	2 days

- (1) Despite having maturities of up to 196 days, these investments are not classified as cash and cash equivalents. Within FLAR's investment strategy, it is expected that these investments will be renewed or replaced by similar securities upon maturity.

The following is the detailed list of deposits as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
JP Morgan Chase (1)	\$ 494,669,968	\$ 454,047,529
HSBC (1)	399,248,620	77,753
Citibank (1)	385,609,733	506,471,428
Standard Chartered	150,207,153	-
Zurich Kantonal Bank - Switzerland	150,201,250	-
Bank Of Nova Scotia (1)	140,052,556	-
Bank of America (1)	88,446,752	49,468,642
Banco de Occidente (COP)	1,216,543	-
Wellsfargo (1)	1,346	168,311,384
	1,809,653,921	1,178,376,736
Expected losses over time deposits at amortized cost	(446,608)	(273,585)
Total deposits on commercial banks	\$ 1,809,207,313	\$ 1,178,103,151

- (1) Remunerated demand deposit in correspondent banks accounts.

The income from deposits in commercial banks for the periods ended on June 30, 2020 and 2019 are presented as follows:

Interest income from commercial deposits	June 30, 2020	June 30, 2019
Intermediation portfolio	\$ 5,694,697	\$ 25,252,299
Liquidity portfolio (1)	875,021	553,783
Investment portfolio	1,000,394	197,665
Total interest income from financial instruments	\$ 7,570,112	\$ 26,003,747

- (1) Includes accrued interest in Colombian pesos from deposits in commercial banks, expressed in US Dollars.



8. DEPOSITS IN COMMERCIAL BANKS (CONTINUED)

Classified in this category Term Deposit Certificates, denominated in Colombian Pesos for the purpose of hedging the currency exposure of items included in its operational budget.

As of June 30, 2020 and December 31, 2019; the value of those deposits is detailed as follows:

Term deposits in commercial banks in Colombian pesos(expressed in US Dollars)	June 30, 2020	December 31, 2019
Term deposit certificates in COP	\$ 1,197,156	\$ -
Average interest rate for the period calculated on monthly basis	5.01%	-
Income from term deposits in COP	\$ 53,594	\$ -

As of June 30, 2020 there were no restrictions for deposits in commercial banks.

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (FVTPL) AND AT AMORTIZED COST

Based on IAS 1 P.57.b. below, the grouping of financial instruments is presented in accordance with the nature and operations of FLAR, in such a way as to allow the reader of the financial statements an adequate understanding of the management and composition of the investment portfolios within the framework of the model and business lines mentioned in Note 5 - Main Policies in Asset Management.

The main aspects of disclosure included in the presentation of financial instruments are as follows:

The values of the financial instruments are grouped under the following classification:

- 1- Titles at fair value with changes in profit and loss,
- 2- Securities at amortized cost and,
- 3- Derivative instruments.

- Fair value measurements Levels 1, 2 and 3 presented in Note 2 - Basis of presentation of the financial statements.

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9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (FVTPL) AND AT AMORTIZED COST (CONTINUED)

- Types of instruments presented in accordance with the defined business model, established business lines and FLAR guidelines, mentioned in Note 3 - significant accounting policies and Note 5 - main policies in asset management.
- Income from financial instruments for the periods reported.
- Values of instruments in portfolios managed internally and by the EAM according to their maturity profile.

Below is the distribution of the financial instruments that constitute the total investments of FLAR's portfolios, as of June 30, 2020 and December 31, 2019.

Total investment portfolio as of June 30, 2020

Total investment portfolio as of June 30, 2020	Level	Fair value with changes in P&L
1) Trading securities		
U.S. treasury bonds	1	\$ 827,156,477
US Treasury bills	1	585,879,068
Corporate bonds	1	465,928,452
Mortgage backed securities (1)	1	157,209,080
U.S. Treasury Inflation Protected Securities-TIPS	1	117,937,603
Sovereign bonds	1	57,312,754
ETF	1	1,033,695
Total Trading securities		<u>\$2,212,457,129</u>
		Amortized Cost
2) Securities at amortized cost		
Sovereign Money Market Securities		\$ 1,171,273,655
Financial Money Market securities		632,225,200
Expected losses from financial money market securities at amortized cost		(158,671)
Expected losses from sovereign money market securities at amortized cost		(258,232)
Total Securities at amortized cost		<u>\$1,803,081,952</u>

- (1) These securities are backed by home loans that meet the requirements imposed by agencies or Government Sponsored Entities GSE of the United States of America.
- (2) In the financial statements, the securities at amortized cost include the expected credit losses. For disclosures in the notes it is shown separately (see note 7).

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9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (FVTPL) AND AT AMORTIZED COST (CONTINUED)

Total investment portfolio as of December 31, 2019	Level	Fair value with changes in P&L
1) Trading securities		
U.S. treasury bonds	1	\$ 649,737,838
Corporate bonds	1	414,899,539
Mortgage backed securities (1)	1	164,036,160
U.S. Treasury Inflation Protected Securities-TIPS	1	131,062,365
Sovereign bonds	1	89,479,637
US Treasury bills	1	9,995,110
ETF	1	1,051,096
Total Trading securities		\$ 1,460,261,745
		Amortized Cost
2) Securities at amortized cost:		
Sovereign Money Market Securities	\$	2,049,340,387
Financial Money Market securities		807,700,899
Expected losses from financial money market securities at amortized cost		(651,471)
Expected losses from sovereign money market securities at amortized cost		(213,547)
Total Securities at amortized cost		\$ 2,856,176,268

- (1) These securities are backed by home loans that meet the requirements imposed by agencies or Government Sponsored Entities GSE of the United States of America.
- (2) In the financial statements, the securities at amortized cost include the expected credit losses. For disclosures in the notes it is shown separately (see note 19).

Interest income from financial instruments internally managed and managed by EAM, for the periods ended on June 30, 2020 and 2019, are presented as follows:

Interest income	June 30, 2020	June 30, 2019
Interest income from financial instruments – Investment sub-portfolio	\$ 7,886,737	\$ 5,322,868
Interest income from financial instruments – Intermediation sub-portfolio	2,881,235	6,731,215
Interest income from financial instruments – External Asset Managers sub-portfolio	6,952,610	7,966,598
Total interest income from financial instruments	\$ 17,720,582	\$ 20,020,681



9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (FVTPL) AND AT AMORTIZED COST (CONTINUED)

9.1 Internally managed portfolios

The balance of financial instruments presented below includes the sum of securities measured at fair value and the securities at amortized cost of the Investment Sub-portfolio that is part of the Aggregate Investment Portfolio and the marketable securities that are part of the Brokerage Portfolio See note 5 Main policies in asset management.

These investments correspond mainly to short- and medium-term investments in fixed and variable rate securities. The investments are in issuers with short-term ratings between A-1/P-1/F1 and A-2/P-2/F2 and long-term ratings between AAA/Aaa/AAA and A-/A3/A- by Standard & Poor's, Moody's or Fitch, respectively, for the periods ended June 30, 2020 and December 31, 2019. See Note 21 Risk management.

Below is the investment balance of the internally managed portfolios as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Internally managed portfolios		
1) Trading securities with changes in profits and losses		
U.S. treasury bonds	\$ 813,607,064	\$ 639,482,952
U.S. Treasury bills	549,897,500	-
U.S. Treasury Inflation Protected Securities-TIPS	107,901,640	124,509,875
Corporate bonds	120,392,328	80,803,328
Sovereign bonds	-	5,325,250
Mortgage backed securities	9,938,251	-
ETFs	2,175	2,127
Total Trading securities	\$ 1,601,738,958	\$ 850,123,532
Internally managed portfolios		
2) Securities at amortized cost		
Financial Money Market securities	\$ 591,929,819	\$ 2,011,982,255
Sovereign Money Market Securities	1,168,779,338	807,700,899
Expected losses from financial money market securities at amortized cost	(148,588)	(640,173)
Expected losses from sovereign money market securities at amortized cost	(258,232)	(213,547)
Total securities at amortized cost	\$ 1,760,302,337	\$ 2,818,829,434
Total investments managed internally 1+2	\$ 3,362,041,295	\$ 3,668,952,966

(1) In the financial statements, securities at amortized cost include expected credit losses. In this section they are presented separately (see note 12)



9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (FVTPL) AND AT AMORTIZED COST (CONTINUED)

9.1 Internally managed portfolios

To complement the information presented in Note 21-Risk Management, presents the maturity profile of the financial instruments in the internally managed portfolio.

