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Financial Statements

Fondo Latinoamericano de Reservas "FLAR"

as at June 30, 2021 and december 31, 2020
With independent Auditor´s report

External Auditor's Report

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

Opinion

I have audited the accompanying financial statements of Latin American Reserve Fund – FLAR (Fondo Latinoamericano de Reservas – the Fund), which comprise the statement of financial position as at June 30, 2021 and the corresponding statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and the summary of significant accounting policies and other explanatory notes.

In my opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of Latin American Reserve Fund - FLAR (Fondo Latinoamericano de Reservas) as at June 30, 2021, and its financial performance and its cash flows for the six-month period then ended, in conformity with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISA). My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. I am 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. I believe that the audit evidence I have obtained is enough and appropriate to provide a basis for my 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 International Financial Reporting Standards, to design, implement and maintain 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, to select and apply the final accounting policies; and, to establish reasonable accounting estimates in the circumstances.

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

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

Auditors' Responsibility for the Audit of the Financial Statements

My objective is 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 International Auditing Standards 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 International Auditing Standards. I exercise professional judgment and maintain professional skepticism throughout the audit. I 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.

I communicate with Management regarding of the Fund, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control identified during our audit.

Other Matters

I have audited the financial statements under International Financial Information Standards of the Latin American Reserve Fund – FLAR (Fondo Latinoamericano de Reservas) as of December 31, 2020, which are part of the comparative information of the accompanying financial statements. They were audited in accordance with international auditing standards, on which I expressed my unqualified opinion on February 24th, 2021.

Liudmila Riaño G.
Independent Auditor
Professional Card 63486-T
Designated by Ernst & Young Audit S.A.S. TR- 530

Bogotá D.C., Colombia
August 20th, 2021.

FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND -FLAR

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND DECEMBER 31, 2020
(Stated In U.S. dollar)

FLAR

ASSETS	Notes	June 30, 2021	December 31, 2020
Cash	7	**11,137,549**	**10,152,959**
Investment portfolios managed internally		**6,455,004,275**	**5,540,445,024**
Financial assets held for trading	8	1,212,523,162	1,428,522,956
Financial assets at amortized cost	8	5,242,481,113	4,111,922,068
Special Drawing Rights - SDR	9	**42,300,687**	**96,677,773**
Investment portfolios managed externally		**802,350,603**	**670,348,526**
Financial assets held for trading	8	772,864,924	650,063,567
Financial assets at amortized cost	8	29,485,679	20,284,959
Derivatives - Rights	10	2,754,233	1,680,938
Accounts receivable on sale of investments	11	83,107,341	62,925,146
Loans to central banks	12	41,241,392	123,749,739
Property and equipment	13	2,111,763	2,174,722
Other assets	14	322,376	1,098,605
Total assets		**7,440,330,219**	**6,509,253,432**
LIABILITIES			
Deposits from central banks and other institutions	15	**4,041,136,911**	**3,284,182,885**
Demand deposits		27,717,146	28,037,318
Time deposits		4,013,419,765	3,256,145,567
Derivatives - Obligations	10	120,325	40,434
Accounts payable on purchase of investments	11	210,715,473	38,655,869
Commissions received for loans granted	16	21,598	1,048,346
Other liabilities	17	2,509,530	3,158,805
Total liabilities		**4,254,503,837**	**3,327,086,339**
EQUITY			
Subscribed and paid-in capital	18	**2,846,158,768**	**2,689,259,567**
Subscribed capital		3,937,500,000	3,937,500,000
Less: Capital installments receivable		(1,091,341,232)	(1,248,240,433)
Institutional reserves		334,694,686	319,004,766
Other comprehensive income	18	1,313,639	1,313,639
Profit for the period		3,659,289	172,589,121
Total equity		**3,185,826,382**	**3,182,167,093**
Total liabilities and equity		**7,440,330,219**	**6,509,253,432**

Notes are an integral part of these financial statements

José Darío Uribe Escobar
Executive President

Ayda Sodibe Triana Rojas
Accounting Manager (In Charge)

STATEMENT OF COMPREHENSIVE INCOME
FOR SIX-MONTH PERIODS ENDED JUNE 30, 2021 AND 2020
(Stated In U.S. dollar)

