Building a better
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Financial Statements

Fondo Latinoamericano De Reservas "FLAR"

As of december 31, 2020 and 2019
With independent Auditor's report

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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 December 31, 2020 and the corresponding statements of comprehensive income, changes in equity and cash flows for the year the 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 December 31, 2020, and its financial performance and its cash flows for the year the 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.

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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.

Other Matters

The financial statements under International Financial Reporting Standards of Latin American Reserve Fund – FLAR (Fondo Latinoamericano de Reservas) as at December 31, 2019, which are part of the comparative information of the accompanying financial statements, were audited by another independent accountant designated by Ernst & Young Audit S.A.S. in accordance with International Standards of Auditing, who expressed an unmodified opinion on those statements on February 28, 2020, except by statement of financial position, cash flow statement and Notes 1, 2, 3, 7, 8 and 20 which date is October 30, 2020.

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

Bogotá D.C., Colombia
February 24th, 2021.

FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND - FLAR

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

FLAR

ASSETS	Notes	December 31, 2020	December 31, 2019
Cash	7	10,152,959	9,152,685
Financial intruments on investment portfolios:			
Deposits in commercial banks	8	2,326,558,484	1,178,103,151
Internally managed portfolios			
Trading securities at fair value	9	1,428,522,956	850,123,532
Securities at amortized cost	9	1,785,363,584	2,818,829,434
Total Internally managed portfolios		**3,213,886,540**	**3,668,952,966**
Externally managed portfolios			
Trading securities at fair value	9	650,063,567	610,138,213
Securities at amortized cost	9	20,284,959	37,346,834
Total externally managed portfolios		**670,348,526**	**647,485,047**
Derivative instruments	10	**1,680,938**	**2,316,244**
Accounts receivable related to financial securities sold with future settlement			
Trading securities sold in internally managed portofios with future settlement date	9	-	81,215,527
Trading securities sold in externally managed portfolios with future settlement date	9	19,671,919	46,698,316
Time deposits with future settlement date		43,253,227	2,767,404
Total account receivables related to financial securities sold	9	**62,925,146**	**130,681,247**
Trust fees		362,323	360,459
Loans to Central Banks	11	123,983,293	1,354,014,558
Allowance for expected credit losses on loans to Central Banks	11	(233,554)	(42,789,092)
Foreign exchange operations portfolio	19	96,677,773	92,544,199
Loans to Central banks, net		**220,427,512**	**1,403,769,665**
Property and equipment, net	13	2,174,722	4,445,642
Other assets		736,282	491,943
Total assets		**6,509,253,432**	**7,045,759,049**

LIABILITIES AND EQUITY OF THE FUND	Notes	December 31, 2020	December 31, 2019
LIABILITIES			
Demand deposits	14	28,037,318	172,411,771
Term deposits and interest payables	14	3,255,817,275	3,086,545,272
Total received deposits		**3,283,854,592**	**3,258,957,043**
Derivative instruments	10	**40,434**	**81,130**
Accounts payable related to financial securities purchased with future settlement			
Trading securities purchased in internally managed portofios with future settlement date	9	-	211,212,510
Trading securities purchased in externally managed portfolios with future settlement date	9	38,655,869	56,649,714
Total accounts payable	9	**38,655,869**	**267,862,224**
Interest payable	14	328,293	6,041,006
Other liabilities	15	3,158,805	2,388,079
Received credit risk fees for granted loans	11	1,048,346	13,327,625
Total liabilities		**3,327,086,339**	**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		1,313,639	3,590,058
Net income for the year		172,589,121	123,528,751
Total equity of the Fund		**3,182,167,093**	**3,497,101,942**
Total liabilities and equity of the Fund		**6,509,253,432**	**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 YEARS ENDED ON DECEMBER 31, 2020 AND 2019
(In U.S. dollars)

	Notes	December 31, 2020	December 31, 2019
INTEREST INCOME			
Interest on loans to Central Banks	11	40,159,882	84,149,817
Interest on trading securities	9	31,593,583	39,008,972
Interest on deposits in commercial banks	8	9,611,563	44,108,376
Total interest income		**81,365,028**	**167,267,165**
INTEREST EXPENSE			
Term deposits	14	(333,412)	(2,406,436)
Demand deposits	14	(15,939,929)	(78,791,683)
Total interest expense		**(16,273,341)**	**(81,198,119)**
Net interest income		**65,091,687**	**86,069,046**
GAINS (LOSSES) ON TRADING ACTIVITIES			
Externally Managed Portfolios			
Realized gains on trading securities		30,412,612	44,121,637
Unrealized gains on trading securities		2,340,266	8,991,483
Realized gains (losses) on derivatives	10	(1,174,713)	(1,561,982)
Unrealized (losses) gains on derivatives	10	(25,134)	25,117
Internally Managed Portfolios			
Realized gains on trading securities		1,541,486	2,203,950
Unrealized gains on trading securities		4,793,524	6,068,510
Realized (losses) on derivatives	10	(4,555,509)	(1,621,219)
Unrealized gains on derivatives	10	21,050	44,188
Gains in activities with trading securities and derivatives		**33,353,582**	**58,271,684**
EXPECTED CREDIT LOSSES			
Expected credit losses on loans granted	12	(30,299)	(19,630,206)
Expected credit losses on securities at amortized cost	12	484,076	(155,000)
Recovery of prior year expected credit losses on granted loans	12	42,585,837	-
Expected credit losses - Total		**43,039,614**	**(19,785,206)**
OTHER INCOME			
Fees from credit risk on loans granted	17	37,260,683	6,830,192
Gains on foreign exchange portfolio	17	4,133,574	392,519
Trust fees	17	709,759	797,179
Others		783,819	669,452
Other income - Total		**42,887,835**	**8,689,342**
OTHER EXPENSES			
Personnel expenses	17	(4,408,091)	(4,208,937)
Operational expenses	17	(3,319,351)	(3,615,425)
Other financial expenses	17	(1,819,357)	(1,042,168)
Incentive for loan performance	17	(343,761)	-
Cost of emissions program MTN		(755,433)	-
Others		(1,137,603)	(849,585)
Other expenses - Total		**(11,783,597)**	**(9,716,115)**
Net income for the year		**172,589,121**	**123,528,751**
Other Comprehensive Income (loss)	13	**(2,276,420)**	**-**
Total Comprehensive Income		**170,312,701**	**123,528,751**

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 CHANGES IN EQUITY
FOR THE YEARS ENDED ON DECEMBER 31, 2020 AND 2019
(In U.S. dollars)

FLAR

	Notes	Subscribed and Paid-in Capital	Institutional reserves	Net income for the year	Other Comprehensive Income	Total equity
BALANCE AS OF DECEMBER 31, 2018		2,981,456,451	298,145,646	102,449,084	3,590,058	3,385,641,239
Additional capital contrbution 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 year ended december 31, 2019		-	-	123,528,749	-	123,528,749
BALANCE AS OF DECEMBER 31, 2019		3,062,208,253	307,774,880	123,528,750	3,590,058	3,497,101,941
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 appropiation 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 year ended december 31, 2020		-	-	172,589,121	-	172,589,121
Other Comprenhensive Income						
Properti and equipment valuation surplus (IFRS aplication)	13				(2,188,438)	(2,188,438)
Pension reserve adjustment	14				(87,981)	(87,981)
BALANCE AS OF DECEMBER 31, 2020		2,689,259,567	319,004,766	172,589,121	1,313,639	3,182,167,093

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 PERIODS ENDED ON DECEMBER 31 2020 AND 2019
(In U.S. dollars)

FLAR

	Note	December 31, 2020	December 31, 2019
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the year		**172,589,121**	**123,528,751**
Adjustments to reconcile the profit with the net cash provided by operating activities:			
Depreciation expense	13	163,927	197,981
Provided by payments of obligations of loans granted (non-cash movement)	11	(436,449,828)	-
Provided by interests and fees on loans granted (non-cash movement)	11	(61,896,535)	(15,540,546)
Unrealized (gains) losses in:			
Trading securities		(2,340,266)	(8,991,483)
Fees received on granted loans	11	475,773	(6,430,193)
Expected credit losses on loans granted	12	(42,555,538)	19,630,207
Expected credit losses on investments at amortized cost	12	(484,076)	155,000
Incentive for compliance on loans		343,761	-
Externally managed portfolios		(4,793,524)	(6,068,510)
Derivative operations	10	(4,084)	69,305
Gains (losses) on sale/write-off of fixed assets	13	4,617	3,105
COP Deposits		(582,666)	-
Net decrease in externally managed portfolios		(17,610,969)	(16,255,710)
Provided by loan operations with Central Banks		1,254,242,904	456,955,556
(Used) by foreign exchange operations portfolio-SDR	19	(4,133,574)	(392,519)
Provided (used) by buys, redemptions and sales of trading securities		325,093,738	(1,203,211,415)
(Used) provided in deposits in commercial banks		(1,147,942,779)	837,787,262
(Used) provided by received demand deposits		(144,374,453)	93,767,794
Provided (Used) by term deposits liabilities		128,786,180	(284,753,922)
Increase (decrease) in derivative operations		598,694	(1,532,109)
(Decrease) increase in other assets	13	(244,339)	228,545
Decrease in other liabilities		682,745	141,292
Accrued interests on deposits from central banks and official institutions		15,939,929	78,791,683
Interests paid on deposits from central banks and official institutions		(21,652,642)	(84,454,858)
Accrued interests on loans granted, investments and commercial deposits		(82,104,788)	(168,064,344)
Interests received on loans granted, investments and commercial deposits		69,335,010	179,200,253
Net cash provided by (used in) operating activities		**1,086,337**	**(5,238,876)**
CASH FLOW BY INVESTMENT ACTIVITIES:			
Purchases of fixed assets	13	(86,171)	(169,428)
Sales of fixed assets	13	109	1,145
Net cash (used in) investment activities		**(86,062)**	**(168,283)**
CASH FLOW BY FINANCING ACTIVITIES:			
New contributions to paid-in capital and reserves		-	3,472,498
Net cash provided by financing activities		**-**	**3,472,498**
NET (DECREASE) INCREASE IN CASH		**1,000,274**	**(1,934,661)**
CASH AT THE BEGINNING OF THE YEAR		**9,152,685**	**11,087,346**
CASH AT THE END OF THE YEAR		**10,152,959**	**9,152,685**
ADDITIONAL INFORMATION ON OPERATIONS THAT DID NOT IMPLY CASH MOVEMENT			
Appropiation of earnings to paid-in capital and reserves		105,130,411	86,908,539

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 FLAR (Latin American Reserve Fund) is the international organization that replaced the Fondo Andino de Reservas (FAR) (Andean Reserve Fund), which was established in 1978. In 1988, the "Agreement for the Establishment of the Latin American Reserve Fund" (Constitutive Agreement) replaced the treaty by which the FAR was constituted and established the following main objectives of FLAR:

a) To support the balance of payments of member countries by granting credits and guaranteeing loans for third parties.

b) To contribute to the harmonization of the exchange, monetary and financial policies of the member countries.

c) To improve the investment status of international reserves held by member countries.

Furthermore, FLAR receives demand and term deposits from Latin American multilateral organizations, central banks and public institutions of member countries and public institutions of non-member countries in the region.

In addition, FLAR provides asset management, custody and compliance services to central banks and public institutions of member countries.

Currently, FLAR's member countries are Bolivia, Colombia, Costa Rica, Ecuador, Peru, Paraguay, Uruguay and Venezuela.