9.2 Externally managed portfolios

External asset managers (EAM) manage a portion of the Aggregate Investment Portfolio's assets in segregated accounts on behalf of FLAR, and may invest in bonds, cash and other financial assets as defined in the investment guidelines described above and which are part of the investment management contracts signed between FLAR and the EAM.

Below is the composition of the portfolios under delegated administration as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Externally managed portfolios		
1) Trading securities with changes in profits and losses		
Corporate bonds	\$ 345,536,124	\$ 334,096,211
Mortgage backed securities (1)	147,270,828	164,036,160
Sovereign bonds	57,312,754	84,154,387
U.S. Treasury bills	35,981,568	9,995,110
U.S. treasury bonds	13,549,414	10,254,886
U.S. Treasury Inflation Protected Securities-TIPS	10,035,963	6,552,489
ETFs	1,031,520	1,048,970
Total Trading securities at Fair Value	\$ 610,718,171	\$ 610,138,213
2) Securities at amortized cost		
Financial Money Market securities	40,295,381	37,358,131
Sovereign Money Market Securities	2,494,317	-
Expected losses from financial money market securities at amortized cost	(10,083)	(11,297)
Expected losses from sovereign money market securities at amortized cost	-	-
Total securities at amortized cost	\$ 42,779,615	\$ 37,346,834
Total securities managed externally 1+2	\$ 653,497,786	\$ 647,485,047

(1) These securities are backed by housing loans that meet the requirements established by US Agencies or Government Sponsored Entities-GSE. (2) In the financial statements, the securities at amortized cost include the expected credit losses. For disclosures in the notes it is shown separately (see note 12).



9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (FVTPL) AND AT AMORTIZED COST (CONTINUED)

9.3 Fair values of other financial assets and liabilities

For disclosure purposes only, the following lists the fair values of other assets that correspond to cash, bank deposits and demand deposits which, by their definition, correspond to cash and cash equivalents, are highly liquid, easily convertible into cash amounts and are subject to insignificant risk of changes in value.

On the other hand, FLAR's financial liabilities correspond to deposits received on demand from central banks and other official institutions with terms of less than one year, payable in cash without any restriction, and accounts payable related to operating and running expenses, without significant changes in value.

The book value represents the best estimate of the fair value due to the short term of the maturities and corresponds to its amortized book value.

The estimated fair values of FLAR's said financial instruments are the following:

	June 30, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Level 1				
Assets				
Cash and cash equivalents	\$ 9,950,615	\$ 9,950,615	\$ 9,152,685	\$ 9,152,685
Deposits in commercial banks	1,809,207,312	1,809,207,312	1,178,103,151	1,178,103,151
Level 2				
Liabilities				
Interest bearing deposits	2,862,879,611	2,862,879,611	3,256,189,639	3,256,189,639
Payable interest on received deposits	1,564,639	1,564,639	6,041,006	6,041,006
Other liabilities	2,337,317	2,337,317	2,388,079	2,388,079

- Loans to Central Banks - FLAR, as a multilateral regional financing entity in Latin America, offers balance of payments support credits to its members. For the purpose of determining the fair value of these credit instruments, FLAR considered the concepts defined in IFRS 13 paragraph 16. Due to the unique relationship between FLAR and its members, the preferential creditor treatment that members have granted FLAR throughout its history, and the lack of a principal market or more advantageous market for the type of credits granted, FLAR believes that it is impracticable to determine a fair value for these loans. See Note 11 - Loans from Member Central Banks.



9.4 Fair value of securities at amortized cost

As of June 30, 2020 and December 31, 2019, as supplementary disclosure information, the fair value of the securities is presented at amortized cost.

The estimated fair value of the securities at amortized cost at June 30, 2020 is:

	Level	Fair Value	Amortized Cost
Securities at amortized cost			
Sovereign money market securities	2	\$ 1,172,354,635	\$ 1,171,273,655
Money market financial securities	2	633,276,552	632,225,200
Expected losses on money market financial securities at amortized cost		-	(158,671)
Expected losses on sovereign money market securities at amortized cost		-	(258,232)
Total securities at amortized cost		\$ 1,805,631,187	\$ 1,803,081,952

The estimated fair value of the securities at amortized cost at December 31, 2019 is:

	Level	Fair Value	Amortized Cost
Securities at amortized cost			
Sovereign money market securities	2	\$ 808,107,307	\$ 807,700,899
Money market financial securities	2	2,049,923,496	2,049,340,387
Expected losses on money market financial securities at amortized cost		-	(651,471)
Expected losses on sovereign money market securities at amortized cost		-	(213,547)
Total securities at amortized cost		\$ 2,858,030,802	\$ 2,856,176,268

10. DERIVATIVE INSTRUMENTS

FLAR's investment guidelines allow the use of interest rate and foreign currency derivatives. These derivatives are used in a limited way within portfolios, either to cover exposures to unwanted risks, or by taking positions efficiently in the authorized markets, always in compliance with the investment guidelines.

Assets and liabilities for derivative financial instruments correspond to the market value of current contracts in accordance with FLAR's rights and obligations. FLAR does not apply hedge accounting for its derivative contracts and all profits and losses are recognized in current results.

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10. DERIVATIVE INSTRUMENTS (CONTINUED)

Following are the market values of derivative instruments:

	Level	Maturity	June 30, 2020		December 31, 2019	
			Assets	Liabilities	Assets	Liabilities
External portfolios forwards	2	60 to 90 days	\$ 107,881	\$ (82,201)	\$ 85,601	\$ (41,413)
Internal portfolios forwards	2	0 to 60 days	71,909	(60,979)	64,851	(39,717)
Treasury bonds futures external portfolios	1	0 to 30 days	890,737	-	628,705	-
Treasury bonds futures internal portfolios	1	0 to 30 days	861,968	-	1,537,087	-
			\$ 1,932,495	\$ (143,180)	\$ 2,316,244	\$ (81,130)

Profits realized and unrealized from derivative instruments, for the periods ended on June 30, 2020, and December 31, 2019, are presented as follows:

	June 30, 2020		December 31, 2019	
	Realized Profit/ (Losses)	Unrealized Profit/ (Losses)	Realized Profit/ (Losses)	Unrealized Profit/ (Losses)
Forwards external portfolios	\$ (492,053)	\$ (18,508)	\$ 17,606	\$ 1,050
Forwards internal portfolios	68,180	(14,204)	13,809	(26,795)
Treasury bonds futures external portfolios	(4,519,925)	-	(2,146,076)	(65,671)
Treasury bonds futures internal portfolios	(1,280,333)	-	(773,454)	-
	\$ (6,224,131)	\$ (32,712)	\$ (2,888,115)	\$ (91,416)

As of June 30, 2020 and December 31, 2019, the US Treasury notes future contracts had the following composition:

June 30, 2020				
Future	Contracts	Value per contract	Market price	Notional
FV2009FV	Short434	100,000	125.24	(54,353,292)
TU2009TU	Long105	200,000	110.13	23,127,720
TY2009TY	Short539	100,000	139.06	(74,950,645)
UT2009UT	Short9	100,000	218.05	(1,962,450)
UX2009UX	Short11	100,000	157.16	(1,728,705)

December 31, 2019				
Future	Contracts	Value per contract	Market price	Notional
ED2003ED	Short38	1,000,000	98.27	(9,335,175)
ED2006ED	Long2	1,000,000	98.31	491,550
UX2003UX	Short8	100,000	140.23	(1,121,800)
TU2003TU	Long57	200,000	107.24	12,225,360
FV2003FV	Short268	100,000	118.20	(31,676,260)
UT2003UT	Short21	100,000	181.21	(3,805,410)
US2003US	Short4	100,000	155.29	(621,160)
TY2003TY	Short381	100,000	128.14	(48,819,435)



11. LOANS TO MEMBER CENTRAL BANKS

According to the Constitutive Agreement (Article 3), one of FLAR's objectives is to "support the balance of payments of member countries by granting credits or guaranteeing loans from third parties". In other words, FLAR is a counter-cyclical lender.

Details of loans to Central Banks are:

	June 30, 2020	December 31, 2019
Loans granted to Member Central Banks	\$ 207,156,542	\$ 1,354,014,558
Provision for expected credit losses	(5,416,086)	(42,789,092)
	\$ 201,740,456	\$1,311,225,466

The details of the loans to central banks during the first half of 2020 is presented below:

- i. Central Bank of Costa Rica: Balance of Payments Support Credit approved by Board Agreement No. 433 of October 2, 2017, for 1,000,000,000, and disbursed on March 9, 2018.

This loan had a three (3) year term, including a one-year grace period for principal payment. Afterwards, the amortization was quarterly in equal capital installments. The loan rate was three-month LIBOR + 334 bp payable quarterly.