FLAR

	Notes	June 30, 2021	June 30, 2020
Interest income	19	**14,914,028**	**62,792,205**
Loans to central banks		1,106,578	37,501,510
Deposits with commercial banks		1,246,437	7,570,113
Internally managed investment portfolios		8,090,050	10,767,972
Externally managed investment portfolios		4,470,963	6,952,610
Interest expense on deposits from central banks and other institutions	22	**(1,301,175)**	**(14,249,761)**
Demand deposits		-	(333,412)
Time deposits		(1,301,175)	(13,916,349)
Net interest income		**13,612,853**	**48,542,444**
Net income (expense) from return on marketable investments	20	**(6,090,648)**	**30,811,644**
Internally managed investment portfolios		(2,094,002)	29,009,103
Externally managed investment portfolios		(3,494,782)	2,136,764
Special Drawing Rights - SDR		(501,864)	(334,223)
Net fee and commission income (expense)	21	**1,455,471**	**34,760,466**
Commissions received for credit risk on loans granted		1,026,748	34,791,104
Fees received for portfolio management		428,723	313,123
Commissions paid - Incentive on loan fulfillment		-	(343,761)
Net income (expense) from credit loss on financial assets	23	**(390,016)**	**37,648,098**
Loans granted to central banks		155,095	37,373,006
Investments at amortized cost		(545,111)	275,092
Personnel and operating expenses	24	**(4,133,251)**	**(4,198,172)**
Personnel expenses		(2,340,303)	(2,206,095)
Operating expenses		(1,652,469)	(1,570,126)
Other operating expenses		(140,479)	(421,951)
Other income and expenses	25	**(795,120)**	**(730,134)**
Other financial income		21,932	53,594
Other financial expenses		(817,052)	(783,728)
Profit for the period		**3,659,289**	**146,834,346**
Other comprehensive income	18	**-**	**(2,188,438)**
Total comprehensive income		**3,659,289**	**144,645,908**

Notes are an integral part of these financial statements

José Darío Uribe Escobar
Executive President

Ayda Sodibe Triana Rojas
Accounting Manager (In Charge)

FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND -FLAR

STATEMENT OF CHANGES IN EQUITY
FOR PERIODS ENDED JUNE 30, 2021 and 2020, DECEMBER 31, 2020 AND 2019
(Stated In U.S. dollar)

FLAR

	Notes	Subscribed and Paid-in Capital	Institutional Reserves	Profit for the period	Other Comprehensive Income	Total Equity
BALANCES AS OF DECEMBER 31, 2019		**3,062,208,253**	**307,774,880**	**123,528,750**	**3,590,058**	**3,497,101,941**
Appropriation of profits for payment of installments of loans granted to the Central Bank of Venezuela according to agreement No. 210 of the Assembly of Representatives of FLAR dated March 24, 2020.	12	-	-	(18,398,339)	-	(18,398,339)
Reimbursement of principal paid to offset and pay in full the balance of the loan granted to Banco Central de Venezuela on March 26, 2020 (Note 11).	12	(466,849,211)	-	-	-	(466,849,211)
Appropriation of profits to Paid-in capital according to agreement No. 210 of the FLAR Representative Assembly of March 24, 2020.	18	93,900,525	11,229,886	(105,130,411)	-	-
Profit for six-month period ended June 30, 2020	18	-	-	146,834,346	-	146,834,346
Other comprehensive income						
Surplus from revaluation of property and equipment	18	-	-	-	(2,188,438)	(2,188,438)
BALANCES AS OF JUNE 30, 2020		**2,689,259,567**	**319,004,766**	**146,834,346**	**1,401,620**	**3,156,500,299**
Profit for six-month period ended December 31, 2020		-	-	25,754,775	-	25,754,775
Other comprehensive income						
Adjustments to actuarial pension reserve		-	-	-	(87,981)	(87,981)
BALANCES AS OF DECEMBER 31, 2020		**2,689,259,567**	**319,004,766**	**172,589,121**	**1,313,639**	**3,182,167,093**
Appropriation of profits to Paid-in capital according to agreement No. 215 of the FLAR Representative Assembly of March 23, 2021.	18	156,899,201	15,689,920	(172,589,121)	-	-
Profit for six-month period ended June 30, 2021		-	-	3,659,289	-	3,659,289
BALANCES AS OF JUNE 30, 2021		**2,846,158,768**	**334,694,686**	**3,659,289**	**1,313,639**	**3,185,826,382**