The Latin American Reserve Fund, its properties and assets and all deposits and resources entrusted to FLAR, whether they consist of liabilities, represent equity or are the product of fiduciary operations, shall enjoy immunity from any form of forced seizure in the territory of its member countries. This includes immunity from administrative actions by any of the member countries or the imposition of restrictions, regulations or control measures, or the delays established by them that may alter FLAR's control over its assets and liabilities.

FLAR is headquartered in Bogotá, Colombia, and may establish branches, agencies or representations 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 is a multilateral financial organization whose main objective is to grant counter-cyclical financial assistance to its members, which are sovereign states. As far as members' obligations to FLAR are concerned, they have always given de facto Preferred Creditor Treatment "PCT" to FLAR.

In line with the above, FLAR expects its members to continue paying their obligations, even when they are in arrears with other creditors. In the exceptional case that they fall behind on their obligations to FLAR, it is expected to recover the amounts owed. This is consistent with what has been observed in other multilateral financial organizations, where expected and experienced credit losses differ significantly from those of commercial banks. FLAR's impairment model is aligned with its nature as a multilateral international financial organization and its institutional objectives.

FLAR is financed by its own capital that is paid-in by members, demand deposits from central banks and other official institutions, and debt issued in the capital markets. Its income is derived primarily from interest income and fees on loans to member countries, interest and capital gains on investment portfolios, income from brokerage activities, and fees for asset management and portfolio custody services provided to central banks and public institutions.

2. BASIS OF PRESENTATION AND STATEMENT OF RESPONSIBILITY

FLAR's financial statements for the years ended December 31, 2020 and 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 a going concern basis and it is expected that FLAR will continue its activity for the foreseeable future. The basis of presentation is historical cost, except for trading financial assets and derivative financial instruments, which were prepared at fair value.

These financial statements are presented in U.S. dollars, except where otherwise indicated.

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 year 2020 comprise: the statements of financial position, comprehensive income, and changes in equity and cash flows as of December 31, 2020 and 2019.

The significant accounting policies of these Financial Statements are described in Note 3 Significant accounting policies.

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, revenues, expenses, and other commitments. Actual results could differ from these estimates.

The most significant estimates and judgments used in the application of accounting policies relate 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 credit loss model for loans granted, deposits in commercial banks and securities at amortized cost.
- The useful life of real estate and equipment.
- 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 events available for analysis at 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). Any changes in accounting estimates will be accounted for prospectively.

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 foreign currency and are presented at the exchange rates prevailing at the date of the operations. Foreign currency assets and liabilities are converted using exchange rates in effect at the date of the financial statements.

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 was COP 3.432.50 as of December 31, 2020 and COP 3,277.14 as of December 31, 2019.

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 profit for the year, classifies non-monetary items that adjust profits, presents cash 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, considering 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 paid for transferring a liability, in an orderly transaction among market participants, at the valuation date, regardless of whether that price is directly observable or estimated using another valuation technique.

When estimating the fair value of an asset or liability, FLAR considers 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:

Business Model Assessment

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

- Use of credit lines to its member countries with loans to central banks.
- Management of investment portfolios derived from the capital contributions of member countries.
- Short-term intermediation activities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business Model Assessment (continued)

- Management of investment portfolios derived from issuances in the capital markets; and
- Management of investment portfolios of third parties in which FLAR acts as trustee.

Assets are recognized in two ways: i) at fair value for those securities that are traded in active markets. They are marked to market daily and any change in market value is recorded in income for the period. ii) at amortized cost. The objective of these assets is to maintain them to obtain the contractual cash flows; therefore, they are recorded at amortized cost with an effect on income for the period due to the accrual of interest and the respective amortization.

Deposit liabilities are recorded at amortized cost using the effective interest method with affects income. It is important to note that these operations (assets and liabilities) are mostly concentrated in a term of less than three months. See note 8 Deposits in commercial banks and note 14 Deposits received.

Effective interest rate method – The effective interest method is a technique for calculating the amortized cost of a financial instrument and of allocating the interest income or cost over the term of the instrument.

The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount at initial recognition. Estimated future cash flows include all fees and basis points paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

Income is recognized on an effective interest basis for debt instruments except for financial assets classified at fair value through profit or loss.

For disclosure purposes, FLAR presents principal, interest and amortized cost of investments in marketable securities on an aggregate basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Recognition date of investments

As of January 1, 2020, FLAR changed the date for recording its investment transactions from the settlement date to the trade date. Trading operations of financial assets and liabilities are performed in the term generally established by regulation or market convention.

For comparative purposes, the effect of this change in the recording methodology is presented in note 7.

Loans to central banks 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 FLAR's business model for managing 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.

The transaction costs are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, if any, on initial recognition.

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

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

Trading Investments are presented at fair value through profits and losses. Investments at amortized cost are those held for the purpose of obtaining cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- 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.

Deposit liabilities are measured at amortized cost, as explained in notes 5 and 14.

Determination of fair value

To show how fair values have been derived, 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 Mortgage-Backed Securities MBS guaranteed by US agencies (Fannie Mae, Freddie Mac and Ginnie Mae), are valued using the bid price provided by external price providers, in line with standard market practice. The main pricing provider is ICE-Interactive Data Corp. FLAR 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 trade 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 trades 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.

Historical cost: Corresponds to the cash amount 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through profits or losses

The assets at fair value through profits and losses FVTPL are designated by FLAR and are those that FLAR or its portfolio managers expect to dispose of at any time. These assets are valued at market prices or rates in accordance with the criteria and hierarchy levels established for their valuation.

i. A financial asset will be classified as FVTPL if:

- It is purchased with the objective of selling in a short period; or
- On its initial recognition, it is part of a portfolio of identified financial instruments that FLAR jointly manages, and for which there is a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

ii. A financial asset that is not held for trading purposes may be designated as a financial asset at fair value through profits or loss at the time of initial recognition if:

- Such designation eliminates or significantly reduces a valuation or recognition inconsistency that would otherwise arise.
- 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. This is in accordance with FLAR's documented risk management and investment strategy, and information on that group is provided internally on the same basis.
- It is part of a contract that contains one or more embedded derivatives and IFRS 9 -Financial Instruments- allows the entire hybrid contract to be designated at fair value through profits or loss.

iii. Financial assets at fair value through profit or loss are recorded by recognizing any gain or loss arising from their revaluation. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in "Gains (losses) on marketable securities transactions". Fair value is determined as described in Note 2 – *Presentation Basis.*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative contracts and hedging transactions

FLAR’s investment guidelines, contained in Agreement No. 324 of April 30, 2005 and its amendments, allow the use of interest rate swaps, bonds and interest rate futures contracts and currency forward agreements for the management of its investment portfolios, within the market and counterparty risk limits established in the same Agreement.

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 higher than any of the following: Standard & Poor’s A-, Moody’s A3 and Fitch A-.

The general purpose of the financial derivative instruments being utilized is to hedge the risks of the international reserves investment portfolio and improve the portfolio's performance. FLAR does not designate derivatives to hedge specific assets for accounting purposes nor does it apply hedge accounting. For this reason, on the date in which derivatives are traded, they are maintained as marketable assets at fair value. Any changes in their market value are recorded on the income statement.

They are recorded as financial assets when their fair value is positive and generate rights, and as financial liabilities when their fair value is negative and generates an obligation.

Impairment of financial assets

At the end of each reporting period, financial assets other than financial assets at fair value through profit or loss, such as: active deposits, securities at amortized cost and loans granted, are tested for impairment.

For financial assets (deposits and securities) carried at amortized cost, the amount of the impairment loss is recognized as the difference between the carrying amount of the asset and the present value of future cash flows, discounted at the effective interest rate of the financial asset.

For loans granted, FLAR developed the accounting impairment model under IFRS 9, taking into account the usual practices of similar multilateral organizations and the de facto PCT that sovereigns give to these organizations.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

The previous point refers to the fact that sovereigns traditionally continue to pay their financial obligations to multilaterals, even when they have defaulted to private sector creditors. In addition, in cases where sovereigns have arrears with multilaterals, they generally settle them before those with private sector creditors.

The de facto PCT has been instrumental in multilaterals historically experiencing lower default rates and higher recovery rates than commercial lenders have on their sovereign exposures.

Financial assets with the exception of financial assets at fair value through profit or loss, are tested for impairment at the end of each reporting period. Some of these assets include: loans granted, active deposits and securities at amortized cost.

For financial instruments carried at amortized cost, the amount of the impairment loss is understood as the difference between the asset's carrying amount and the present value of future cash flows, discounted at the financial asset's effective interest rate.

In 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:

- The de facto PCT, which has been tested on multiple occasions during the more than 40 years of its existence.
- The unique relationship that FLAR has 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 review their reasonable capacity to repay.

Among the particularities of FLAR is the power of the Board of Directors to approve the repayment of a portion of the paid-in capital to a member country when it has operations in arrears or delayed for more than 180 days and meets at least one of the following indicators at the date of evaluation by the Board of Directors: i) An accumulated fall in 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

The aforementioned power of the Board of Directors was granted by the Assembly of Representatives in a General Capital Refund Policy approved by Agreement 213 of 2020.

Once the reimbursement has been made, a compensation of the reciprocal obligations between FLAR (reimbursement of a portion of the paid-in capital) and the member (payment of the credit) takes place. In addition to this General Policy, FLAR's Regulations provide that the profits of each financial period that FLAR must pay to its member countries may be offset against the obligations that any of them may have with FLAR and which are overdue. In both cases, the obligations are settled on a net basis, thus acting as a collateral or as a subsequent financial covenant when the situation so requires.

Therefore, the expected credit 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 impairment stages defined by FLAR for loans granted and securities at amortized cost:

Stage 1 - Assets with no evidence of impairment in their credit quality. To this category belong investments that are up to date or have a delay or arrears up to 180 days and investments that are up to date or have a delay or arrears that do not exceed the grace period contained in the prospectus and, in its absence, up to 30 days. In this case, a provision is made for expected losses over a 12-month horizon, following the methodology explained above.

Additionally, interest is recognized in accordance with the terms of the loan or investment.

Stage 2 - Assets with a significant decrease in their credit quality. The conditions for classification depend on the type of asset as follows:

- **Loans granted**: A loan falls into this category when it presents delay or arrears of more than 180 days in its payments or default is contractually declared, whichever occurs first. In this case, and as of that moment, a provision is made for expected credit losses, evaluated for the next 12 months, corresponding 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 repaid, even if they become more than 180 days past due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

- **Investments**: An investment falls into this category when it is in arrears for more than the grace period (according to the prospectus) or more than 30 days in arrears 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, the investment guidelines establish that when an investment ceases to comply with the policies, there is a 30-day term to liquidate it, so the investments would be classified in this stage if it were not possible (or not deemed convenient) to liquidate them in that window of time.

Stage 3 - Assets with objective evidence of impairment. As in the previous stage, the conditions for classification depend on the type of asset, as follows:

- **Loans granted:** given the de facto PCT 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 status if the debtor avails itself of the bankruptcy laws of its jurisdiction. In this case, the provision is made in default category, assuming an expected recovery rate of 55% or higher as determined in the settlement process.

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. This adjustment will take place until the point at which the carrying amount of the investment at the date the impairment was reversed, does not exceed the amortized cost that would have occurred had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

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

- The allowance for expected credit losses on loans granted and securities at amortized cost.
- Impairment on real estate fixed assets.