As of December 31, 2019, the principal on this loan was \$625,000,000. This credit was prepaid in full on January 13, 2020.

- ii. Central Bank of Venezuela (CBV): Exceptional Macroeconomic Stability and External Liquidity Credit approved through Board Agreement No. 445 of April 2, 2018, for \$ 436,449,827.70. This value was used on May 29, 2018 to pay the balance of the Liquidity loan that the CBV had outstanding with FLAR since 2017.

This loan had a term of four (4) years, including a one-year grace period for the payment of principal. The amortization was in equal capital installments according to the payment schedule. The interest rate of the loan was 3-month LIBOR + 489 b.p. payable quarterly.



11. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

At the time the loan was granted, the CBV was subject to sanctions imposed by the government of the United States through the Office of Foreign Assets Control (OFAC). These sanctions restrict transactions or any activity that involves United States persons or the financial system of that country, unless there is a license granted by OFAC. Considering this, the Credit Agreement signed between CBV and FLAR (the "Agreement") had the possibility of making payments in currencies other than the United States dollar.

During 2018, the CBV paid interest and Credit Risk Commissions on a timely manner.

The payment scheduled for February 28, 2019 was instructed by the CBV as in 2018 but was not processed by the intermediary despite the fact that the CBV had resources in its account. The payment of principal and interest for \$51,940,173 due on May 30, 2019 was also not received because, due to the sanctions mentioned above, it was not possible to find an intermediary willing to process it.

These payments were partially made offsetting Venezuela's participation in the profits of fiscal year 2018, in accordance with the provisions of FLAR's Regulations and the distribution, compensation and capitalization of profits agreement approved by the Assembly of Representatives.

In this way, the entire quarterly interest due as of February 28, 2019 for \$8,288,870 and a fraction of the interest due as of May 30, 2019 for 7,181,541 were paid. Consequently, part of the interest and the first installment of capital remained past due.

On November 26, 2019, the loan was 180 days past due. Consequently, it was classified as Stage 2 and its provision was increased to 10% to \$42,335,101, in line with FLAR's expected loss model (See Note 3 - Impairment of financial assets). The loan was classified as a non-accrual loan and \$14,776,458 of accrued but unpaid interest was reversed, affecting income for the period.

As of December 31, 2019, the principal balance of this loan was \$436,449,827.70.

FLAR evaluated this loan during 2020, and in line with its impairment model (which considers the De facto Preferred Creditor Treatment that member countries have given to FLAR) it kept it in Stage 2. This considering that there were no modifications in the credit risk profile of the operation, therefore, it was not necessary to establish additional provisions.



11. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

On March 25, 2020, FLAR offset the share of Venezuela's profits for 2019 fiscal year for \$18,398,339.12 against overdue interest and part of the unpaid interest.

The Assembly of Representatives, as the highest authority of FLAR, approved through Agreement 213 of March 24, 2020, the General Policy for the reimbursement of a portion of the paid-in capital of a member country when said member has one or more loans in arrears for 180 days or more, and the country meets at least one of the following criteria:

- i) An accumulated fall of real gross domestic product greater than 30% in the last three years and / or
- ii) An annual inflation rate greater than 100% in the last three years.

In line with this decision, FLAR's Board of Directors approved the reimbursement of part of Venezuela's paid-in capital. Additionally, FLAR considered that, although there was no variation in the credit risk, the most favorable action for both parties was that FLAR exercised its contractual right to demand the immediate payment of the entire loan to CBV.

On March 26, \$466,849,210.91 were paid under this mechanism. This value includes balances owed for past due interest, ordinary interest, commissions for credit risk and the entire principal on the loan. As a result, the CBV is up to date with the FLAR and does not have any credit to date.

- iii. Central Bank of Ecuador: Balance of payments support loan approved by the Board of Directors Agreement No. 434 dated October 2, 2017; by \$368,800,000, disbursed on July 5, 2018.

This loan was granted for a term of three (3) years, including a one-year grace period for the beginning of the capital payment. Thereafter, repayment was quarterly in equal installments of principal. The rate is three-month LIBOR + 326 b.p., which at June 30, 2020 was 4.633%. The principal balance of this credit at June 30, 2020 is \$204,888,889. At the closure of these financial statements, the credit is up to date in its payments, and is classified as Stage 1 of FLAR's impairment model.

Interest income from loans to member central banks, for the periods ended June 30, 2020 and 2019, are presented below:

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11. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

	June 30, 2020	June 30, 2019
Income from interest on Balance of Payments Support loans to member Central Banks	\$ 35,416,758	\$ 57,186,289
Income from delay interest on loans to member Central Banks	2,084,752	80,980
	\$ 37,501,510	\$ 57,267,269

The paid-in capital and offsetting operation presented the following movements that did not represent cash movements:

	June 30, 2020	June 30, 2019
Interest on arrears and current	\$ 18,398,339	\$ 15,540,545
Compensation with retained earnings	\$ 18,398,339	\$ 15,540,545
Interest on arrears and current	10,453,626	-
Commission for expected losses	19,945,757	-
Compensation with paid-in capital to be reimbursed	\$ 30,399,383	\$ -

As of June 30, 2020 and December 31, 2019 the unamortized value of commissions received for loans granted amounted to \$3,517,925 and \$13,327,626 respectively.

FLAR permanently monitors the economies with which it has credit operations, as well as its other member countries.

12. EXPECTED LOSSES

FLAR does provide for expected credit losses on loans to member Central Banks and investments recognized at amortized financial cost.

The provision for expected losses is estimated considering the exposure to credit risk (adjusted for collateral or balances in favor of FLAR if present), the probability of default and the recovery rate in case of default based on data external sources obtained from the risk rating agencies.

The provision on loans reflects the de facto preferred creditor treatment that FLAR has received from its member countries throughout its history. In line with this, a 90% recovery rate and a two-notch credit rating upgrade adjustment are used to estimate the probability of default.

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12. EXPECTED LOSSES (CONTINUED)

For securities at amortized cost, the probability of default associated with the issuer's long-term average rating and a recovery rate of 55% are used.

The value of the provisions for expected losses as of June 30, 2020 and December 31, 2019 is presented below:

	June 30, 2020	December 31, 2019
Expected Credit Losses from loans.	\$ (5,416,086)	\$ (42,789,092)
Expected Credit Losses from securities at amortized cost	(863,511)	(1,138,602)
	<u>\$ (6,279,597)</u>	<u>\$ (43,927,694)</u>

The movement of provisions for expected losses from loans granted as of June 30, 2020 and December 31, 2019, is presented below:

Expected Losses changes on credits	June 30 2020	December 31 2019
Opening balance provisions	\$ (42,789,092)	\$ (23,158,884)
Provision expenses	(5,212,831)	(19,630,206)
Recovery of provisions for loans granted	42,585,837	-
Dollar adjustment	-	(2)
Ending balance of provisions for expected loss on loans granted	<u>\$ (5,416,086)</u>	<u>\$ (42,789,092)</u>

Following the methodology and model of ECL established by FLAR on loans granted and amortized cost securities; the changes on ECL as of June 30, 2020 and December 31, 2019 is mentioned below:

	June 30, 2020	December 31, 2019
Expenses for provisions on loans granted	\$ (5,212,831)	\$ (953,460)
Recovery of provisions on securities at amortized cost	275,092	(182,216)
Recovery of provisions for loans granted	42,585,837	-
	<u>\$ 37,648,098</u>	<u>\$ (1,135,676)</u>

Within the conditions agreed for the loans, funds were received as commission for credit risk. As of June 30, 2020, the balance of these funds is \$3,517,925. These values are amortized as income during the life of the loan. The amortized value for this concept as of June 30, 2020 corresponds to \$34,791,104.