Notes are an integral part of these financial statements

José Darío Uribe Escobar
Executive President

Ayda Sodibe Triana Rojas
Accounting Manager (In Charge)

STATEMENT OF CASH FLOWS
FOR SIX-MONTH PERIODS ENDED JUNE 30, 2021 AND 2020
(Stated In U.S. dollar)

FLAR

	Note	June 30, 2021	June 30, 2020
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit for the period		**3,659,289**	**146,834,346**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	13	80,826	99,251
Provided for payment of non-cash loan obligations, netted against non-cash items	12	-	(436,449,828)
Provided for interest and commissions on non-cash loans granted, netted against non-cash items	12	-	(61,896,535)
Unrealized (gain) loss on:		-	-
Marketable securities		10,822,649	(5,404,986)
Commissions received on loans granted	16	(1,026,748)	3,632,874
Expected credit losses on loans	12	(155,095)	(37,373,006)
Expected credit losses on investments at amortized cost	8	545,111	(275,092)
Incentive on loan fulfillment		-	(343,761)
Externally managed portfolios		4,114,508	(5,867,825)
Derivative transactions	10	134,899	32,712
Losses (gains) on sale/disposal of fixed assets		1,955	(330)
Deposits in COP		(482,107)	(1,197,156)
Net decrease in externally managed portfolios		(136,184,837)	(2,978,025)
Provided in credit operations with Central Banks		81,955,556	1,143,405,384
Provided for in foreign exchange portfolio transactions SDRs	9	54,377,086	334,223
(Used) provided for in sales, redemption and purchase of marketable securities operations		(1,255,128,264)	345,489,765
Provided (used) on deposit operations with commercial banks		481,186,732	(629,809,997)
(Used) on demand deposit liabilities transactions		(320,172)	(159,791,753)
Provided (Used) in deposit liabilities term deposit operations		757,463,260	(300,164,353)
Decrease (increase) in derivative transactions		(1,128,302)	413,087
Increase in other assets	14	776,229	302,368
Decrease in other liabilities		(649,275)	(50,761)
Interest accrual on deposits received from central banks		1,301,175	(18,395,585)
Interest paid on deposits received from central banks and other institutions		(1,490,237)	13,919,218
Interest accrual on loans granted, investment securities and deposits in commercial banks		(14,914,028)	35,882,587
Interest received on loans granted, investment securities and deposits with commercial banks		16,064,202	(29,521,794)
Net cash provided by operating activities		**1,004,412**	**825,028**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	13	(19,822)	(27,532)
Sales of fixed assets	13	-	434
Net cash (used in) investing activities		**(19,822)**	**(27,098)**
CASH FLOW FROM FINANCING ACTIVITIES:			
New capital contributions and member country reserves		-	-
Net cash provided by financing activities		**-**	**-**
NET INCREASE IN CASH		**984,590**	**797,930**
CASH AT BEGINNING OF PERIOD		**10,152,959**	**9,152,685**
CASH AT THE END OF THE PERIOD		**11,137,549**	**9,950,615**
ADDITIONAL INFORMATION ON TRANSACTIONS THAT DID NOT GENERATE CASH FLOWS			
Appropriation of profits to paid-in capital and reserves		156,899,201.00	105,130,411.00
Reimbursement of paid-in capital to offset obligations of the Central Bank of Venezuela		-	(436,449,828)

Notes are an integral part of these financial statements

José Darío Uribe Escobar
Executive President

Ayda Sodibe Triana Rojas
Accounting Manager (In Charge)

1. ORGANIZATION AND OPERATIONS

Latin American Reserve Fund (FLAR) is the organization established under public international law, which replaced the Andean Reserve Fund (FAR) 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 established.

The following are the 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 exchange rate, monetary and financial policies of member countries.

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

Moreover, 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 in member countries.