In addition to the above, FLAR has determined that there is no indication of additional impairment that requires recording and disclosure in its financial statements.

***Write-off of financial assets* -** FLAR writes-off a financial asset when the contractual rights to the cash flows from the financial asset expire or when substantially all the risks and rewards of the ownership of the financial asset are transferred.

FLAR recognizes its participation in the asset and the associated obligation for the amounts it would have to pay; if FLAR neither transfers nor retains substantially all the risks and rewards of ownership, it continues to retain control of the transferred asset.

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

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 profit or loss.

ii. On the write-off of a financial asset other than in its entirety (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 that it continues to recognize by virtue of its continuing involvement and the part that it no longer recognizes on the basis of the relative fair values of those parts at the date of the transfer.

(US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

The difference between the carrying amount attributable to the part that is no longer recognized, and the sum of the consideration received for the unrecognized part, and any cumulative gain or loss allocated in other comprehensive income, is recognized in profit or loss, should any difference occur.

The cumulative gain or loss that has been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts.

Property and equipment

FLAR's fixed assets are presented in Financial Statements at historical cost less accumulated depreciation. For the category of real estate, accumulated impairment losses are presented in other comprehensive income.

Depreciation is recognized to take the cost of assets over their useful lives, to profit and loss. The estimated useful life, residual value, and depreciation method are reviewed each year, and the effect of any change in the recorded estimate is recognized on a prospective basis. Depreciation is calculated at annual rates by the straight-line method, based on the probable useful lives of assets.

Category	Useful Life	%
Real Estate	According to appraisal (76 year as of 31/12/2020)	1.2
Computing equipment	3 years	33.0
Office equipment	10 years	10.0
Furniture and fixtures	10 years	10.0
Vehicles	5 years	20.0

FLAR's subsequent measurement policy for the real estate category is the revalued-cost model; the other categories of fixed assets use the cost model. FLAR periodically evaluates the fair value of its fixed assets with the support of an independent specialized firm.

During 2020, as a result of the periodic evaluation of the fair value of the property mentioned, it was determined that the real estate asset showed a decrease in its fair value. Applying the revalued-cost model, the value adjustment was made in other comprehensive income. For further details see Note 13 Property and net equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

An item of property and equipment is written-off when its ownership is transferred or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising from the sale or write-off of an item of property and equipment is calculated as the difference between the proceeds received from the sale and the carrying amount of the asset, and is recognized in profit or loss.

Employees' severance and retirement benefits

Colombian employees are covered under the Colombian social security system. For international expatriate employees, FLAR has contracted an international insurance company for pension savings and a policy covering the risk of disability and death.

FLAR is responsible for three retires under the defined benefits plan; therefore, and in accordance with IAS 19 -Employee Benefits- it has an estimated actuarial liability corresponding to the present value of allowances payable and the medical plan for the same retirees.

In accordance with IAS 19 -Employee Benefits-, for the allowances and the retiree's medical plan, their present cost is determined using the projected unit credit method, with actuarial valuations performed at the end of each reporting period.

FLAR has recognized 100% of the estimated liabilities of its employees related to social and other benefits, allowances and the medical plan of its three retirees.

It has no assets related to these liabilities. As defined by IAS 19, the annual remeasurements of the obligations with its retirees are recognized in equity in other comprehensive income.

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

- Service cost (including current service cost, as well as gains or losses from curtailments or settlements).
- Net interest expenses or revenues.
- Actuarial remeasurements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' severance and retirement benefits (continued)

FLAR records the first two components of the defined benefit costs as a gain or loss in the period results. Actuarial remeasurements are recorded in other comprehensive income.

The post-retirement benefit obligations recognized in the statement of financial position represent the current gains and losses on FLAR's defined benefit plans from retirees' dependents.

Any gain arising from this calculation is limited to the present value of any economic benefit available from refunds and reductions of future contributions to the plan.

The fair values of the allowances and the retiree medical plan as of December 31, 2020 were recognized in accordance with the actuarial calculation performed by an independent firm. See Note 14 Other Liabilities.

Short-term employee benefits and other long-term benefits

At the annual closing, a liability is recognized for benefits corresponding to current employees that include their salaries, vacations and other benefits according to the regulations. This liability is caused by the period of service rendered and by the undiscounted amount of benefits expected to be paid for such service.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

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

Financial liabilities – Financial liabilities are classified as financial liabilities at amortized cost and corresponds mainly to demand deposits and time deposits from central banks and other institutions.

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 payable, are recognized in income.

Other financial liabilities

Other - Other financial liabilities correspond mainly to commissions received on loans granted and interest payable on demand deposits and deposits received.

Accounts payable to suppliers, short-term labor obligations and the pension liability for allowances and medical plan of the three retirees are detailed in note 15 -Other liabilities.

For disclosure purposes, FLAR shows a disaggregated presentation of principal and interest on deposits received.

Equity

A member country may not withdraw, dispose of, or grant as collateral its paid-in capital contributions to the Fund, unless it denounces the Constitutive Agreement, and the denunciation is fully effective. In this case, FLAR shall pay the withdrawing member its paid-in capital, after offsetting its outstanding obligations to FLAR. If any outstanding obligation is remaining (in favor of the member or FLAR), a guarantee of payment must be provided.

A member country that withdraws is not entitled to any part of FLAR's reserves until the remaining members withdraw.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (continued)

FLAR's Assembly of Representatives approved through Agreement 213 of March 24, 2020 a general policy that allows FLAR the possibility of repaying part of the paid-in capital of a member, when such member has one or more loans in arrears or overdue for 180 days or more, and the country meets at least one of the following criteria evaluated by FLAR: i) A cumulative drop in real gross domestic product of more than 30% in the last three years and/or ii) An annual inflation rate higher of more than 100% in the last three years.

The reimbursed paid-in capital will be used exclusively for the payment by offsetting the member's obligations.

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

Reserves - FLAR Regulations establishes that institutional reserves must be at least 10% of the paid-in capital. These reserves may be used to cover eventual losses occurring in a given financial year. The institutional reserves are constituted with the additional contribution that each member makes when making a capital contributions payment, and with an amount of profits defined annually by the Assembly.

Capitalization of profits – The participation of each member in the profits of the financial year is based on the weighted average paid-in capital during the year in question.

Since 1982, FLAR's profit distribution policy has been to capitalize profits (after contributions to the institutional reserves) to make payments to each member's subscribed capital.

Capital Gains or losses, interests and expenses are recognized on an accrual basis.

Recognition of revenues and expenses

Expenses recognition: Fees from trust management and portfolio management services are accrued and recognized during the period in which the service is rendered.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of revenues and expenses (continued)

Revenue recognition: FLAR applies the IFRS Conceptual Framework, applies the accrual principle for the general recording of its revenue and expenses, and recognizes revenues from ordinary activities in a manner that reflects the transfer of goods or services.

FLAR's primary source of income includes interest income from loans granted to the central banks of member countries which are accrued from the time of disbursement and are accrued in accordance with the conditions and rates agreed in each loan.

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

Deposit revenues from brokerage activities and fees income from portfolio management and custody services provided to central banks and public institutions are accrued periodically, consistent with the conditions stipulated for each contract, and are recognized in a form that represents the transfer of goods or services committed to these counterparties.

4. NEW AND MODIFIED IFRS ISSUED

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

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

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

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

The amendment to IFRS 3 - Business Combinations - clarifies that, to be considered a business, 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. It also clarifies that an enterprise can exist without including all the inputs and processes necessary to create products.

4. NEW AND MODIFIED IFRS ISSUED (CONTINUED)

These amendments 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 going forward in case additional implementation or disclosures are required.

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 reform of benchmark interest rates.

A hedging relationship is affected if the reform results in 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, at the time of changes in the interest rates used by FLAR, the necessary adjustments and disclosures are determined. To date, FLAR has no interest rate hedging relationships in the 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

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 overstatement 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.

The amendments clarify that materiality depends 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 could 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 are no current or future impacts on these Financial Statements.

4. NEW AND MODIFIED IFRS ISSUED (CONTINUED)

Conceptual framework for financial reporting published in May 2020

The Conceptual Framework is not a standard, and none of the concepts it contains override the concepts or requirements of any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to assist preparers in developing consistent accounting policies where there is no applicable standard, and to assist all parties in understanding and interpreting the 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 amendments and there are no impacts on these Financial Statements.

4.1 IFRS 9 Financial Instruments Impacts COVID-19

The world is currently 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, including shutdowns, which have significantly disrupted economic activity.

While there is still significant uncertainty about the duration and economic impact of this pandemic, economies worldwide have seen their gross domestic product levels affected and their indebtedness has increased due to reduced income and fiscal stimulus measures.

The outbreak has increased volatility in global financial markets. FLAR's investment portfolio has a conservative profile and is composed primarily of short-term, investment-grade fixed income securities in U.S. dollars. These types of investments tend to benefit from periods of increased risk aversion, and more recently, central bank actions in developed economies to provide liquidity to the markets have largely helped their performance, so that, to date, no elements have been identified that would warrant revising the expected loss model for investments in the treasury portfolios[1].

[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)

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

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 may be periods of increases in credit spreads or higher 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-year history; FLAR has been treated as a *de facto* preferred creditor by its members, which have made payments to FLAR even when they have defaulted on their claims with other creditors.

This situation is not expected to change soon, 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 its members' balance of payments.

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-in capital, and Management registered a Medium-Term Notes debt program with the Luxemburg Stock Exchange that would allow access to financing should it be deemed desirable.

Given that the pandemic could have prolonged effects on the external position of member countries, the Board of Directors 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 applications have been received for this new line of credit.

4.2 COVID-19 impacts on operational processes

On the operational front, during most of 2020, FLAR staff worked remotely and there has been no material impact on operations. To support business continuity, critical processes (those where the absence of key personnel could affect daily operations) were reviewed and contingency plans were determined.

4. NEW AND MODIFIED IFRS ISSUED (CONTINUED)

4.2 COVID-19 impacts on operational processes (continued)

Protocols were also established to preserve the health and well-being of employees working from home and in the few instances where they have to interact in person. We are closely monitoring the evolution of the pandemic and will act accordingly, considering the safety and continuity of our operations.

5. MAIN POLICIES ON ASSET MANAGEMENT

Management and allocation of FLAR's portfolios – FLAR's financial assets are segregated in different portfolios, in accordance with the dispositions of the Board of Directors Agreement No. 324 of April 30, 2005 and its amendments. These documents contain the guidelines for the management of FLAR's assets; the definition and objectives of which are described below:

- ***Operations portfolio -*** It is comprised by the loans granted to the Central Banks of member countries and the investments related to the loans. It is divided into two sub-portfolios:

    - **Credit Operations Sub-Portfolio:**

      In this sub-portfolio, loans to member countries are classified.

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

FLAR Credit lines

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 times the paid-in capital (1.1 times for Bolivia and Ecuador)

- **Contingency:** This line has an availability period of up to 6 months, extendable at the request of the borrower for two periods of up to 6 months each, with prior authorization from FLAR. Once disbursed, the term is up to six months, extendable only once for an equal period, with prior authorization from FLAR. The limit of this line is up to 2 times the paid-in capital (2.1 times for Bolivia and Ecuador). This line must be guaranteed to the satisfaction of FLAR.

5 MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

- **Balance of payments support:** Term of up to three years with up to a one year of grace period 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 with up to a three years grace period 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.