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13. NET PROPERTY AND EQUIPMENT

The balance as of June 30, 2020 and December 31, 2019 of property and equipment is presented below:

	June 30, 2020	December 31, 2019
Properties	\$ 4,485,884	\$ 4,485,884
Revaluation of the property	(2,188,439)	-
Furniture and fixtures	198,507	198,507
Office and computer equipment	1,713,065	1,688,604
Vehicles]	119,828	119,828
Total Fixed Assets - Gross	4,328,845	6,492,823
Less cumulative depreciation	(2,143,470)	(2,047,181)
Total Fixed Assets - Net	\$ 2,185,375	\$ 4,445,642

The following were the movements presented in property and equipment:

	Real estate	Furniture and fixtures Cost	Office and computer equipment	Vehicles
As of December 31, 2019	\$ 4,485,884	\$ 198,507	\$ 1,688,604	\$ 119,828
Additions Jan - Jun 2020	-	-	27,533	-
Property Deterioration*	(2,188,439)	-	-	-
Sales/Retire Jan - Jun 2020	-	-	(3,072)	-
As of June 30, 2020	\$ 2,297,445	\$ 198,507	\$ 1,713,065	\$ 119,828
Cumulative Depreciation				
As of December 31, 2019	\$ (320,786)	\$ (169,145)	\$ (1,458,709)	\$ (98,541)
Charge for Depreciation Jan-Jun 2020	(27,025)	(3,970)	(56,274)	(11,983)
Amount for Sales/Retire Jan-Jun 2020	-	-	2,963	-
As of June 30, 2020	\$ (347,811)	\$ (173,115)	\$ (1,512,020)	\$ (110,524)
Net Book Value				
December 31, 2019	\$ 4,165,098	\$ 29,362	\$ 229,895	\$ 21,287
June 30, 2020	\$ 1,949,634	\$ 25,392	\$ 201,045	\$ 9,304

*During the first semester of 2020, the fair value of the property of FLAR's headquarters was reduced, presenting an adjustment supported by: i) effects for the estimation of the property in dollars and, ii) a lower appraisal value made by a specialized firm, which indicates, the reduction of real estate prices in the area. This effect is disclosed in the financial statements in other comprehensive income.

There are no restrictions on property and equipment.

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14. DEPOSITS RECEIVED

The balance of this account includes deposits from Central Banks from member and non-member countries, as well as from other official Latin American institutions; following are the details as of June 30, 2020 and December 31, 2019 is as follows:

	June 30, 2020	December 31, 2019
Demand deposits		
Balance	\$ 12,620,018	\$ 172,411,771
Average rate during the period	0.80%	1.64%
Average rate on current balance at the end of the period	0.09%	1.20%
Maximum maturity days	Ondemand	Ondemand
Term deposits		
Balance	\$ 2,850,259,594	\$ 3,083,777,868
Average rate during the period	0.82%	2.06%
Average rate on current balance at the end of the period	0.32%	1.49%
Maximum maturity days	371	553

Balances of interest payable on deposits as of June 30, 2020 and December 31, 2019, are the following:

	June 30, 2020	December 31, 2019
Interest payable on term-deposits from central banks	\$ 1,465,066	\$ 4,832,459
Interest payable on term-deposits from other official institutions	99,573	1,208,547
Total interest expenses payable on deposits received	\$ 1,564,639	\$ 6,041,006

Interest expense on deposits received from Central Banks and other institutions, for the periods ended June 30, 2020 and 2019, is presented below:

	June 30, 2020	June 30, 2019
Interest on demand deposits received from central banks	\$ 333,412	\$ 1,323,019
Interest on term deposits received from central banks	6,131,737	28,118,985
Interest on term deposits received from other official institutions	7,784,612	16,493,926
Total interest expenses on deposits received	\$ 14,249,761	\$ 45,935,930

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15. OTHER LIABILITES

Other liabilities as of June 30, 2020 and December 31, 2019, correspond mainly to account payables to suppliers, the actuarial calculation of the retirement pension plan and the health insurance plan for retired employees, and to other current liabilities, detailed as follows:

	June 30, 2020	December 31, 2019
Suppliers (1)	\$ 788,854	\$ 852,775
Other labor liabilities	1,024,333	949,145
Actuarial liability for retirees (2)	481,929	539,108
Post-employment benefits for retirees (3)	42,201	47,051
	\$ 2,337,317	\$ 2,388,079

(1) Account payables to suppliers correspond to current accounts related to FLAR's operating expenses, such as: custody fees, asset management fees, pricing providers, internal and external audits, and other general services.

(2) Present value of the pension payments of FLAR's three pensioners. This value was determined by the actuarial study contracted with an independent professional firm.

(3) Present value of the health insurance payments for the two Colombians (2) pensioners by FLAR within the pension benefits scheme.

Changes in obligations accrued during the periods ended June 30, 2020 and December 31, 2019 are presented below:

	June 30, 2020	December 31, 2019
Retirement liabilities		
Changes in obligations:		
Benefits accrued at the beginning of the period	\$ 539,108	\$ 506,357
Benefits earned during the period – service cost	11,917	32,294
Interest cost of the obligation	39,750	84,969
Benefits paid	(39,750)	(84,969)
Exchange rate difference effect	(69,097)	(4,232)
Actuarial calculation adjustment	–	4,689
Benefits accrued at the end of the period	\$ 481,928	\$ 539,108

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15. OTHER LIABILITIES (CONTINUED)

	June 30, 2020	December 31, 2019
Post-employment benefits		
Changes in obligations		
Benefits accrued at the beginning of the period	\$ 47,051	\$ 40,040
Benefits earned during the period – service cost	1,181	2,848
Interest cost of the obligation	1,664	3,677
Benefits paid	(1,664)	(3,677)
Exchange rate difference effect	(6,031)	1,299
Actuarial calculation adjustment	–	2,864
Benefits accrued at the end of the period	\$ 42,201	\$ 47,051

Following are the benefit payments, which reflect future service and expected payments as of December 31, 2020 and the 9 subsequent years, in accordance with disclosure requirements set forth by *IAS 19 Employee Benefits*:

Year	Pension liability	Post-employment benefits
Year 1	73,303	3,326
Year 2	67,379	3,381
Year 3	61,153	3,427
Year 4	54,882	3,462
Year 5	48,749	3,484
Next 5 years	167,704	17,279

The main assumptions for the determination of FLAR's pension plan obligations are the estimates of the last actuarial analysis as of December 31, 2019, in Colombian Pesos, shown in the following table:

Discount rate	5.5%
Pensions increase rate	3.5%
Inflation rate (for pensions only)	3.5%

As of June 30, 2020, and December 31, 2019 no assets have been assigned to the pension plan.

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16. EQUITY

Capital - FLAR's capital is comprised as follows:

Member countries	Subscribed	June 30, 2020	
		Capital Subscriptions receivable	Paid-in
Bolivia	\$ 328,125,000	\$ 62,334,700	\$ 265,790,300
Colombia	656,250,000	124,540,683	531,709,317
Costa Rica	656,250,000	124,402,699	531,847,301
Ecuador	328,125,000	62,279,556	265,845,444
Paraguay	328,125,000	62,753,426	265,371,574
Peru	656,250,000	124,591,827	531,658,173
Uruguay	328,125,000	61,762,284	266,362,716
Venezuela	656,250,000	625,575,258	30,674,742
	\$ 3,937,500,000	\$ 1,248,240,433	\$ 2,689,259,567

Member countries	Subscribed	December 31, 2019	
		Capital Subscriptions receivable	Paid-in
Bolivia	\$ 328,125,000	\$ 71,722,334	\$ 256,402,666
Colombia	656,250,000	143,320,496	512,929,504
Costa Rica	656,250,000	143,187,494	513,062,506
Ecuador	328,125,000	71,669,137	256,455,863
Paraguay	328,125,000	72,126,270	255,998,730
Peru	656,250,000	143,369,833	512,880,167
Uruguay	328,125,000	71,170,136	256,954,864
Venezuela	656,250,000	158,726,047	497,523,953
	\$ 3,937,500,000	\$ 875,291,747	\$ 3,062,208,253

FLAR's paid-in capital is the basis for granting central banks of member countries credits or other financial support for up to 2.5 times (2.6 times in the case of Bolivia and Ecuador) their contributions for problems in their balance of payments in accordance with the regulations established in the constituent agreement. For more information on the loans granted, see Note 11 - Loans to member central banks.

During 2019, the Republic of Costa Rica made capital contributions as follows: \$3,156,815 as new capital contributions for plus its corresponding contributions to institutional reserves for \$315,682, in compliance with the schedule of subscribed capital contributions.

As mentioned before (See Note 3), FLAR may fully or partially reimburse capital contributions to members who are 180 days or more behind in the payment of their obligations and who meet certain specific conditions.



16. EQUITY (CONTINUED)

In line with this provision, on March 26, 2020, FLAR reimbursed \$466,849,210.91 of Venezuela's paid-in capital that was used to offset the obligations due to date. As a result of the previous movements, Venezuela's paid in capital in FLAR became \$30,674,742. Since Venezuela is a permanent member of FLAR, it maintains a chair and a vote in the Assembly of Representatives and in the Board of Directors.

Reserves - As of June 30, 2020 and December 31, 2019, institutional reserves correspond to 11.86% and 10.05% of paid-in capital, respectively.

Profit distribution – FLAR's Assembly of Representatives, in Agreement No. 210 of March 24, 2020, and keeping the annual profit capitalization criteria, approved the recommendation of the Board of Directors (Agreement No. 463 of March 23, 2020) to capitalize the profits generated during the year ended on December 2019.