For the fulfillment of its purposes, FLAR enjoys immunity of its properties and other assets and all deposits and other resources entrusted to FLAR, whether they consist of liabilities, represent patrimony or are the product of fiduciary operations, with respect to any form of forced seizure in the territory of its member states that may alter the dominion of FLAR over such assets and liabilities, by effect of administrative actions of any of the member countries and with respect to restrictions, regulations and control measures or moratoriums established by them.

FLAR has its headquarters in the city of Bogotá D.C., Republic of 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.

FLAR's business model is based on the fact that, it is a multilateral financial organization, whose main objective is to provide counter-cyclical financial assistance to its members, which are sovereign states.

As far as the obligations of member countries to FLAR are concerned, they have always given de facto Preferred Creditor Treatment to FLAR, PCT here in after.

1. ORGANIZATION AND OPERATIONS (CONTINUED)

In line with the above, FLAR expects its members to continue paying their credits, even when they are in arrears with other creditors, and, in the exceptional case that they fall behind in their obligations to FLAR, the amounts owed are expected to be substantially recovered.

This is consistent with what has been observed in other multilateral financial organizations, where expected and experienced credit losses also 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.

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

FLAR is financed by its own capital, which 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.

On July 12, 2021, the Assembly of Representatives approved the creation of a complementary linkage mechanism to FLAR, establishing a membership category called "associate central bank".

Thus, the new members of FLAR may be of two categories: i) the current option of full membership, for countries that adhere to the constitutive agreement, and ii) the modality of associate central banks, through a linkage agreement approved by the Board of Directors and the Assembly of Representatives of FLAR.

Currently, the full member countries of FLAR are Bolivia, Colombia, Costa Rica, Ecuador, Peru, Paraguay, Uruguay and Venezuela.

The Board of Directors at its meeting held on March 23, 2021, approved the financial statements for the year ended December 31, 2020, for public issue.

2. BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis and it is expected that FLAR will continue its activity for the near future. The basis of presentation is historical cost, except for marketable financial assets and derivative financial instruments, which are measured at fair value.

The accounting basis is the accrual basis of accounting, except for the preparation of the statement of cash flows.

2.1. COVID-19 Impacts

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 closures, which have significantly disrupted economic activity.

While there is still significant uncertainty about the duration and economic impact of this pandemic, economies around the world have seen their gross domestic product levels affected and their indebtedness increased due to reduced revenues 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. This type of investment tends to benefit in periods of increased risk aversion, and more recently, central bank measures in developed economies to provide liquidity to the markets have largely favored their performance, so that, to date, no elements have been identified that merit revising the expected loss model for investments in treasury portfolios.

In the near 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 increases in interest rates, which would affect the performance of the treasury portfolio.

FLAR is a multilateral entity whose role is to be a countercyclical 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 on other creditors.

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

2.1. COVID-19 Impacts (continued)

Given the exceptional circumstances created by the COVID-19 pandemic, FLAR may 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.

Because the pandemic could have prolonged effects on members' external positions, the Board also approved the establishment 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.

On the operational front, during 2021 and part of 2020, FLAR staff have been working 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) have been reviewed and contingency plans have been determined.

Protocols have also been established to preserve the health and well-being of employees at home and in the few instances when they must interact in person. Management will continue closely monitoring the evolution of the pandemic and will act accordingly, considering the safety of employees and continuity of operations.

2.2. Statement of Compliance

The comparative financial statements of FLAR as of June 30, 2021, have been prepared in accordance with International Financial Reporting Standards IFRS, as issued by the International Accounting Standards Board IASB.

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

2.3. Presentation of financial statements

FLAR's annual financial year runs from January 1 to December 31. The audited financial statements of FLAR as of June 30 and December 31 are presented semiannually to the Board of Directors, are expressed in U.S. dollars and comprise the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flows.

2.3. Presentation of financial statements (continued)

The statement of financial position is presented in order of liquidity. An analysis with respect to the settlement or recovery of assets and liabilities within twelve months after the reporting date is presented in Note 27.5 (table 4).

The statement of comprehensive income is presented taking into account the nature of the expense, through a single statement comprising profit or loss for the period and other comprehensive income.

FLAR prepares the statement of cash flows according to the nature of its operations under the indirect method. It begins with the presentation of the profit for the year, classifies the non-cash items that adjust the profit, presents the flows from operating, investing and financing activities and, finally, discloses supplementary information to the flows related to operations that do not affect cash.