The maximum limit to the total of credits or other financial support that a country has with FLAR may not exceed 2.5 times the paid-in capital (2.6 times in the case of Bolivia and Ecuador).

Considering the de facto PCT that members have given to FLAR throughout its history, FLAR does not differentiate in the rates of credits it gives to its members, as is the practice in other multilateral financial organizations. The credit rates are based on a variable reference rate that is adjusted quarterly and a fixed margin that seeks to incorporate the estimated cost of financing FLAR in international markets.

- **Foreign exchange management Sub-Portfolio for credit operations:**

  This portfolio was established 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.

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

  The investment objective of the Aggregate Investment Portfolio is to preserve FLAR's paid-in capital in nominal terms over a three-year investment horizon. It is understood that for investments periods of less than three years negative returns may be observed.

5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

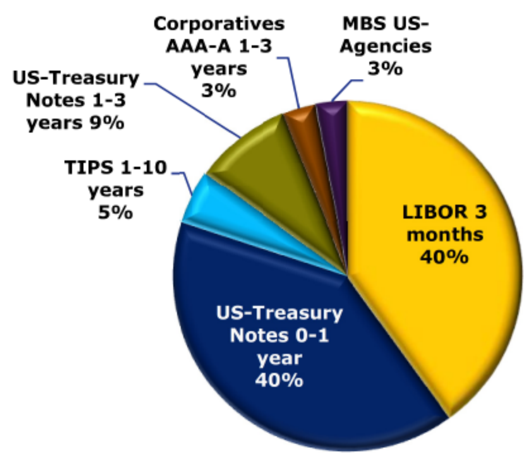
The Aggregate Investment Portfolio is structured and invested such a way that its liquidity, together with debt alternatives or other resources, allows it to meet potential credit requests from FLAR member countries.

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 treasury notes from 0 to 1 year, 9% US Treasury notes 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 (MBS) guaranteed by US Agencies. The benchmark will be reviewed by the Board of Directors every three years, or before if necessary.

Exhibit 1
Aggregate Investment Portfolio Benchmark



Source: FLAR

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

Specifically, within the scope of the ALC Asset Allocation (AAC), the ALC determines the distribution of resources to be managed internally and externally, the composition of the benchmark indices of the sub-portfolios comprising the Aggregate Investment Portfolio and the duration of the portfolio, subject to the preferences defined by the Board of Directors in the Global Risk Policy contained in the investment guidelines.

5. MAIN POLICIES ON ASSET MANAGEMENT (continued)

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

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

Intermediation Portfolio (continued)

Notwithstanding the foregoing, the resources of the Intermediation Portfolio may be used to finance loans. The limit of the resources to be used from this portfolio is up to an amount equivalent to 2.5 times the subscribed capital of a member country of small economic dimension, except for the Republic of Costa Rica.

The ALC periodically evaluates and decides the target value of the intermediation portfolio, considering the economic and market environment and the investment needs of the member countries, without this target 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 FLAR's medium-term issues and 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 these, if applicable. Currently, there are no resources allocated in this portfolio.

  In addition, the guidelines establish that FLAR must maintain at all times 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 December 31, 2020 and 2019:

(US Dollars)

5 MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

Aggregate instruments per Portfolio	December 31, 2020	December 31, 2019
Aggregate Investment Portfolio	$ 2,946,499,727	$ 2,325,770,513
Intermediation Portfolio	3,319,809,152	3,290,338,481
Operations Portfolio and foreign currency operations (1)	220,427,513	1,403,769,665
Liquidity Portfolio	18,175,271	19,923,678
Other non-financial assets	4,341,769	5,956,712
Total	**$6,509,253,432**	**$7,045,759,049**

(1) Corresponds to the loan portfolio plus the foreign currency operations sub-portfolio.

In order to disclose the results of the financial year in accordance with the portfolio structure, the following is a summary of the results obtained during 2020 and 2019:

December 31, 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	$ 29,435,891	$ 27,475,093	$ (5,734,306)	$ 21,740,787	$ –	$ 51,176,678
Intermediation	(5,393,428)	11,861,271	–	11,861,271	–	6,467,843
Operations (Loans to Central Banks)	77,420,565	(30,299)	–	(30,299)	42,242,076	119,632,342
Currency operations	185,821	3,947,753	–	3,947,753	–	4,133,574
Liquidity	889,342	235,600	–	235,600	–	1,124,942
Administrative and other expenses	–	–	–	–	(9,946,258)	(9,946,258)
Net Income 2020	**$102,538,191**	**$43,489,418**	**$(5,734,306)**	**$37,755,112**	**$ 32,295,818**	**$ 172,589,121**

December 31, 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	$ 28,268,859	$ 29,017,671	$ (3,113,896)	$ 25,903,775	$ –	$ 54,172,634
Intermediation	(27,619,345)	32,212,100	–	32,212,100	–	4,592,755
Liquidity	1,269,714	810	–	810	–	1,270,524
Operations (Loans to Central Banks)	84,149,817	(19,630,206)	–	(19,630,206)	6,830,192	71,349,803
Currency operations	919,900	(527,380)	–	(527,380)	–	392,520
Administrative and other expenses	–	–	–	–	(8,249,485)	(8,249,485)
Net Income 2019	**$ 86,988,945**	**$ 41,072,995**	**$ (3,113,896)**	**$ 37,959,099**	**$ (1,419,293)**	**$123,528,751**

5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

Description of FLAR's portfolios investment guidelines

The investment guidelines are contained in Board of Directors Agreement 324 dated April 30, 2005 and its amendments. These documents establish the eligible investment instruments and FLAR's tolerance to market, credit and liquidity risks.

The following is a brief description of the most relevant investment guidelines:

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

- Admissible securities: Government Bonds, Government Agency Bonds, Corporate Bonds, Mortgage Backed Securities (MBS and CMO) issued by U.S. agencies (Government Sponsored Enterprises – GSE), as well as discount notes and commercial papers.

- The maximum maturity for U.S. Treasury bonds, MBS 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 and floating rate yields.

- Short-term securities shall have a short-term credit rating of not less than any of the following: Standard and Poor's A-2, Moody's P-2, and Fitch Ratings F-2.

- Medium-term securities may not have a credit rating 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 EAM may invest up to 5% of their portfolio's market value in financial instruments indexed to the Standard & Poor's 500 (SPX Index). EAM 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). 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.

(US Dollars)

5. MAIN POLICIES ON ASSET MANAGEMENT (CONTINUED)

Description of FLAR's portfolios investment guidelines (continued)

Financial instruments are recognized and valued in accordance with the investment objectives above and grouped into two categories: at fair value through profit or loss and amortized cost.

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 asset is one of the allowed indexes.

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

6. RECOGNITION OF NEGOTIATED TRANSACTIONS FOR FINANCIAL STATEMENTS PRESENTATION

As mentioned in Note 3 Significant Accounting Policies, beginning in 2020, FLAR changed its accounting policy to record its investment transactions on the trade date instead of using the settlement date.

Cash is presented on settlement date and is supplemented by receivables and payables associated with the investments traded as of the closing date. See Note 7- Cash.

For comparability purposes, certain 2019 figures published in the Statement of Financial Position and the explanatory notes were modified. The impact on each individual item of the Financial Statements affected by the aforementioned 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**

6. RECOGNITION OF NEGOTIATED TRANSACTIONS FOR FINANCIAL STATEMENTS PRESENTATION (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 statement as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Cash		
Cash on hand	$ 8,901	$ 8,541
Correspondent banks	9,530,189	7,258,163
Custodian Bank	163,183	1,237,090
Total cash in U.S dollars	**9,702,273**	**8,503,794**
Cash in Colombian Pesos expressed in U.S dollars		
Cash on hand	728	763
Local Banks	449,958	648,128
Total cash in Colombian pesos expressed in U.S dollars	**450,686**	**648,891**
Total cash	**$ 10,152,959**	**$ 9,152,685**
Average rate during the period	0.51%	0.54%
Current rate at the end of the period	0.15%	0.44%

For cash disclosure purposes, the following table presents investment purchase and sales transactions affecting cash for the internal and external portfolios as of December 31, 2020 and 2019:

(US Dollars)

7. CASH (CONTINUED)

Internal Portfolios:

December 31, 2020 Cash Internal Portfolios	Cash at settlement date	Investment operations with future settlement (liability-outflows)*	Investment operations with future settlement (assets - inflows)
Correspondent Banks	$ 9,989,776	$ –	$ 43,253,227
Custodian Bank	163,183	–	–
Totals	**$ 10,152,959**	**$ –**	**$ 43,253,227**

* Corresponds to operations with settlement dates in January 2021.

December 31, 2019 Cash Internal Portfolios	Cash at 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**

* Corresponds to operations with settlement dates in January 2020.

External Portfolios:

December 31, 2020 Cash External Portfolios	Cash at settlement date	Investment operations with future settlement (liability-outflows)*	Investment operations with future settlement (inflows-assets)
Custodian Bank	$ 22,065,782	$ (38,655,869)	$ 19,671,919
Totals	**$ 22,065,782**	**$ (38,655,869)**	**$ 19,671,919**

* Correspond to operations with settlement dates in January 2021.

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 balance presented as of December 31, 2020 and 2019, corresponds to the total term deposits constituted in international banks whose short-term credit rating may not be lower than any the following: Standard & Poor's A-2, Moody's P-2, and Fitch Ratings F2.

	December 31, 2020	December 31, 2019
Deposits in commercial banks	$ 2,326,558,484	$ 1,178,103,151
Average rate for the period	0.54%	2.29%
Average rate of balances at end of the period	0.19%	1.76%
Maximum term to maturity (1)	28 days	2 days

(1) As a part of FLAR's investment strategy, these investments in deposits are expected to be renewed or replaced by similar securities at maturity. Therefore, these investments are not included in cash and cash equivalents, despite having maturities of up to 28 days.

The following is a list of deposits outstanding as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
JP Morgan Chase (1)	$ 492,483,993	$ 454,047,529
Bank for international Settlements BIS	860,030,689	–
Citibank (1)	385,093,844	506,471,428
Standard Chartered	150,047,806	–
Zurich Kantonal Bank – Switzerland	150,007,500	–
Bank Of Nova Scotia (1)	140,515,688	–
Bank of America (1)	147,963,734	49,468,642
Banco de Occidente (COP)	607,019	–
HSBC (1)	82,967	77,753
Wellsfargo (1)	1,040	168,311,384
	2,326,834,280	**1,178,376,736**
Expected losses over time deposits at amortized cost	(275,796)	(273,585)
Total deposits on commercial banks	**$ 2,326,558,484**	**$ 1,178,103,151**

(1) Interest-bearing demand accounts at correspondent banks.

Income from deposits with commercial banks for the years ended on December 31, 2020 and 2019 is presented below:

Interest income from commercial deposits	December 31, 2020	December 31, 2019
Intermediation portfolio	$ 7,569,693	$ 42,194,556
Liquidity portfolio (1)	889,342	1,269,714
Investment portfolio	1,152,528	644,106
Total interest income from financial instruments	**$ 9,611,563**	**$ 44,108,376**

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

8. DEPOSITS IN COMMERCIAL BANKS (CONTINUED)

FLAR maintains Term Deposits Certificates – CDT- constituted in Colombian Pesos, with which it manages the liquidity of its operating budget in this currency. Below is the value of these instruments as of December 31, 2020 and 2019:

Term deposits in commercial banks in Colombian pesos (expressed in US Dollars)	December 31, 2020	December 31, 2019
Term deposit certificates in COP	$ 582,666	$ –
Average interest rate for the period calculated on monthly basis	5.01%	–
Income from term deposits in COP	**$ 85,515**	**$ –**

As of December 31, 2020 there are no restrictions on deposits in commercial banks.