Therefore, on March 25, 2020, and June 20, 2020, profits generated in the previous year were capitalized. In the case of the Central Bank of Venezuela, the profits for the year 2019 offset values from the credit of such institution as explained in Note 10 - Loans to Member Central Banks. No cash dividend payments were made to any member country.

The profits earned as of December 2019 by \$123,528,750.75, were distributed as follows:

- \$11,229,886.42 were allocated to increase institutional reserves.
- \$112,298,864.33 were allocated to be capitalized according as per the following detail:

Member Countries	Profits December 31, 2019
Bolivia	\$ 9,387,633.53
Colombia	18,779,813.15
Costa Rica	18,784,794.95
Ecuador	9,389,581.14
Paraguay	9,372,844.44
Peru	18,778,006.84
Uruguay	9,407,851.16
Venezuela (1)	18,398,339.12
	\$ 112,298,864.33

(1) See Note 10 Loans to Member Central Banks which explains that the corresponding net profits of Venezuela were used to offset overdue payments of the existing loan.

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17. OTHER INCOME AND EXPENSES

Other income – Mainly correspond to income from credit risk fees on granted loans, trust and management services fees, interests earned from savings accounts in Colombian Peso, and exchange differences in Colombian Peso items.

Other expenses – Mainly correspond to operational and employee expenses from the operating budget, custodian and bank management fees, property and equipment depreciation expenses, and exchange differences in Colombian Peso items.

As of June 30, 2020, 2019, other income and expenses are detailed below:

	June 30, 2020	June 30, 2019
Other incomes		
Credit risk commissions on loans granted	\$ 34,791,104	\$ 3,630,849
Foreign exchange portfolio	–	486,081
Trust and management fees	313,123	442,215
Others	496,333	420,954
	\$ 35,600,560	\$ 4,980,099
Other expenses		
Operating expenses	(3,763,123)	(3,827,309)
Foreign exchange portfolio	(334,223)	–
Incentive for loan performance	(343,761)	–
Other financial expenses	(796,826)	(485,638)
Others	(864,690)	(469,375)
	\$ (6,102,623)	\$ (4,782,322)

18. TAX EXEMPTIONS

In the signatory countries of the Constitutive Agreement, FLAR is exempted of all sorts of tax duties on its income and goods. It is also exempt from all responsibilities related to the payment, withholding or collection of any tax, contribution or duty.

19. FINANCING AND INVESTMENT INSTRUMENTS

Andean Pesos – FLAR's Board of Directors Agreement No. 83 dated December 17, 1984, authorized FLAR to issue obligations denominated in Andean Pesos (PA) for PA 80,000,000. An Andean Peso shall have a value equivalent to one US Dollar.



19. FINANCING AND INVESTMENT INSTRUMENTS (CONTINUED)

In addition to the central banks of the member countries and FLAR, other authorized holders of Andean Pesos (PA) are the Board of the Cartagena Agreement (JUNAC), the Development Bank of Latin America (CAF), the Andean Parliament, the Central Bank of Chile and the Central Bank of the Republic of Argentina.

The list of authorized holders of Andean Pesos was expanded by the approval of FLAR's Board of Directors, by means of Agreement No. 108 dated September 20, 1986, which classified other central banks or Latin American institutions, other than those of the sub-region, as authorized Andean Peso holders, subject to the signature of the respective agreement with FLAR.

The Andean Pesos will be used exclusively to make payments through FLAR between authorized holders. As of June 30, 2020 and December 31, 2019, there are no outstanding balances in Andean Pesos.

FLAR Treasury Notes – FLAR's Board of Directors Agreement No. 100 dated March 12, 1986, authorized the issuance of obligations denominated "FLAR Treasury Notes"; these were to be offered to Central Banks of the member countries as short-term investments.

The issuance and sale of "FLAR Treasury Notes" to institutions outside the Andean Region was authorized by Agreement No. 111 of the Board of Directors, dated September 20, 1986. As of June 30, 2020 and December 31, 2019, there are no outstanding FLAR treasury notes.

Special Drawing Rights (SDR) – The International Monetary Fund - IMF, by resolution of its Board of Directors, included FLAR, as of April 30, 1980, among the institutions in capacity of acquiring, holding and using Special Drawing Rights (SDR) within the category called "Other SDR holders".

SDRs are international reserve assets issued by the IMF to supplement the official reserves of its member countries. SDRs are distributed to member countries in proportion to their IMF quotas.

SDRs also serve as unit of account for the IMF and some other organizations. The value of SDRs is based on an international currency basket.

In May 2018, FLAR constituted a sub-portfolio for currency management of credit operations that is part of the Operations Portfolio, as mentioned in Note 5 - Main Policies in Asset Management.



19. FINANCING AND INVESTMENT INSTRUMENTS (CONTINUED)

Given that SDR are instruments held by authorized entities and for ease of the reader of this information, the positions in SDR are presented separately from other investments.

As of June 30, 2020 and December 31, 2019, the SDR positions of the foreign currency management sub-portfolio of credit operations, converted to US dollars, are as follows:

	June 30, 2020	December 31, 2019
SDR position (IMF)	\$ 94,413,320	\$ 94,161,266
Interest receivable from SDR positions	10,236	120,156
Unrealized losses in SDR	(2,213,581)	(1,737,223)
	<u>\$ 92,209,975</u>	<u>\$92,544,199</u>

The exchange rate SDR/USD as of June 30, 2020 was 1.3757 and as of December 31, 2019 was 1.3794

20. COMMITMENTS AND CONTINGENCIES

Commitments – FLAR has signed contracts for “Custody, Investment and Management Mandate” and for “Negotiable Securities Trust Management”:

- a. Contracts for custody, investment and management mandates, by means of which FLAR custodies, manages and invests the resources received, pursuant to the investment terms defined by the principals. FLAR will receive a fee payable on a quarterly basis for the management of such portfolios.
- b. Trust management agreement, under which resources were transferred to a stand-alone trust fund managed by FLAR, as trust entity, for the custody, investment and management of the portfolio, pursuant to the investment terms defined by the trustee.

For the portfolio management services, FLAR will receive a fee payable on a quarterly basis, which shall be calculated on the monthly average of the market value of the portfolio in trust.



20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Following is the detailed value of the portfolios managed by FLAR:

	June 30, 2020	December 31, 2019
Management, monitoring and risk control trust fund.	\$ 523,629,377	\$ 557,599,461

FLAR's obligations under the afore mentioned contracts are of means and not to guarantee results. To date, all obligations under the contracts have been fulfilled.

Contingencies - Within the credit agreements signed with the Central Banks there is a clause related to a performance incentive, which is framed within the definition of contingent liabilities, because it could only be demandable at the maturity of the credit, when it will be determined whether all the financial and non-financial conditions contractually stipulated were fulfilled.

Therefore, there is no determinable present obligation. FLAR considers pertinent to disclose the existence of this clause in accordance with IAS 37 *Provisions, Contingent Liabilities and Assets Contingents*. Risk management

According to the Administration, FLAR is not involved in any litigation that is significant or that could have an adverse effect on the business, its financial condition, or the result of its operations. As of June 30, 2020, and December 31, 2019, FLAR has no additional contingencies to disclose.

21. RISK MANAGEMENT

As part of its purpose as an institution, FLAR is exposed to a variety of risks that include market risk (interest rate, margin and exchange rate), credit risk (risk in the investment portfolio and risk in loans to its member countries) and liquidity risk.

Corporate governance

FLAR conducts its operations within a prudent financial and risk management policy framework and follows a well-defined management decision-making process, aimed at avoiding or limiting its exposure to risk. The asset and liability management policy defines the Board's risk tolerance and determines conservative limits regarding taking exposures to different risk factors (exchange rate, interest rate and credit).



21. RISK MANAGEMENT (CONTINUED)

FLAR's regulations and Board Agreement No. 324 of April 30, 2005 and its amendments establishes the risk levels that FLAR is willing to accept in its investment activities and that has the capacity to manage properly (see Note 5). Meanwhile, Board resolution No. 323 of April 30, 2005 and its amendments, establishes corporate governance in terms of investment and risk management.

The Board of Directors establishes the policies concerning the FLAR's financial management and is informed about the level of risk to which FLAR is exposed, as well as the management results related to the performance, composition, portfolio's risk exposure, compliance with the investment guidelines and its leverage operations.

The ALCO defines the internal framework required to comply with the general financial management policies determined by the Board of Directors. Additionally, the ALCO assesses the international economic environment, the investment strategy of the portfolios, the general state of the risks of FLAR, reviews and approves the reports on financial results, and assesses the operational statistics and operational risk events.