2.4. 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 may differ from these estimates.

The most significant estimates and judgements used in the application of accounting policies relate to the following:

- 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 measurement of expected impairment losses on financial assets measured at amortized cost (loans granted and investments measured at amortized cost) whose model requires judgment to estimate, among other variables, cash flows and the significant increase in credit risk, explained in Note 27 Risk Management.

- The useful life of property and equipment; and

- The assumptions used in the actuarial calculation of the defined benefit plan liability for three retirees, such as inflation rates, mortality, discount rates and the consideration of future increases in the income paid by FLAR, are detailed in Note 17 Other liabilities.

2.4. Accounting estimates and judgments (continued)

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

2.5. Functional currency and foreign currency transactions

The functional and presentation currency of FLAR is the U.S. dollar. Transactions in currencies other than U.S. dollars are considered foreign currency and are presented at the exchange rates in effect at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the date of the Financial Statements.

Net gains or losses on transactions denominated in currencies other than the U.S. dollar are included in the results of operations for each period. The non- U.S. dollar exchange rates used in the presentation of the financial statements are as follows:

Exchange rate	June 30, 2021	December 31, 2020	June 30, 2020
COP/USD	3,753.67	3,432.50	3,758.91
DEG/USD	1.42642	1.44878	1.37570

2.6. Accrual basis of accounting

Following the principles mentioned in IAS 1, the financial statements have been prepared on the accrual basis of accounting, except for the preparation of the statement of cash flows.

2.7. Cash flows

FLAR prepares the statement of cash flows according to the nature of its operations under the indirect method. It begins with the presentation of the profit for the year, classifies the non-cash items that adjust the profit, presents the flows from operating, investing and financing activities and, finally, discloses supplementary information to the flows related to operations that do not affect cash.

2.8. Relative importance and materiality

The recognition and presentation of economic events in the financial statements are determined according to their materiality or relative importance, which depends on their nature or magnitude, or both.

Materiality by value (magnitude) refers to the quantification of the significance of the elements that make up a component of the financial statements or a group of accounts. Materiality by nature is primarily associated with its qualitative factors.

FLAR considers a transaction or economic event to be material when its omission or misstatement, individually or taken together, could influence the economic decisions made by users of the financial statements.

3. CHANGES IN ACCOUNTING POLICIES

Beginning in 2020, FLAR changed its accounting policy to record investment transactions on the trade date instead of using the settlement date.

Cash is presented at settlement date and is supplemented by accounts receivable and payable associated with investments traded at the closing date, see Note 7- Cash and Note 11 Accounts receivable and payable on purchases and sales of investments.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently under the IFRS framework on a comprehensive basis for all periods presented by FLAR unless otherwise stated.

4.1. Financial instruments

FLAR recognizes financial assets or liabilities, when it becomes an obligor to a contract, which gives rise to a financial asset or financial liability or an equity instrument of another entity.

4.1.1. Initial recognition and measurement

Financial instruments are initially measured at fair value. Transaction costs 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.

When the fair value of financial instruments, on initial recognition, differs from the transaction price, FLAR records the gain or loss in profit or loss.

4.1.2. Date of recognition

As of January 1, 2020, FLAR changed the method in the recording of all its investment operations, which are recorded on the trade date instead of the settlement date. The trading operations of financial assets and liabilities are made in the term generally established by regulation or market convention.

Loans to central banks are recognized on the date on which the funds are transferred to the accounts of member countries.

4.1.3. Classification and measurement of financial assets and liabilities

FLAR classifies all its financial assets considering two main criteria:

a. Evaluation of the business model: It refers to the way in which the entity manages its financial assets to generate cash flows and achieve its objectives through observable facts of the activities it carries out, such as:

- Use of credit lines to its member countries with loans to central banks.
- Management of investment portfolios derived from the paid-in capital contributions of member countries.
- Management of short-term intermediation.
- Management of investment portfolios derived from capital market issues; and
- Management of third-party investment portfolios in which FLAR acts as trustee.

b. Evaluation of the characteristics of the contractual cash flows of the financial asset represented Solely Payment of Principal and interest (SPPI). Correspond to simple debt instruments with determinable dates and cash flows.