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

Based on IAS 1 P.57.b, financial instruments are grouped below according to the nature and operations of FLAR, in order to permit 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- Securities at fair value through profit or 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.

- Types of instruments presented in accordance with the defined business model, the established business lines and FLAR's guidelines mentioned in Note 3 - Significant accounting policies and Note 5 - Main policies in asset management.

- Income from financial instruments for the periods reported.

(US Dollars)

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

Below is the distribution of the financial instruments that comprise the total investments of FLAR's portfolios, as of December 31, 2020 and 2019. These investments correspond mainly to investments in short and medium-term fixed and floating 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- according to Standard & Poor's, Moody's or Fitch, respectively for the three years ended December 31, 2020 and 2019. See note 21 Risk Management.

Total investment portfolio as of December 31, 2020:

December 31, 2020	Level	Fair value through profit or loss
1) Trading securities		
U.S. treasury bonds	1	$ 917,750,767
Corporate bonds	1	420,849,205
U.S. Treasury bills	1	202,086,431
Sovereign bonds	1	198,985,916
Collateralized debt obligations (1)	1	173,690,766
U.S. Treasury Inflation Protected Securities-TIPS	1	141,914,534
Money market securities	1	22,065,782
Exchange traded funds ETF	1	1,243,123
Total Trading securities		**$2,078,586,524**

	Amortized Cost
2) Securities at amortized cost	
Sovereign money market securities	$ 802,913,221
Financial money market securities	1,003,114,053
Expected losses from financial money market securities at amortized cost	(237,630)
Expected losses from sovereign money market securities at amortized cost	(141,102)
Total Securities at amortized cost	**$1,805,648,542**

(1) These securities are backed by home loans that comply with 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, which is shown separately for disclosure purposes in the notes (see note 7).

Total investment portfolio as of December 31, 2019

December 31, 2019	Level	Fair value through profit or loss
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
U.S. Treasury bills	1	9,995,110
Exchange traded funds ETF	1	1,051,096
Total Trading securities		**$ 1,460,261,745**

(US Dollars)

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

December 31, 2019		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 comply with 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, which is shown separately for disclosure purposes in the notes (see note 19).

Interest income earned from financial instruments managed internally and managed by EAM, for the years ended December 31, 2020 and 2019, is presented below:

Interest income		December 31, 2020		December 31, 2019
Interest income from financial instruments – Investment sub-portfolio	$	3,310,221	$	11,788,761
Interest income from financial instruments – Intermediation sub-portfolio		16,110,616		11,384,219
Interest income from financial instruments – External Asset Managers sub-portfolio		12,172,746		15,835,992
Total interest income from financial instruments	**$**	**31,593,583**	**$**	**39,008,972**

For further information, Note 21 – Risk management – presents the distribution of maturities of the financial securities in the portfolios.

9.1 Internally managed portfolios

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

The investment balance of the internally managed portfolios as of December 31, 2020 and 2019 is presented below:

(US Dollars)

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

9.1 Internally managed portfolios (continued)

Internally managed portfolios	**December 31, 2020**	**December 31, 2019**
1) Trading securities with changes in profits and losses		
U.S. Treasury bonds	$ 904,945,926	$ 639,482,952
U.S. Treasury bills	139,990,400	–
U.S. Treasury Inflation Protected Securities-TIPS	131,470,961	124,509,875
Corporate bonds	95,366,126	80,803,328
Sovereign bonds	119,754,313	5,325,250
Mortgage backed securities	36,993,067	–
ETFs	2,163	2,127
Total Trading securities	**$ 1,428,522,956**	**$ 850,123,532**

Internally managed portfolios	**December 31, 2020**	**December 31, 2019**
2) Securities at amortized cost		
Financial Money Market securities	$ 983,822,006	$ 2,011,982,255
Sovereign Money Market Securities	801,915,025	807,700,899
Expected losses from financial money market securities at amortized cost	(232,615)	(640,173)
Expected losses from sovereign money market securities at amortized cost	(140,832)	(213,547)
Total securities at amortized cost	**$ 1,785,363,584**	**$ 2,818,829,434**
Total investments managed internally 1+2	**$ 3,213,886,540**	**$3,668,952,966**

In the Financial Statements, investments at amortized cost include expected credit losses on securities. For disclosure purposes, they are presented separately in this section (see note 12).

9.2 Externally managed portfolios

External asset managers (EAM) manage part of the funds of the Aggregate Investment Portfolio 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 externally managed portfolios as of December 31, 2020 and 2019:

(US Dollars)

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

9.2 Externally managed portfolios (continued)

Externally managed portfolios	December 31, 2020	December 31, 2019
1) Trading securities with changes in profits and losses		
Corporate bonds	$ 325,483,079	$ 334,096,211
Mortgage backed securities (1)	136,697,700	164,036,160
Sovereign bonds	79,231,602	84,154,387
U.S. Treasury bills	62,096,031	9,995,110
Money market securities	22,065,782	–
U.S. treasury bonds	12,804,840	10,254,886
U.S. Treasury Inflation Protected Securities-TIPS	10,443,573	6,552,489
ETFs	1,240,960	1,048,970
Total Trading securities at Fair Value	**$ 650,063,567**	**$ 610,138,213**
2) Securities at amortized cost		
Financial Money Market securities	19,292,047	37,358,131
Sovereign Money Market Securities	998,196	–
Expected losses from financial money market securities at amortized cost	(5,015)	(11,297)
Expected losses from sovereign money market securities at amortized cost	(269)	–
Total securities at amortized cost	$ 20,284,959	$ 37,346,834
Total securities managed externally 1+2	**$ 670,348,526**	**$ 647,485,047**

(1) These securities are backed by housing loans and are guaranteed by U.S Government Sponsored Entities-GSE.
(2) In the financial statements, investments at amortized cost include the expected credit losses. For disclosures in the notes, it is shown separately (see note 12).

9.3 Fair values of other financial assets and liabilities

Other assets and liabilities are stated at carrying amount and represent the best estimate of fair value due to their short maturity.

Other assets correspond to cash, cash in banks and demand deposits with commercial banks, which by definition correspond to cash and cash equivalents. These assets are immediately convertible into cash and have an insignificant risk of changes in value.

On the other hand, FLAR's financial liabilities correspond to demand deposits received from central banks and other official institutions with demand terms and maturities of less than one year, callable in cash without any restrictions, and accounts payable related to administrative and operating expenses, with no significant changes in value.

(US Dollars)

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

9.3 Fair values of other financial assets and liabilities (continued)

The carrying amount represents the best estimate of fair value due to the short term to maturity and corresponds to their amortized carrying value. The estimated fair values of these FLAR financial instruments are as follows:

	December 31, 2020		December 31, 2019	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Level 1				
Assets				
Cash and Banks	$ 10,152,959	$ 10,152,959	$ 9,152,685	$ 9,152,685
Deposits in commercial banks	2,326,558,484	2,326,558,484	1,178,103,151	1,178,103,151
Level 2				
Liabilities				
Interest-bearing deposits	3,283,854,592	3,283,854,592	3,258,957,043	3,258,957,043
Interest payable on deposits received	328,293	328,293	6,041,006	6,041,006
Other liabilities	3,158,805	3,158,805	2,388,079	2,388,079

Loans to Central Banks – The main purpose of FLAR as a multilateral entity is to grant countercyclical financial assistance to its members, which are sovereign states. 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 –PCT- that members have granted FLAR throughout its history, and the non-existence of a principal or more advantageous market for the type of loans granted, FLAR considers that it is impracticable to determine a fair value for these loans. See Note 11 - Loans to Member Central Banks.

9.4 Fair value of securities at amortized cost

The disclosure of the estimated fair value of investments at amortized cost as of December 31, 2020 is as follows:

	Level	Fair Value	Amortized Cost
Investments at amortized cost			
Sovereign money market securities	2	$ 1,003,267,135	$ 1,003,114,053
Money market financial securities	2	803,199,689	802,913,221
Expected losses on money market financial securities at amortized cost		–	(237,630)
Expected losses on sovereign money market securities at amortized cost		–	(141,102)
Total investments at amortized cost		**$ 1,806,466,824**	**$ 1,805,648,542**

(US Dollars)

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

9.4 Fair value of securities at amortized cost (continued)

The estimated fair value of the investments at amortized cost as of December 31, 2019 is as follows:

	Level	Fair Value	Amortized Cost
Investments at amortized cost			
Financial money market securities	2	$ 2,049,923,496	$ 2,049,340,387
Sovereign money market securities	2	808,107,307	807,700,899
Expected losses on financial money market securities at amortized cost		–	(651,471)
Expected losses on sovereign money market securities at amortized cost		–	(213,547)
Total investments at amortized cost		**$ 2,858,030,803**	**$ 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 manner within portfolios, with the purpose of managing interest rate and foreign exchange risk exposures or to take positions in the authorized markets and always complying 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 gains and losses are recognized in current earnings.

The market value of derivative instruments is as follows:

			December 31, 2020		December 31,2019	
	Level	Maturity	Assets	Liabilities	Assets	Liabilities
External portfolios forwards	2	60 to 90 days	$ 105,672	$ (40,434)	$ 85,601	$ (41,413)
Internal portfolios forwards	2	0 to 60 days	–	–	64,851	(39,717)
Treasury bonds futures external portfolios	1	0 to 30 days	756,126	–	628,705	–
Treasury bonds futures internal portfolios	1	0 to 30 days	819,141	–	1,537,087	–
			$ 1,680,938	**$ (40,434)**	**$ 2,316,244**	**$ (81,130)**

Income generated from realized and unrealized gains/losses from derivative instruments, for the years ended December 31, 2020, and 2019, are presented below:

(US Dollars)

10. DERIVATIVE INSTRUMENTS (CONTINUED)

	December 31, 2020		December 31, 2019	
	Realized Profit/ (Losses)	Unrealized Profit/ (Losses)	Realized Profit/ (Losses)	Unrealized Profit/ (Losses)
Forwards external portfolios	$ (320,260)	$ 21,050	$ (82,366)	$ 44,188
Forwards internal portfolios	53,832	(25,134)	(142,450)	25,117
Treasury bonds futures external portfolios	(4,235,249)	–	(1,538,853)	–
Treasury bonds futures internal portfolios	(1,228,545)	–	(1,419,532)	–
	$ (5,730,221)	**$ (4,084)**	**$ (3,183,201)**	**$ 69,305**

As of December 31, 2020 and 2019, the U.S. Treasury note and interest rate future contracts had the following composition:

Future	Contracts	Value per contract	Market Price	Notional
			December 31, 2020	
FV2103FV	Short 855	100,000	126.05	(107,774,460)
TU2103TU	Long 71	200,000	110.16	15,642,152
TY2103TY	Short 410	100,000	138.03	(56,590,250)
US2103US	Short 24	100,000	173.06	(4,153,440)
UX2103UX	Short 10	100,000	156.12	(1,561,150)
UT2103UT	Short 4	100,000	213.18	(852,720)
FV2103FV	Short 885	100,000	126.05	(107,774,460)
TU2103TU	Long 71	200,000	110.16	15,642,152
TY2103TY	Short 410	100,000	138.03	(56,590,250)

Future	Contracts	Value per contract	Market Price	Notional
			December 31, 2019	
ED2003ED	Short 38	1,000,000	98.27	(9,335,175)
ED2006ED	Long 2	1,000,000	98.31	491,550
UX2003UX	Short 8	100,000	140.23	(1,121,800)
TU2003TU	Long 57	200,000	107.24	12,225,360
FV2003FV	Short 268	100,000	118.20	(31,676,260)
UT2003UT	Short 21	100,000	181.21	(3,805,410)
US2003US	Short 4	100,000	155.29	(621,160)
TY2003TY	Short 381	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 countercyclical lender. FLAR permanently monitors the macroeconomic situation of the economies with which it has lending operations, as well as that of its other member countries.