The Financial Department is responsible for the execution and implementation of the financial decisions approved by the ALCO, the Risk Department exercises the function of risk control and compliance with the investment policy, the Operations Department is responsible for the settlement of transactions and the Accounting Department is in charge of the preparation and presentation of FLAR's financial statements.

Internal auditors periodically review compliance, evaluate the internal control system and risk management at FLAR. The selection, evaluation and rotation of internal and external auditors is governed by the policies defined by the Board of Directors.

a. Objectives of financial risk management

Risk is managed with a comprehensive balance sheet approach.

The investment objectives of FLAR's investment portfolios are to preserve the nominal capital of the institution over a three-year horizon and to generate an intermediation margin, assuming moderate credit risk and preserving ample liquidity. (For more details about FLAR's portfolios see Note 5).



21. RISK MANAGEMENT (CONTINUED)

FLAR manages these risks by carrying out comprehensive management that considers the eligible investments and risk preferences defined by the Board of Directors in the global risk policy.

The management of the different risks to which FLAR is exposed on its balance is described below.

b. Market risk

Given the nature of FLAR's investments, its market risk is mainly associated with interest rate risk, and in a very low proportions to foreign exchange risk, as explained below:

i. Interest rate risk:

Interest rate risk is defined as the risk of taking or holding positions in instruments sensitive to changes in interest rates. In FLAR, interest rate risk is measured using the duration gap metric. This measure is defined as the difference in sensitivity to the price of interest-bearing assets and the sensitivity to the price of liabilities to a change in market interest rates.

At the balance sheet level, the global risk policy establishes that the maximum interest rate duration gap will be 3 years and the minimum will be 0 years.

As of June 30, 2020, the duration of assets was 0.36 years and that of liabilities was 0.07 years, the duration gap between assets and liabilities² was 0.33 years. As of December 31, 2019, the duration of the assets was 0.33 years, the duration of the liabilities was 0.06 years, and the duration gap was 0.30 years. This means that if interest rates move in parallel by 10 basis points the impact on FLAR would be \$ 1.04 million as of June 30, 2020 and \$ 1.05 million as of December 31, 2019. During the year the duration gap was in a range between 0.30 and 0.38 years. In relative terms, the difference between the duration gap and the structural duration gap (that is, if the portfolios were in their duration neutral position) at the end of June 2020 was long by 0.01 years and at the end of December 2019 was long in 0.01 years.

Given FLAR's portfolio structure, market risk is mainly concentrated in the Aggregate Investment Portfolio, which is actively managed against its benchmark index.

² To calculate the duration gap, the duration of the assets and the contribution to the duration of the liabilities are used. The latter considers the ratio of liabilities to assets.



21. RISK MANAGEMENT (CONTINUED)

Board's Agreement No.324 of April 30, 2005, and its amendments, establishes that the effective duration for portfolios with authorized active management could be within the range of +/- 1 from the duration of the benchmark portfolio.

As of June 30, 2020, the duration of the Aggregate Investment Portfolio was 0.85 years, and the duration of the benchmark portfolio was 0.83 years. As December 31, 2019 the duration of the Aggregate Investment Portfolio was 0.95 years, while the benchmark portfolio duration was 0.87 years.

To measure the market risk of the Aggregate Investment Portfolio, the measure of Value at Risk (VaR) is used. The methodology used to calculate the Value at Risk is an ex-ante parametric model. The horizon used is one day, calculated with daily data from the last 18 months and a significance level of 5%.

As of June 30, 2020, the 95% VaR with a one-day horizon was \$1,162 thousand, equivalent to 5.0 basis points of the Portfolio's market value. The VaR as of December 31, 2019 is \$805 thousand, equivalent to 3.8 basis points of the market value of the Aggregate Investment Portfolio.

On the other hand, interest rate risk in the other Portfolios that are not managed actively (Operations Portfolio, Liquidity Portfolio, Intermediation Portfolio) is low. In the Operations Portfolio, the credits are based on the 3-month LIBOR rate, in the intermediation Portfolio the match of the assets and liabilities is very close (See Liquidity Risk, below), and in the liquidity portfolio the resources are on demand deposits and T-Bills.

ii. Foreign Exchange risk

Exchange rate risk is the risk that the fair value or future cash flows of an exposure may fluctuate as a result of changes in exchange rates.

Exchange rate exposures are managed within the parameters stated in the policies approved by the Board of Directors Agreement No. 324 dated April 30th, 2005 and its amendments. Financial instruments eligible for investment of reserve assets of FLAR must be denominated in the following currencies: US Dollar (USD), Euro (EUR), Japanese Yen (JPY), Swiss Franc (CHF), British Pound (GBP), Canadian Dollar (CAD), Australian Dollar (AUD), New Zealand Dollar (NZD), Norwegian Krone (NOK), Swedish Krone (SEK), Renminbi onshore (CNY), Renminbi offshore (CNH), Hong Kong Dollar (HKD), Singapore Dollar (SGD), South Korean Won (KRW) and IMF's SDR.



21. RISK MANAGEMENT (CONTINUED)

Additionally, FLAR has limited exposure to Colombian Pesos (COP) to cover its operational expenses in Colombia.

The description of the exchange exposure in the different FLAR portfolios is described below:

- Actively managed portfolios (Aggregate Investment Portfolio): Active foreign exchange positions without hedging are allowed up to a maximum of +/- 10% of the index exchange composition in any of the eligible currencies mentioned above. Subject to the above restriction, the purchase of letters and notes issued by agencies, sovereign governments, supranational institutions, private companies and financial institutions, in currencies other than the US Dollar is allowed for up to 50% of the portfolio.

The sub-portfolios of the Aggregate Investment Portfolio held currency forward positions. As of June 30, 2019, these exposures amounted³ to 0.17% of the equity portfolio. As of December 31, 2019, these exposures amounted to 0.15% of the equity portfolio.

The amounts of realized and unrealized gains in foreign currency derivatives as of June 30, 2020, and December 31, 2019 are detailed in Note 9 Derivative Instruments.

- Other portfolios not actively managed (Portfolio of Operations, Liquidity Portfolio, Intermediation Portfolio): In other portfolios, the operations will be designed in such way that FLAR won't have material exposures to foreign exchange risk against the US Dollar.

As was mentioned above, FLAR has exposure to SDRs. Considering the composition of the SDR currencies basket⁴, the exposure of the equity portfolio resulting in currencies other than US Dollar represents 1.70% as of June 30, 2020, and 1.52% as of December 31, 2019.

A fluctuation of 1% of the SDR against the dollar would imply a change in the value of \$922 thousand dollars in June 2020 and \$925 thousand dollars in December 2019.

Operating expenses in Colombian pesos: To mitigate the effect of the fluctuation of the Colombian peso in operating expenses, annually an estimate of the expenses that involve exchange exposure to this currency is made, the equivalent amount is converted to Colombian pesos and invested in bank deposits. (See Note 7 and Note 8). These investments decrease as the operational budget is executed.

³ Exposure is calculated by adding the positions in those currencies whose net position is long.



21. RISK MANAGEMENT (CONTINUED)

c. Credit risk

Credit risk is the risk that one of the counterparties does not fulfill the obligations derived from a financial instrument or purchase contract and this translates into a financial loss.

FLAR is exposed to credit risk in:

i) Loans made to member countries.

Credit operations or other financial support from FLAR to its member countries are subject to the assessment of the applicant's ability to pay by the Board of Directors or the Executive Presidency, according to the type of credit. The risk of these operations is mitigated due to the *de facto* preferred creditor treatment that member countries have given to FLAR throughout their history, and to the measures established by FLAR, such as: the determination of the amount admissible for credits, the collection of commissions for credit risk and the compensation of profits in the event that credits are in default.

ii) Investment activities (including deposits in banks and financial institutions, transactions in foreign currency and other financial instruments).

The credit risk of investments is monitored by FLAR's Risk Department, which is responsible for reviewing and managing credit risk.

FLAR has established a credit quality monitoring process to provide early identification of possible changes in the creditworthiness of counterparties as described below in this note. Counterparty limits are established by the use of a risk classification methodology that considers the issuer's credit rating according to the main rating agencies.

According to its credit quality guidelines, FLAR's investment portfolios may invest in medium-term instruments which cannot be rated lower than any of the following: Moody's A3, Standard & Poor's A-, and Fitch Ratings A-.

Short-term or money market investments, cannot be rated lower than any of the following: Moody's P-2, Standard & Poor's A-2, and Fitch Ratings F2.

Credit risk is managed following an approach of preferring exposures with high credit rating, sector diversification, and adequate granularity of exposures to short-term and medium-term individual issuers.