Because of the evaluation of the above criteria, FLAR classifies financial assets into the following categories that determine their subsequent measurement:

Amortized cost: financial assets whose purpose is to be held in order to obtain the contractual cash flows (principal and interest).

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

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

4.1.3. Classification and measurement of financial assets and liabilities (continued)

Effective interest rate method (continued)

The effective interest rate discounts estimated future cash flows (including 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) through the expected life of the debt instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

Fair value through profit or loss (FVTPL): financial assets that are traded in active markets with the objective of obtaining the profits resulting from the variation of the market price. In general, a financial asset is classified in this category if:

i. It is purchased with the objective of selling it in a short period of time; or
ii. On 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
iii. It is a derivative that is not designated and effective as a hedging instrument.

Fair value through other comprehensive income (FVOCI): financial assets held to collect contractual cash flows and sell them at any time.

Moreover, a financial asset that is not held for trading purposes may be designated as a financial asset at fair value through profit or loss on 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 evaluated 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.

- The hybrid contract is part of a contract containing one or more embedded derivatives and IFRS 9 - Financial Instruments permits the entire hybrid contract to be designated as at fair value through profit or loss.

4.1.3. Classification and measurement of financial assets and liabilities

All financial liabilities are subsequently classified and measured at amortized cost, except for derivative liabilities, which are subsequently measured at fair value.

Financial assets at fair value through profit or loss FVTPL are recorded at fair value, recognizing in income any gain or loss arising from their revaluation. The net gain or loss recognized in income includes any dividend or interest earned on the financial asset and is included in "Gains (losses) on marketable securities transactions".

The following table summarizes the classification and measurement of financial assets and liabilities in accordance with the aforementioned categories:

i. Amortized cost, applying the effective interest rate method[1] 1and
ii. Fair value through profit or loss, using market prices, whose methodology is explained in Note 6. Currently, FLAR has no financial assets to be classified in the category of fair value through other comprehensive income.

Financial instrument	Value category	Note
Cash in banks	Amortized cost	7
Deposits in commercial banks	Amortized cost	8
Investment Portfolio	Fair value through profit or loss	8
Investment Portfolio	Amortized cost	8
Holdings of Special Drawing Rights SDR (a)	Fair value through profit or loss	9
Derivatives	Fair value through profit or loss	10
Accounts receivable and payable on sale and purchase of investments	Fair value through profit or loss	11
Loans to member central banks	Amortized cost	12
Deposits from central banks and other institutions	Amortized cost	15

(a) Holdings of Special Drawing Rights - SDRs

FLAR is authorized by the International Monetary Fund (IMF) to acquire, hold and use Special Drawing Rights (SDR). SDR is 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 US Dollar) and holdings at the IMF are remunerated at a rate determined by the IMF.

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

[1] It is a method of calculating the amortized cost and of allocating the financial income or cost of a financial instrument over the term of the instrument.

4.1.4. Derivative instruments 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, futures contracts on bonds and interest rates and foreign exchange forwards for the management of its investment portfolios, within the limits of market and counterparty risk established in the same document.

FLAR conducts 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 A3and Fitch A-.

The general purpose of the derivative financial instruments in force is to hedge risks of the international reserves investment portfolio and to improve the portfolio's performance. FLAR does not designate derivatives to hedge specific assets for accounting purposes and does not apply hedge accounting. Therefore, on the date on which it trades derivatives, it maintains them as marketable assets at fair value and recognizes changes in their market value in the income statement.

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

4.1.5. 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 asset's carrying amount and the present value of future cash flows, discounted at the financial asset's effective interest rate.

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

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

4.1.5. Impairment of financial assets (continued)

Financial assets other than financial assets at fair value through profit or loss are tested for impairment at the end of each reporting period. Some of these are: loans granted to country members, commercial time deposits and securities at amortized cost.

For financial instruments carried at amortized cost, the amount of the impairment loss is recognized 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 several times 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 cooperation. All members have paid-in capital in FLAR.
- FLAR follows up on borrowers' economies to review their reasonable repayment capacity.

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

i) A cumulative 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.

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

Once the repayment has been made, there is an offsetting of the reciprocal obligations between FLAR (repayment of a portion of the paid-in capital) and the member (repayment of the loan).