(US Dollars)

11. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

The detail of loans to central banks is as follows:

	December 31, 2020	December 31, 2019
Loans granted to Member Central Banks	$ 123,983,293	$ 1,354,014,558
Provision for expected credit losses	(233,553)	(42,789,092)
	$ 123,749,740	**$1,311,225,466**

Details and events related to loans to central banks during 2020 and 2019 are presented below:

i. Central Bank of Costa Rica: Balance of Payments Support Credit approved through Board of Directors Agreement No. 433 of October 2, 2017, in the amount of $1,000,000,000, and disbursed on March 9, 2018.

This loan had a term of three (3) years, including a one-year grace period for the beginning of the principal payment. After this term, amortization was quarterly in equal capital installments of principal. 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 loan was prepaid in full on January 13, 2020.

ii. Central Bank of Venezuela (CBV): Exceptional Macroeconomic Stability and External Liquidity Credit approved through Board of Directors Agreement No. 445 of April 2, 2018, in the amount of $ 436,449,827.70.

This amount 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. Amortization was in equal principal installments according to the payment schedule. The interest rate of the loan was 3-month LIBOR + 489 b.p. payable quarterly.

At the time the loan was granted, the CBV was subject to sanctions imposed by the U.S. government through the Office of Foreign Assets Control (OFAC).

These sanctions restrict transactions or any activity that involves U.S. persons or the U.S. financial system, unless there is a license granted by OFAC. Considering this, the Credit Agreement entered into between CBV and FLAR (the "Agreement") had the possibility of making payments in currencies other than the U.S. dollar.

11. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

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

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

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

Accordingly, the entire quarterly interest due on February 28, 2019 for $8,288,870 was paid in full and a fraction of the interest due on May 30, 2019 of $7,181,541 was paid. As a result, part of the interest and the first installment of capital remained past due.

On November 26, 2019, the loan completed 180 days past due. As a result, it was classified as Stage 2 and its provisions increased to 10% to $42,335,101, in line with FLAR's expected credit loss model (See Note 3 - Impairment of financial assets). The loan was classified in non-accrual status and $14,776,458 of accrued but unpaid interest was reversed affecting earnings 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) maintained it in Stage 2. This was because it considered that there were no changes in the credit risk profile of the operation, and therefore, it was not necessary to establish additional provisions.

On March 25, 2020, FLAR offset Venezuela's fiscal year 2019 profit sharing of $18,398,339.12 against part due interest and part of the unpaid interest on the loan.

11. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

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

i) A cumulative fall of real gross domestic product of more than 30% over the last three years and / or

ii) An annual inflation rate of over 100% in the last three years.

In line with this decision, FLAR's Board of Directors approved the reimbursement of a portion of the paid-in capital by Venezuela. Additionally, the Board of Directors, considering that the Loan agreement contemplated the possibility that FLAR at its option could accelerate the credit, FLAR –without having presented a change in the risk, considered that the most favorable outcome for both parties was to proceed to make the whole of the credit due so that it would be paid-in full. On this premise, FLAR exercised its right to accelerate the CBV Credit to collect not only the payments in arrears, but all the amounts associated with the CBV Credit.

As of March 26, 2020, the total amount used for payment under this mechanism was $466,849,210.91, which includes the balances owed for past due interest, ordinary interest, credit risk commissions and the total principal of the loan. Thus, the CBV is up to date with FLAR with no outstanding obligations to date.

iii. Central Bank of Ecuador: Balance of payments support loan approved by Board of Directors Agreement No. 434 dated of October 2, 2017; for $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 principal payment. Subsequently, amortization was quarterly in equal installments of principal. The rate is three-month LIBOR + 326 b.p., which on December 31, 2020 was 3.494%. The principal balance of this loan on December 31, 2020 was $122,933,331.86. At the closing of these Financial Statements, the loan 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 years ended December 31, 2020 and 2019, is presented below:

(US Dollars)

11. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

	December 31, 2020	December 31, 2019
Interest income on balance of payments loans to member Central Banks	$ 38,075,130	$ 84,068,837
Interest income on overdue interest on balance of payments loans to member Central Banks	2,084,753	80,980
	$ 40,159,882	**$ 84,149,817**

The operation of reimbursement of paid-in capital and offsetting obligations presented the following movements, which did not represent a cash movement:

	December 31, 2020	December 31, 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 December 31, 2020 and 2019, the unamortized value of commissions received for loans granted amounted to $1,048,346 and $13,327,626 respectively.

FLAR permanently monitors the macroeconomic context of the countries with which it has lending operations, as well as that of its other member countries.

12. EXPECTED LOSSES

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

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

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

(US Dollars)

12. EXPECTED LOSSES

For amortized cost investments, FLAR uses the probability of default associated with the issuer's long-term average rating, and a recovery rate of 55%.

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

	December 31, 2020	December 31, 2019
Expected Credit Losses on loans granted.	$ (233,554)	$ (42,789,092)
Expected Credit Losses on securities at amortized cost	(654,527)	(1,138,602)
	$ (888,081)	**$ (43,927,694)**

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

Expected Losses changes on credits	**December 31 2020**	**December 31 2019**
Beginning balance of provisions	$ (42,789,092)	$ (23,158,884)
Provision expenses	(30,299)	(19,630,206)
Recovery of provisions on loans granted	42,585,837	–
Dollar adjustment	–	(2)
Ending balance of provisions for expected loss on loans granted	**$ (233,554)**	**$ (42,789,092)**

The movement in expected losses in the accumulated statement of income (expense/recovery) as of December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Expenses for provisions on loans granted	$ (30,299)	$ (19,630,206)
Recovery of provisions on securities at amortized cost	484,076	(155,000)
Recovery of provisions for loans granted	42,585,837	-
	$ 43,039,614	**$(19,785,206)**

Within the conditions agreed for the loans, funds were received as a credit risk commission. As of December 31, 2020, the balance of these funds is $1,048,346. These values are amortized as income during the life of the loan. The amortized value for this concept as of December 31, 2020 corresponds to $37,260,683.

(US Dollars)

13. NET PROPERTY AND EQUIPMENT

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

	December 31, 2020	December 31, 2019
Real estate	$ 4,485,884	$ 4,485,884
Furniture and fixtures	155,423	198,507
Office and computer equipment	1,727,355	1,688,604
Vehicles	119,828	119,828
Total Fixed Assets – Gross	**6,488,490**	**6,492,823**
Less cumulative depreciation	(2,125,329)	(2,047,181)
Less real state impairment	(2,188,439)	-
Total Fixed Assets – Net	**$ 2,174,722**	**$ 4,445,642**

The following were the movements presented in property and equipment:

	Real estate	Furniture and fixtures	Office and computer equipment	Vehicles
		Cost		
As of December 31, 2019	**$ 4,485,883**	**$ 198,507**	**$ 1,688,604**	**$ 119,828**
Additions	–	4,555	81,616	–
Property Deterioration*	–	(47,639)	(42,865)	–
Sales/Retire	(2,188,439)	–	–	–
As of December 31, 2020	**$ 2,297,444**	**$ 155,423**	**$ 1,727,355**	**$ 119,828**
		Cumulative Depreciation		
As of December 31, 2019	**$ (320,785)**	**$ (169,145)**	**$ (1,458,709)**	**$ (98,541)**
Charge for Depreciation	(47,061)	(3,749)	(105,136)	(7,983)
Amount for Sales/Retire	–	44,091	41,689	–
As of December 31, 2020	**$ (367,846)**	**$ (128,803)**	**$ (1,522,156)**	**$ (106,524)**
		Net Book Value		
December 31, 2019	**$ 4,485,883**	**$ 198,507**	**$ 1,688,604**	**$ 119,828**
December 31, 2020	**$ 1,929,598**	**$ 26,620**	**$ 205,199**	**$ 13,304**

* 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.

14. DEPOSITS RECEIVED

The balance of this account comprises deposits received from member and non-member Central Banks and other Latin American official institutions. The detail as of December 31, 2020 and 2019 is as follows:

(US Dollars)

14. DEPOSITS RECEIVED (CONTINUED)

	December 31, 2020	December 31, 2019
Demand deposits		
Balance	$ 28,037,318	$ 172,411,771
Average rate during the period	0.43%	1.64%
Average effective rate the end of the period	0.00%	1.20%
Maximum days to maturity	On demand	On demand
Term deposits		
Balance	$ 3,255,817,275	$ 3,086,545,272
Average rate during the period	0.39%	2.06%
Average effective rate the end of the period	0.13%	1.49%
Maximum days to maturity	187	553

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

	December 31, 2020	December 31, 2019
Interest payable on term-deposits from central banks	$ 92,347	$ 4,832,459
Interest payable on term-deposits from other official institutions	235,946	1,208,547
Total interest expenses payable on deposits received	**$ 328,293**	**$ 6,041,006**

Interest expense on deposits received from Central Banks and other institutions, for the years ended December 31, 2020 and 2019, is presented below:

	December 31, 2020	December 31, 2019
Interest on demand deposits received from central banks	$ 333,412	$ 2,406,437
Interest on term deposits received from central banks	7,508,259	46,812,878
Interest on term deposits received from other official institutions	8,431,670	31,978,804
Total interest expenses on deposits received	**$ 16,273,341**	**$ 81,198,119**

15. OTHER LIABILITES

Other liabilities as of December 31, 2020 and 2019, correspond mainly to accounts payable to suppliers, the actuarial calculation of the retirement pension and health insurance plan for retired personnel under FLAR and other current liabilities, as detailed below:

(US Dollars)

15. OTHER LIABILITIES (CONTINUED)

	December 31, 2020	December 31, 2019
Suppliers (1)	$ 1,545,071	$ 852,775
Other labor liabilities	1,022,760	949,145
Actuarial liability for retirees (2)	538,827	539,108
Post-employment benefits for retirees (3)	52,147	47,051
	$ 3,158,805	**$ 2,388,079**

(1) Accounts payable 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 Colombian pensioners by FLAR within the pension benefits scheme.