21. RISK MANAGEMENT (CONTINUED)

An activity that implies that FLAR assumes credit risk is that associated with the intermediation activity. Agreement 323 of 2005 and its modifications, establishes that the ALCO has the power to periodically evaluate and decide the target range of the Intermediation Portfolio, considering the economic and market environment.

During first semester of 2020, the ALCO determined that the target range of the term deposits of the Intermediation Portfolio will be between \$2 billion and \$3.5 billion, allowing a deviation of up to \$500 million around this range. In that period, the minimum month-end value of the portfolio was \$2,184 million in March and the maximum was \$3,206 million in January.

During 2019, the ALCO decided that the target range for the term deposits of the brokerage portfolio would be between \$2,500 and \$4,000 million, allowing a deviation of \$500 million around this range. During that year, the minimum month-end value of the portfolio was \$2,408 million in July and the maximum was \$3,977 million in May.

As of June 30, 2020, investments in the Intermediation Portfolio that match the time deposits received amounted to \$2,863 million.

Issuer credit evaluation process - For the evaluation of issuers, FLAR has human and technological resources dedicated exclusively to credit analysis and daily monitoring of the fundamental and market conditions of approved issuers.

Initially, the credit evaluation process involves a review of the fundamentals and conditions of the global fixed income market, determining the countries, markets and sectors in which there is value and reasonable security in investment opportunities.

Based on the selection of global markets and sectors, a comprehensive credit evaluation methodology is followed, in order to select those issuers that meet the criteria of credit quality, probability of default, implicit rating and fundamental analysis, consistent with the profile of institution risk.

The evaluation criteria are different for financial and corporate issuers; for financials it is required they have capital adequacy ratios that comply with the minimum regulatory requirements established in Basel I and the updates in the quality of capital established in Basel III, have solid liquidity conditions and a systemic importance within the sector.



21. RISK MANAGEMENT (CONTINUED)

On the other hand, for corporates it is sought that they possess a competitive position and leadership in their industry, healthy credit metrics, financial flexibility and a conservative administration.

Credit exposures depend on the term to maturity. For medium-term investments, (maturity greater than 397 days) the quota is 1% of the market value of the respective portfolio. For investments in the money market or short-term investments (up to 397 days to maturity), exposure limits of up to 1% are used for corporate issuers, between 2% and 3% for banks, financial institutions and supranational issuers and quasi-governments. On the other hand, sight deposits (overnight) with systemic commercial banks have a quota of up to \$ 600 million. The highest quotas are assigned only to globally systemically important financial institutions (G-SIFIs Systemically Important Financial Institution) according to the classification established by the Financial Stability Board (FSB).

Tables 1 and 2 show the sector composition and rating (using the S&P scale) of FLAR investments as of June 30, 2020 and December 31, 2019, respectively.

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21. RISK MANAGEMENT (CONTINUED)

**Table 1
Asset classes composition and credit rating of investments as of June 30, 2020
(USD million)**

Sector	Medium term ratings			Short term ratings		No rating	Credit operations Sub-portfolio	Total by asset class	% Total by asset class
	AAA	AA	A	A-1	A-2		Balance of Payments Support Credit		
Balance of Payments Support Credit	-	-	-	-	-	-	201.8	201.8	3.2%
Cash	-	-	-	8.6	-	-	-	8.6	0.1%
Money Market	-	-	-	2,399.2	5.0	-	-	2,404.1	38.7%
Supranational and quasi-governments	19.4	-	-	1,249.6	2.5	-	-	1,271.4	20.5%
US Treasury Bonds	-	827.2	-	-	-	-	-	827.2	13.3%
TIPS	-	117.9	-	-	-	-	-	117.9	1.9%
US T-Bills	-	-	-	585.9	-	-	-	585.9	9.4%
MBS	106.5	37.0	-	-	-	-	-	143.5	2.3%
TBA	-	6.6	-	-	-	-	-	6.6	0.1%
SDR	-	-	-	-	-	92.2	-	92.2	1.5%
Corporates	-	52.4	179.3	189.8	44.4	-	-	465.9	7.5%
ETF	-	-	-	-	-	1.0	-	1.0	0.0%
Receivables and to-receive deposits	-	-	-	-	-	84.2	-	84.2	1.4%
Futures margin accounts	-	-	-	1.8	-	-	-	1.8	0.0%
Forwards with positive valuation	-	-	0.2	-	-	-	-	0.2	0.0%
Total by rating	125.9	1,041.0	179.5	4,434.8	51.9	177.4	201.8	6,212.3	100.0%
% Total by rating	2.0%	16.8%	2.9%	71.4%	0.8%	2.9%	3.2%	100.0%	

Source: Risk Department. Includes the effect of provisions for expected losses. Does not include cash in Colombian pesos for \$1.3 million and deposits in Colombian pesos for \$1.2 million. When considering the property, plant and equipment, other assets, commissions receivable and reserve assets, the total value of the assets of \$6,217.35 million is obtained.

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21. RISK MANAGEMENT (CONTINUED)

**Table 2
Asset classes composition and credit rating of investments
as of December 31, 2019
(USD million)**

Sector	Medium term ratings			Short term ratings		No rating	Credit operations sub-portfolio		Total by asset class	% Total by asset class
	AAA	AA	A	A-1	A-2		Balance of Payments support credit	Exceptional Credit		
Money Market	-	-	-	2,173.4	1,023.2	-	-	-	3,196.7	45.4%
Balance of Payments Support Credit	-	-	-	-	-	-	917.1	-	917.1	13.0%
Exceptional Credit	-	-	-	-	-	-	-	394.1	394.1	5.6%
Supranational and quasi-governments	47.3	2.5	39.7	757.6	80.0	-	-	-	927.0	13.2%
US Treasury Bonds	-	618.4	-	-	-	-	-	-	618.4	8.8%
Corporates	2.0	100.2	312.7	-	-	-	-	-	414.9	5.9%
MBS	123.0	34.2	-	-	-	-	-	-	157.2	2.2%
TIPS	-	162.4	-	-	-	-	-	-	162.4	2.3%
US T-Bills	-	-	-	10.0	-	-	-	-	10.0	0.1%
Cash	-	-	-	8.5	-	-	-	-	8.5	0.1%
Futures margin accounts	-	-	-	2.2	-	-	-	-	2.2	0.0%
US Agencies	-	-	-	-	-	-	-	-	-	0.0%
ETF	-	-	-	-	-	1.1	-	-	1.1	0.0%
Receivables and to-receive deposits	-	-	-	-	-	130.7	-	-	130.7	1.9%
Forwards with positive valuation	-	0.2	-	-	-	-	-	-	0.2	0.0%
SDR	-	-	-	-	-	92.5	-	-	92.5	1.3%
TBA	-	7.0	-	-	-	-	-	-	7.0	0.1%
Total by Rating	172.3	924.8	352.4	2,951.7	1,103.2	224.3	917.1	394.1	7,039.9	100.0%
% Total by rating	2.4%	13.1%	5.0%	41.9%	15.7%	3.2%	13.0%	5.6%	100.0%	

Source: Risk Department. Includes the effect of provisions for expected losses. Does not include cash in Colombian pesos for \$0.6 million. Considering the property, plant and equipment, other assets, commissions receivable and reserve assets, the total value of the assets would be \$7,045.76 million.



21. RISK MANAGEMENT (CONTINUED)

d. Liquidity risk

Liquidity risk is defined as the risk that an institution cannot access enough cash and liquid assets to meet its obligations.

The main objective of FLAR liquidity management is to have resources to meet credit demands from member countries in a timely manner with low settlement costs of the securities that make up the portfolios, and to have the necessary liquidity to meet obligations.

The investment guidelines (See note 5) favor investments in assets with a very low level of credit risk, high liquidity and low transaction costs.

Under its liquidity guidelines, FLAR must ensure that there are sufficient resources available to meet its debt commitments for a minimum period of twelve months and maintain, at all times, at least 25% of its paid-in capital invested in liquid instruments in the Liquidity Portfolio and the Aggregate Investment Portfolio, which invest in investment grade instruments, which are highly liquid.

As of June 30, 2020 and December 31, 2019, FLAR had no long-term debt. Regarding the requirement of liquid assets, the value of the Aggregate Investment Portfolio and the Liquidity Portfolio compared to paid capital as of June 30, 2020 was 105.2% and as of December 31, it was 67.9%.

Currently, FLAR has resources to service credit demands from its member countries in a timely manner and with low liquidation costs for the portfolios' securities. Financial liabilities are matched with assets of similar characteristics in term.