In addition to this General Policy, FLAR Regulations provide that the profits for each financial year that FLAR is required to pay to its member countries may be set off against any overdue obligations that any of them may have to FLAR.

4.1.5. Impairment of financial assets (continued)

In both cases, the obligations are settled on a net basis, whereby the paid-in capital contributions and the profits to be paid in each financial year are treated as 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.

The stages of impairment defined by FLAR for loans granted and securities at amortized cost are presented below:

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

Additionally, accrued 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 asset class as follows:

- **Loans granted:** A loan falls into this category when it is in arrears for more than 180 days or when default is contractually declared, whichever occurs first. In this case, and as of that moment, a provision is made for expected 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 are more than 180 days in arrears.

- **Investments:** An investment falls into this category when it presents delay exceeding the grace period (as per the prospectus) or a delay of more than 30 days if it has no 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.

4.1.5. Impairment of financial assets (continued)

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 FLAR's de facto preferred creditor status PCT and the nature of the debtors, the Board of Directors would classify a loan at this stage after discussion and instruction. In this case, a provision would be made for expected credit losses, up to 100% of the total balance of the debt or the percentage established by the Board of Directors given its evaluation of the estimated loss, without derecognizing the financial instrument in any case.

- **Investments:** An investment enters this status if the debtor files for bankruptcy under 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 liquidation process.

Subsequent recoveries of the recorded amounts of the provision are reversed up to their initial value. Changes in the value of the provision are recognized directly in profit or loss 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 to the extent that the carrying amount of the investment at the date the impairment was reversed does not exceed the amortized cost, that would have been had the impairment not been recognized.

FLAR has determined that there is no indication of impairment in addition to the expected loss allowance that requires disclosure and recording in its Financial Statements as of June 30, 2021.

4.1.6. Disposal of financial assets and liabilities

FLAR derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when the risks and rewards of ownership of the financial asset are substantially transferred.

FLAR recognizes its interest 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 and continues to retain control of the transferred asset.

4.1.6. Disposal of financial assets and liabilities (continued)

FLAR continues to recognize the financial asset and 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 derecognition 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 the cumulative gain or loss that has been recognized in other comprehensive income and retained earnings is recognized in profit or loss.

ii. On derecognition of a financial asset other than in its entirety (for example, when FLAR retains an option to repurchase part of a transferred asset). FLAR allocates the previous carrying amount of the financial asset between the party it continues to recognize by virtue of its continuing involvement and the party it no longer recognizes based on the relative fair values of those parties at the date of transfer.

A financial liability is de-recognized in the statement of financial position when:

a) The obligation has been paid or cancelled or has expired.

b) There is an exchange between a lender and a borrower of debt instruments with substantially different terms, in which case it is accounted for as a cancellation of the original financial liability and a new financial liability is recognized.

c) There are substantial modifications to the current conditions of an existing financial liability or part of it, which will be accounted for as a cancellation of the original financial liability and a new financial liability will be recognized.

4.1.7. Financing instruments

Andean Pesos - By means of Agreement No. 83 of the Board of Directors of FLAR dated December 17, 1984, FLAR was authorized to issue bonds denominated in Andean Pesos for a value of PA $80,000,000. One Andean Peso (PA) shall have a value equivalent to one United States dollar.

In addition to the central banks of the member countries and FLAR, 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 are authorized holders of Andean Pesos.

4.1.7. Financing instruments (continued)

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

The Andean Pesos will be used exclusively to make payments through FLAR among authorized holders. As of June 30, 2021, and December 31, 2020, there are no outstanding balances of Andean Pesos.

FLAR Treasury Notes - By Resolution No. 100 of 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 June 30, 2021, and December 31, 2020, there are no FLAR treasury notes outstanding.

4.2. Property and equipment

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

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

Category	Useful Life	%
Real state	According to appraisal (76 years remaining as of 31/12/2021)	1.2
Systems equipment	3 years	33.0
Office equipment	10 years	10.0
Furniture and furnishings	10 years	10.0
Vehicles	5 years	20.0

FLAR's subsequent measurement policy for the real estate category is the revalued cost model and for the other categories of fixed assets, the cost model. FLAR performs annually the evaluation of the fair value of its fixed assets with the support of an independent specialized firm.