Changes in obligations related to pension liabilities and post-employment benefits for the years ended December 31, 2020 and 2019 are presented below:

	December 31, 2020	December 31, 2019
Retirement liabilities		
Changes in obligation:		
Benefits accrued at the beginning of the period	$ 539,108	$ 506,357
Benefits earned during the period – service cost	24,968	32,294
Interest cost of obligation	-	84,969
Benefits paid	(80,453)	(84,969)
Devaluation effect	(24,527)	(4,232)
Pension liability adjustment - OCI	79,731	4,689
Benefits accrued at the end of the period	**$ 538,827**	**$ 539,108**

	December 31, 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	2,474	2,848
Interest cost of the obligation	-	3,677
Benefits paid	(3,340)	(3,677)
Devaluation effect	(2,288)	1,298
Pension liability adjustment - OCI	8,250	2,865
Benefits accrued at the end of the period	**$ 52,147**	**$ 47,051**

15. OTHER LIABILITIES (CONTINUED)

The 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 the disclosure requirements of IAS 19 Employee Benefits*:*

Year	Pension liability	Post-employment benefits
Year 1	84,705	3,754
Year 2	76,568	3,833
Year 3	68,376	3,902
Year 4	60,365	3,960
Year 5	52,774	4,005
Next 5 years	176,435	20,170

The main assumptions used to determine the obligations of FLAR's pension plan are listed below. They are drawn from the estimates of the latest actuarial report in Colombian Pesos as of December 31, 2019.

	Pension liability	Post-employment benefits
Nominal discount rate	5.50%	5.00%
Nominal inflation rate	3.50%	3.50%
Nominal rate of pension increase	3.50%	N/A
Nominal medical inflation rate	N/A	5.50%
Census date of plan participants	31/12/2020	31/12/2020

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

16. EQUITY

Capital - FLAR's capital is comprised as follows:

Member countries	Subscribed	December 31 , 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**

(US Dollars)

16. EQUITY (CONTINUED)

	December 31, 2019		
Member countries	**Subscribed**	**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 loans or other financial support of up to 2.5 times (2.6 times in the case of Bolivia and Ecuador) to the central banks of member countries in accordance with the regulations established in the constitutive agreement. For more information on 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 plus its corresponding contributions to institutional reserves for $315,682, in compliance with the capital contributions schedule subscribed.

As previously mentioned, (See Note 3), FLAR may reimburse all or a part of capital contributions to members that are 180 days or more in arrears in the payment of their obligations and that meet certain specific conditions. In line with this provision, on March 26, 2020, FLAR reimbursed $466,849,210.91 of Venezuela's paid-in capital that was used for offsetting the obligations due to date.

As a result of the above movements, Venezuela's paid in capital in FLAR became $30,674,742. Since Venezuela is a permanent member of FLAR, it maintains one seat and one vote in the Assembly of Representatives and in the Board of Directors.

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

Profit distribution – FLAR's Assembly of Representatives, by Agreement No. 210 of March 24, 2020, approved the recommendation of the Board of Directors (Agreement No. 463 of March 23, 2020) to capitalize the profits generated during the year ended December 2019, as has been the institutional practice since 1982.

16. EQUITY (CONTINUED)

Therefore, on March 25, 2020, and June 12, 2020, profits generated in the aforementioned year were capitalized; in the case of the Central Bank of Venezuela, the profits corresponding to the year 2019 offset the values of the credit granted of this institution as explained in Note 11 - Loans to Member Central Banks. No cash dividend payments were made to any member country.

The Earnings generated during the year ended December 2019 of $123,528,750.75, were distributed as follows:

- $11,229,886.42 was allocated to increase institutional FLAR reserves.
- $112,298,864.33 was allocated to be capitalized as follows:

Member Countries	Profits December 31, 2019
Bolivia	$ 9,387,634
Colombia	18,779,813
Costa Rica	18,784,795
Ecuador	9,389,581
Paraguay	9,372,844
Peru	18,778,007
Uruguay	9,407,851
Venezuela (1)	18,398,339
	$ 112,298,864

(1) See Note 11 Loans to Member Central Banks where it is explained that the profits corresponding to Venezuela offset the value of the loan granted.

17. OTHER INCOME AND EXPENSES

Other income – Mainly corresponds to income from credit risk fees on granted loans, trust and management fees, interest earned from savings accounts in Colombian Pesos, and exchange differences in Colombian Peso-denominated items.

Other expenses – Mainly corresponds to operational and employee expenses, custody and account management fees, depreciation expenses and exchange difference expenses for items in Colombian Pesos.

As of December 31, 2020 and 2019, other income and other expenses are detailed below:

(US Dollars)

17. OTHER INCOME AND EXPENSES

	December 31, 2020	December 31, 2019
Other incomes		
Commissions received for credit risk loans granted	$ 37,260,683	$ 6,830,192
Sub-portfolio currency management	4,133,574	392,519
Revenues from management, monitoring and control	709,759	797,179
Other	783,819	669,452
	$ 42,887,835	**$ 8,689,342**
Other expenses		
Operating budget (employees and operating expenses)	(7,727,442)	(7,824,362)
Other financial expenses	(1,819,357)	(1,042,168)
MTN issuance program enrollment costs	(755,433)	–
Incentive for loan compliance	(343,761)	–
Other	(1,137,603)	(849,585)
	$(11,783,597)	**$ (9,716,115)**

18. TAX EXEMPTIONS

FLAR is exempt in the signatory countries of the Constitutive Agreement, from all types of taxation on its income and assets. It is also exempt from any liability related to the payment, withholdment or collection of any taxes.

19. FINANCING AND INVESTMENT INSTRUMENTS

Andean Pesos – By means of Agreement No. 83 of the Board of Directors dated December 7, 1984, FLAR was authorized to issue obligations denominated in Andean Pesos (PA) for a value of PA 80,000,000. One Andean Peso will have a value equivalent to one U.S. Dollar.

In addition to the central banks of member countries and FLAR, the following are authorized holders of Andean Pesos (PA): 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 Argentina.

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

(US Dollars)

19. FINANCING AND INVESTMENT INSTRUMENTS (CONTINUED)

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

FLAR Treasury Notes – By Agreement No. 100 dated March 12, 1986, the Board of Directors of FLAR authorized the issuance of short-term obligations denominated "FLAR Treasury Notes"; to be offered to Central Banks and other institutions. As of December 31, 2020 and 2019, there are no FLAR treasury notes outstanding.

Special Drawing Rights -SDR– FLAR is authorized by the International Monetary Fund (IMF) to acquire, hold and use Special Drawing Rights (SDRs). SDRs are an international reserve asset issued by the IMF to supplement the official reserves of member countries, their value is based on a basket of 5 currencies (Euro, Japanese Yen, Chinese Renminbi, British Pound and U.S. Dollar) and holdings in the IMF are remunerated at a rate determined by the IMF.

Whereas transactions in SDRs can only occur between authorized holders and, for the ease of the reader of the information, SDR positions are presented separately from other investments.

In May 2018, FLAR established the foreign exchange management sub-portfolio of credit operations, which is part of the Operations Portfolio. (See Note 5 Main Policies in Asset Management). As of December 31, 2020 and 2019, the SDR positions of the credit operations foreign exchange management sub-portfolio converted to U.S. dollars are as follows:

	December 31, 2020	**December 31, 2019**
SDR position (IMF)	$ 94,450,489	$ 94,161,266
Interest receivable from SDR positions	16,754	120,156
Unrealized gain/ (losses) in SDR	2,210,530	(1,737,223)
	$ 96,677,773	**$92,544,199**

The exchange rate SDR/USD as of December 31, 2020 was 1.4417 and as of December 31, 2019 was 1.3794.

(US Dollars)

20. COMMITMENTS AND CONTINGENCIES

a. ***Commitments*** – FLAR acts as trustee of an autonomous trust. The purpose of the trust is to custody, manage, follow up and control the risks of the portfolio managed by third parties in accordance with the investment terms defined by the trustee.

FLAR charges a quarterly management fee which is calculated as a proportion of the monthly average market value of the portfolio in trust.

FLAR's obligations under this trust are of means and not to guarantee results. To date all obligations under the contract have been fulfilled.

The following is the detail of the value of the autonomous equity under the trust contract managed by FLAR:

	December 31, 2020	December 31, 2019
Management, monitoring and risk control trust fund.	$ 626,449,750	$ 557,599,461

Contingencies - Within the credit agreements subscribed with the Central Banks there is a performance incentive clause for compliance, which is framed within the definition of contingent liability. It is framed as such as it will likely only be required at maturity of the loan, when it is feasible to determine that the financial and non-financial conditions contractually stipulated have been fulfilled, and therefore there is no determinable present obligation. FLAR considers it appropriate to disclose the existence of this contingency in accordance with IAS 37-Provisions, Contingent Liabilities and Contingent Assets.

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

21. RISK MANAGEMENT

As an international multilateral organization, FLAR is exposed to a variety of risks that include market risk (interest rate, spread and exchange rate), credit risk (investment portfolio risk and risk in loans to its member countries) and liquidity risk.

21. RISK MANAGEMENT (CONTINUED)

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 on exposure to different risk factors (foreign exchange rate, interest rate and credit).

FLAR’s regulations and Board Agreement No. 324 of April 30, 2005 and its amendments establish the levels of risk that FLAR is willing to accept in its investment activities and that it has the capacity to adequately manage (see Note 5).

Board Agreement No. 323 of April 30, 2005 and its amendments, establishes corporate governance of investment and risk management.

The Board of Directors establishes the policies concerning 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 performance, composition, portfolio risk, compliance with the investment guidelines and leverage operations.

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

The Financial Department is responsible for the execution and implementation of the financial decisions approved by the ALC, the Risk Department is responsible for risk control and compliance with the investment policy, the Operations management is responsible for operations compliance and the Accounting management is responsible for the preparation and presentation of FLAR’s Financial Statements.

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

(US Dollars)

21. RISK MANAGEMENT (CONTINUED)

a. Financial risk management objectives

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 a positive net interest margin while assuming moderate credit risk and maintaining ample liquidity. (For further on FLAR's portfolios see Note 5).

FLAR manages these risks through a comprehensive risk management approach that takes into consideration 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 is described below.

b. Market risk

Given the nature of FLAR's investments, the institution's market risk is mainly associated with interest rate risk, and in 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 the price sensitivity of interest-bearing assets and the price sensitivity 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.

The sensitivity of the balance sheet to changes in interest rates is presented below:

Duration gap components	**December 31, 2020**	**December 31, 2019**
Active duration	0.42	0.33
Passive duration	0.04	0.06
Liabilities / Assets	0.50	0.48
Duration gap	**0.40**	**0.30**

Note: 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)

b. Market risk (continued)

Given these exposures, if interest rates move in parallel by 10 bps, the impact on FLAR would be $ 1.05 million as of December 31, 2019 and $ 1.27 million as of December 31, 2020.

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

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

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

	December 31, 2020	December 31, 2019
Portfolio duration	0.89	0.95
Benchmark duration	0.85	0.87

To measure the market risk of the Aggregate Investment Portfolio, the Value at Risk (VaR) measure is used. The methodology used to calculate the VaR 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%.

The VaR of the Aggregate Investment Portfolio is presented below:

	December 31, 2020	December 31, 2019
VaR ($ millions)	$ 1.0	$ 0.8
VaR /AIP (b.p.)	4.8 b.p.	3.8 b.p.

AIP: Aggregate Investment Portfolio

The interest rate risk in the other Portfolios that do not have active management (Operations Portfolio, Liquidity Portfolio, and Intermediation Portfolio) is low. In the Operations Portfolio, loans are linked to the 3-month LIBOR rate, in the intermediation Portfolio the matching of assets and liabilities is very close (see Liquidity Risk, below), and in the liquidity portfolio the resources are held in demand accounts and other short-term investments.

(US Dollars)

21. RISK MANAGEMENT (CONTINUED)

b. Market risk (continued)

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 of April 30, 2005, and its amendments. According to this, financial instruments eligible for investment of FLAR reserve assets 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.