Although the assets are liquid and can be sold before their expiration date, for disclosure purposes, the detail of the contractual maturities of financial assets and financial liabilities is presented:

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21. RISK MANAGEMENT (CONTINUED)

**Table 1
Maturities by tranche and type of asset and liability as of June 30,
2020
(Figures in millions of USD)
Financial assets**

Maturity	Less than a month	Between one and three months	Between three and six months	Between six and 12 months	Between one and two years	More than two years	Total
Cash	8.6	–	–	–	–	–	8.6
Financial Instruments and deposits	2,862.0	1,183.0	254.8	651.2	332.4	540.2	5,823.5
Loans to members	0.0	–	–	201.8	–	–	201.8
Currency operations Sub-Portfolio	92.2	–	–	–	–	–	92.2
Receivables on financial instruments sold	84.2	–	–	–	–	–	84.2
Derivatives	0.0	1.9	–	–	–	–	1.9
Financial Assets	3,047.0	1,184.9	254.8	852.9	332.4	540.2	6,212.3

Source: Risk Department. Includes the effect of provisions for expected losses. Does not include cash in Colombian pesos for \$1.3 million and deposits in Colombian pesos for \$1.2 million. When considering the property, plant and equipment, other assets, commissions receivable and reserve assets, the total value of the assets of \$6,217.35 million is obtained.

Financial liabilities

Maturity	Less than a month	Between one and three months	Between three and six months	Between six and 12 months	Between one and two years	More than two years	Total
Non-derivative financial liabilities	1,903.2	924.7	–	22.3	14.3	–	2,864.4
Payables on purchased financial instruments	190.4	–	–	–	–	–	190.4
Derivative financial liabilities	–	0.1	–	–	–	–	0.1
Total	2,093.6	924.8	–	22.3	14.3	–	3,054.9

Source: Risk Department. It does not include other liabilities and commissions received for loans granted for a value of \$5.8 million.

Below is a detail of the contractual maturities of financial assets and financial liabilities as of December 31, 2019:

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21. RISK MANAGEMENT (CONTINUED)

Table 2
Maturities by tranche and type of asset and liability as of December 31, 2020 (Figures in millions of USD)
Financial assets

Maturity	Less than a month	Between one and three months	Between three and six months	Between six and 12 months	Between one and two years	More than two years	Total
Cash	8.5	-	-	-	-	-	8.5
Financial Instruments and deposits	2,815.5	1,226.1	294.5	334.0	365.9	458.5	5,494.6
Loans to members	-	-	-	-	1311.2	-	1,311.2
Currency operations Sub-Portfolio	92.5	-	-	-	-	-	92.5
Receivables on financial instruments sold	130.7	-	-	-	-	-	130.7
Derivatives Financial Assets	-	2.3	-	-	-	-	2.3
Total	3,047.2	1,228.4	294.5	334.0	1,677.2	458.5	7,039.9

Source: Risk Department. Includes the effect of provisions for expected losses. Does not include cash in Colombian pesos for \$0.6 million. Considering the property, plant and equipment, other assets, commissions receivable and reserve assets, the total value of the assets would be \$7,045.76 million.

Financial liabilities

Maturity	Less than a month	Between one and three months	Between three and six months	Between six and 12 months	Between one and two years	More than two years	Total
Non-derivative financial liabilities (Deposits)	2,624.45	389.49	229.70	-	21.20	-	3,264.85
Payables on purchased financial instruments	267.86	-	-	-	-	-	267.86
Derivative financial liabilities	-	0.08	-	-	-	-	0.08
Total	2,892.31	389.57	229.70	-	21.20	-	3,532.79

Source: Risk Department. It does not include other liabilities and commissions received for loans granted in the amount of \$15.7 million.

As can be seen in Tables 3 and 4 above, as of June 30, 2020 and December 31, 2019, the liabilities are appropriately matched by assets with a similar term to maturity, which would allow FLAR to meet its obligations without having to liquidate investments. These assets far exceed FLAR's liabilities. Additionally, it should be noted that a high proportion of FLAR assets mature in less than one year.



21. RISK MANAGEMENT (CONTINUED)

The previous section presented the composition of the instruments by credit rating. At the end of June 30, 2020, and December 31, 2019, 96.8% and 81.4% of FLAR's reserve assets were in high-credit quality instruments that are widely liquid.

Capital adequacy

Due to its nature as an international organization, FLAR is not subject to compliance with regulatory capital, as is the case for financial institutions worldwide.

According to the capital adequacy assessments made by the risk rating agencies, FLAR has a level of financial strength and capital adequacy that is considered "very strong" by Standard and Poor's. Moody's considers FLAR's capital adequacy 'a2'.

Evaluating the capital adequacy of FLAR, the rating agencies favorably assess the continuous strengthening of the institution's capital, supported by the contributions of paid-in capital and reserves from the member countries, the high credit quality of the assets and a level of zero leverage, given that as of June 30, 2020 there are no debt issues outstanding.

One way to review the level of capital adequacy is through the Risk-Adjusted Capital indicator (RAC)⁴. To arrive to this measure, we use an internally developed capital adequacy index, which is based on the S&P's methodology weights and other assumptions made by the Risk Department⁵.

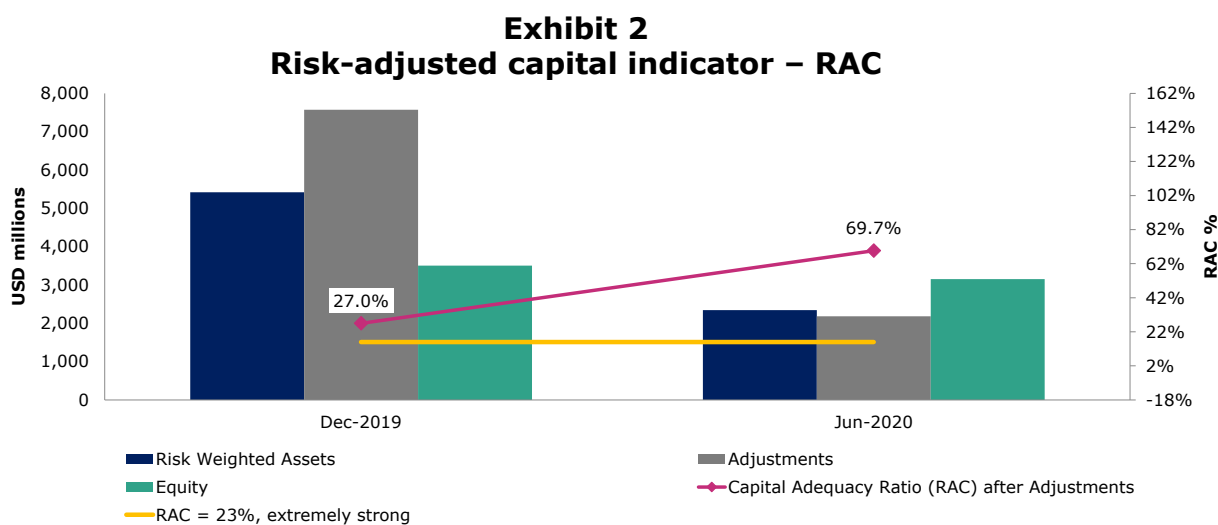
The internally estimated Risk Adjusted Capital indicator was 69.7% as of June 30th, 2020, greater than 27.0% as of December 31, 2019. The limit defined by the Board of Directors for this indicator is 16%.

⁴ This is based on S&P's methodology for calculating the risk-adjusted capital ratio for multilateral entities published on December 14, 2018. This calculation represents the Risk Department's best estimate of the capital adequacy based on the S&P methodology, and some assumptions made internally based on information provided in S&P's March 2019 release.

⁵ Among the assumptions, one of the most important is the concentration adjustment for the development assets. To mitigate this effect, an adjustment is applied to the S&P formula, including a floor on each loan credit rating of CCC+, based on the preferred creditor status treatment that member countries have given to FLAR.



21. RISK MANAGEMENT (CONTINUED)



Source: Risk Department. The calculations are based on the internal methodology that uses the risk-weights defined by S&P.

Moody's quantifies capital adequacy levels using the capital position indicator, calculated as the ratio of assets to useable equity. Additionally, it considers in its analysis the quality of the portfolio and the performance of the assets. Under the latest revision presented by Moody's, it catalogs FLAR as 'a2' in its capital adequacy.

22. SUBSEQUENT EVENTS

FLAR's management has evaluated the subsequent events that have taken place after June 30, 2020 until the date in which the financial statements were available to be issued and determined that no additional subsequent events have occurred that require to be recognized or disclosed in these statements.

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and its notes were internally reviewed and validated by the Asset and Liabilities Committee on October 16, 2020, but may be subject to modification by the Board of Directors.