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

The following is a description of the foreign exchange exposure in the different FLAR portfolios:

- Actively managed portfolios (Aggregate Investment Portfolio): Active unhedged foreign exchange positions are allowed up to a maximum of +/- 10% of the index's exchange composition in the eligible currencies mentioned above. Subject to the above restriction, the purchase of bills 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 positions in currency Forwards in the following magnitude[2]:

	Positions as of December 31,2020	Positions as of December 31,2019
Positions in Currency Forwards	0.11%	0.15%

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

[2] Exposure is calculated by adding the positions in those currencies whose net position is long. Exposure is expressed as a percentage of the equity portfolio.

21. RISK MANAGEMENT (CONTINUED)

- Other portfolios not actively managed (Operations Portfolio, Liquidity Portfolio and Intermediation Portfolio): In other portfolios, operations will be designed such that FLAR will not 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 basket[3], the exposure of the equity portfolio resulting in currencies other than U.S. Dollar was:

	Exposures as of December 31,2020	**Exposures as of December 31,2019**
SDR	1.84%	1.52%

  A 1% fluctuation of the SDR against the dollar would imply a change in value of $967 thousand dollars in December 2020 and $925 thousand dollars in December 2019.

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

c. *Credit risk*

Credit risk is the risk that a counterparty will default on its obligations under a financial instrument or purchase contract, resulting in 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 reasonable payment capacity by the Board of Directors or the Executive Presidency, depending on the type of credit.

[3] One SDR is composed of 0.58252 U.S. dollars, 0.38671 euros, 0.085946 British pounds, 11.9 yen, and 1.0174 Chinese renminbi.

21. RISK MANAGEMENT (CONTINUED)

c. Credit risk (continued)

The risk of these operations is mitigated due to the *de facto* PCT that member countries have given to FLAR throughout its history, and to the measures established by FLAR, such as: the determination of the amount admissible for credits, the collection of credit risk commissions and the offsetting of profits in the event that credits are in arrears.

ii) <u>Investment activities (including deposits with banks and financial institutions, foreign currency transactions and other financial instruments).</u>

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

Counterparty limits are established using a risk rating methodology that considers the credit rating of the issuer, according to the main rating agencies, and market signals (see Issuer Credit Evaluation Process below).

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

With respect to investments in short-term or money market investments, these may not have a credit rating lower than any of the following: Moody's P-2, Standard & Poor's A-2, and Fitch Ratings F2.

Credit risk is managed with a preference for exposures with high credit ratings, sector diversification, and adequate granularity of exposures to short-term and medium-term individual issuers.

This activity implies that FLAR assumes credit risk is that associated with the intermediation activity. Agreement 323 of 2005 and its amendments establish that the ALC has the authority to periodically evaluate and decide the target range of the Intermediation Portfolio, considering the economic and market environment.

During 2020, the ALC determined that the target range of the term deposits of the Intermediation Portfolio will be between $2,000 million and $3,500 million, allowing a deviation of up to $500 million around this range. In this period, the minimum value of the portfolio's monthly closing was $1,997 million in September and the maximum was $3,249 million in December.

21. RISK MANAGEMENT (CONTINUED)

c. Credit risk (continued)

During 2019, the ALC decided that the target range for the term deposits of the Intermediation portfolio would be between $2,500 million and $4,000 million, allowing a deviation of up to $500 million around this range. During that year, the minimum value of the portfolio’s monthly closings was $2,408 million in July and the maximum was $3,977 million in May.

As of December 31, 2020, investments in the Intermediation Portfolio that match the time deposits received amounted to $3,249 million. On the other hand, as of December 31, 2019, investments in the Intermediation Portfolio that match the time deposits received amounted to $3,290 million.

Issuer credit evaluation process

For the evaluation of issuers, FLAR has human and technological resources dedicated exclusively to credit analysis and 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 to select those issuers that meet the criteria of credit quality, probability of default, implicit rating and fundamental analysis, consistent with the institution’s risk profile.

The evaluation criteria are different for financial and corporate issuers; ensuring that the former have capital adequacy ratios that comply with the minimum regulatory requirements established in Basel I in addition to the improvements in the quality of capital established in Basel III. This criterion ensures that financial issuers have solid liquidity conditions and a systemic importance within the sector.

Corporate issuers by contrast, must have a competitive and leading position in the industry, healthy credit metrics, financial flexibility and a conservative administration.

Credit limits depend on the term to maturity. For medium-term investments, (maturity greater than 397 days) the limit 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 are up to 1% for no-financial issuers, between 2% and 3% for banks, financial institutions and supranational issuers and quasi-governments.

21. RISK MANAGEMENT (CONTINUED)

Issuer credit evaluation process (continued)

Overnight sight deposits with systemically important commercial banks have a quota of up to $ 600 million. The largest quotas are allocated only to global systemically important financial institutions (G-SIFIs) according to the classification established by the Financial Stability Board (FSB).

Tables 1 and 2 below, present the composition by sector and rating (using the S&P scale) of FLAR's investments as of December 31, 2020 and 2019, respectively.

Table 1
Composition by sector and credit quality as of December 31, 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	-	-	-	-	-	-	123.7	123.7	1.9%
Cash	-	-	-	9.7	-	-	-	9.7	0.1%
Money Market	-	-	-	2,128.2	212.5	-	-	2,340.7	36.0%
Supranational and quasi-governments	889.1	21.5	99.5	984.4	1.0	-	-	1,995.5	30.7%
US Treasury Bonds	-	917.8	-	-	-	-	-	917.8	14.1%
TIPS	-	141.9	-	-	-	-	-	141.9	2.2%
US T-Bills	-	-	-	202.1	-	-	-	202.1	3.1%
US Agencies	16.4	-	-	-	-	-	+ -	16.4	0.3%
MBS	127.4	31.0	-	-	-	-	-	158.3	2.4%
TBA	-	15.3	-	-	-	-	-	15.3	0.2%
SDR	96.7	-	-	-	-	-	-	96.7	1.5%
Corporates	-	56.2	184.5	155.7	24.4	-	-	420.8	6.5%
ETF	-	-	-	-	-	1.2	-	1.2	0.0%
Receivables and to-receive deposits	-	-	-	62.9	-	-	-	62.9	1.0%
Futures margin accounts	-	-	-	1.6	-	-	-	1.6	0.0%
Forwards with positive valuation	-	-	0.1	-	-	-	-	0.1	0.0%
Total by rating	1,129.5	1,183.7	284.1	3,544.6	238.0	1.2	123.7	6,505.0	100.0%
% Total by rating	17.4%	18.2%	4.4%	54.5%	3.7%	0.0%	1.9%	100.0%	

Source: Risk Department. Includes the effect of provisions for expected credit losses, does not include cash and deposits in Colombian pesos for $1.0 million. Considering property and equipment, other assets and commissions receivable, the total value of assets is $6,509.2 million.

21. RISK MANAGEMENT (CONTINUED)

Table 2
Composition by sector and credit quality 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 credit losses, does not include cash and deposits in Colombian pesos for $1.0 million. Taking into account property and equipment, other assets and commissions receivable, the total value of assets is $7,045.76 million.

21. RISK MANAGEMENT (CONTINUED)

d. Liquidity risk

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

The main objective of FLAR's liquidity management is to have resources to meet credit demands of 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 very low credit risk, high liquidity, and low transaction costs.

Under its liquidity guidelines, FLAR must ensure that sufficient resources are 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.

As of December 31, 2020 and 2019, FLAR had no long-term debt. As for the liquid assets requirement, the value of the Aggregate Investment Portfolio and the Liquidity Portfolio compared to paid-in capital as of December 31, 2020 was 97.3% and as of December 31, 2019 was 67.9%.

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

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

21. RISK MANAGEMENT (CONTINUED)

Table 1
Maturities by tranche and type of asset and liability as of December 31, 2020 (Amounts in millions of USD)
Financial assets

Maturity	Less than a month	One to three months	Three to six months	Six to 12 months	One to two years	More than two years	Total
Cash	9.7	–	–	–	–	–	**9.7**
Financial Instruments and deposits	3,703.1	403.3	532.6	368.0	564.5	638.7	**6,210.1**
Loans to members	0.0	–	123.7	-	–	–	**123.7**
Currency operations Sub-Portfolio	-	96.7	–	–	–	–	**96.7**
Receivables on financial instruments sold	62.9	–	–	–	–	–	**62.9**
Derivatives Financial Assets	1.7	-	–	–	–	–	**1.7**
Total	**3,777.5**	**499.9**	**656.3**	**368.0**	**564.5**	**638.7**	**6,505.0**

Source: Risk Department. Includes the effect of provisions for expected credit losses. Does not include cash and deposits in Colombian pesos for $1.0 million. When considering the property and equipment, other assets, commissions receivable and reserve assets, the total value of the assets is $6,509.2 million.

Financial liabilities

Maturity	Less than a month	One to three months	Three to six months	Six to 12 months	One to two years	More than two years	Total
Non-derivative financial liabilities	3,217.9	52.0	–	14.3	-	–	**3,284.2**
Payables on purchased financial instruments	38.7	–	–	–	–	–	**38.7**
Derivative financial liabilities	–	-	–	–	–	–	**-**
Total	**3,256.6**	**52.0**	**–**	**14.3**	**-**	**–**	**3,322.9**

Source: Risk Department. It does not include other liabilities and commissions received for loans granted in the amount of $4.5 million.

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

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	One to three months	Three to six months	Six to 12 months	One to 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 and equipment, other assets, commissions receivable and reserve assets, the total value of the assets is $7,045.76 million.

Financial liabilities

Maturity	Less than a month	One to three months	Three to six months	Six to 12 months	One to 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 shown in Tables 3 and 4 above, as of December 31, 2020 and 2019, liabilities are appropriately matched by assets with similar maturities, 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.

The previous section presented the composition of the instruments by credit rating. At the end of December 31, 2020, and 2019, 80.7% and 73.8% of FLAR's reserve assets were in high-credit quality instruments that are broadly liquid.

21. RISK MANAGEMENT (CONTINUED)

Capital adequacy

Due to its nature as an international organization, FLAR is not subject to regulatory capital compliance, as is the case for financial institutions worldwide. According to the capital adequacy ratings made by the rating agencies, FLAR has a level of financial strength and capital adequacy considered "very strong" by Standard and Poor's. Moody's considers FLAR’s capital adequacy as ‘a2’.

In the evaluation of FLAR’s capital adequacy, the ratings agencies favorably value its preferred credit status, the continuous strengthening of FLAR’s capital supported by the contributions of paid-in capital and reserves from member countries, the high credit quality of the assets, and a level of zero leverage, given that as of December 31, 2020 there were no debt issues outstanding.

One way to review the capital adequacy level is through the Risk-Adjusted Capital indicator (RAC)[4]. To measure this indicator, the internally developed risk-adjusted capital ratio methodology is used, which is based on the S&P methodology weightings and other assumptions made by the Risk Department. As of December 31, 2020 this indicator was 108%, which compares to 27% as of December 31, 2019.

22. SUBSEQUENT EVENTS

FLAR’s management has evaluated the subsequent events that have occurred from December 31, 2020, through to the date on which the Financial Statements were available to be issued and determined that no additional subsequent events have occurred that would require recognition or disclosure of additional information in these statements.

23. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements and their notes were reviewed and internally validated by the Asset and Liabilities Committee ALC at its meeting on January 29, 2021 and will be submitted to the Board of Directors for approval for publication.

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