4.2 Property and equipment (continued)

During 2020, because of the periodic evaluation of the fair value of the property, it was determined that the property, plant and equipment had 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 equipment, net.

An item of property and equipment is derecognized when 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 on the sale or retirement 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. See Note 13 Property and equipment, net.

4.3. Intangible assets

FLAR currently has no intangible assets; all licenses and software acquired by FLAR are recognized directly in income for the period.

4.4. Employee Benefits

FLAR recognizes as employee benefits all considerations originated in formal plans or agreements, legal requirements or non-formalized practices that generate implicit obligations, granted in exchange for services rendered by employees or severance indemnity. Benefits comprise all remuneration paid directly to employees or their beneficiaries or dependents or through third parties, which may be settled by means of cash payments or the provision of goods and services (non-monetary benefits).

4.4.1 Short-term benefits

In general, short-term benefits are recognized at the gross amount in the period's expense accounts when FLAR consumes the economic benefit arising from the service rendered by the employee, unless another IFRS requires or permits their inclusion as a cost of an asset.

When the corresponding payment has not been made to the employee, FLAR periodically causes the corresponding amounts in the liability accounts, through provisions; annually it consolidates the benefits pending payment.

For expatriate employees FLAR has contracted with an international insurance company for pension savings and a policy that covers disability and death risks.

4.4.2 Post-employment benefits

FLAR currently has two defined benefit plans: (i) a pension plan for three former employees and (ii) a health plan for two of those former employees, whose obligations are determined by the present value of future payments due, using the projected unit credit method, with actuarial valuations performed at the end of each annual reporting period.

The annual updates, which include a review of the demographic and financial assumptions, performed by an independent actuarial firm, result in changes in the value of the obligation, the accounting treatment of which is described below:

i. **Present service costs**: This is the increase in the present value of the obligation arising from services rendered by employees in the current period. Considering that current employees are not beneficiaries of the pension or health plans, no current service costs arise.

ii. **Past service cost**: The change in the present value of the obligation for services rendered by employees in prior periods resulting from a plan amendment.

iii. **Net interest on the obligation**: It is the increase produced during the period in the present value of the obligations, because of the benefits (pensions and health) being in a period closer to their maturity. It is determined using the nominal discount rate in effect at the beginning of each period.

iv. **Re-measurements of the obligation**: These primarily comprise actuarial gains and losses arising from: experience adjustments (the effects of differences between previous actuarial assumptions and actual plan events) and the effects of changes in actuarial assumptions.

The first three items, together with any gains or losses arising on settlement of the plans are recorded in income for the period on formation. The new actuarial measurements are recorded in Other Comprehensive Income -ORI.

To date, no assets have been designated for the payment of defined benefit plan obligations.

The fair values of the allowances and the retiree medical plan as of June 30, 2021, and December 31, 2020, were recognized in accordance with the actuarial calculation performed as of December 31, 2020 by an independent firm. See Note 17 Other Liabilities.

4.4.3 Long-term benefits

Other long-term benefits are recognized gradually in the results of the period over the time in which the employee is expected to render the services that will entitle him/her to them, using a simplified actuarial method. Actuarial gains and losses arising annually are taken directly to profit or loss for the period.

4.4.4 Termination Benefits

Termination benefits arise from an entity's decision to terminate employment or an employee's decision to accept an entity's offer of benefits in exchange for the termination of the employment contract.

FLAR recognizes an expense and a liability for termination benefits when it announces the offer and can no longer withdraw it, taking into account the following criteria:

i. If expected to be settled within 12 months after the annual reporting period, they are recognized at the agreed value without discount, using short-term benefit requirements.
ii. If expected to be settled later than 12 months after the annual reporting period, they are recognized at the present value of the obligation, in accordance with the requirements for measuring long-term benefits.

As of June 30, 2021, and December 31, 2020, there are no long-term or termination benefits.

4.4.5 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 pension liabilities for allowances and medical plan of the three retirees are detailed in note 16 - Other liabilities.

4.5. Provisions, contingent assets and liabilities.

The policy related to provisions, contingent assets and contingent liabilities is framed within the definitions established by IAS 37. FLAR recognizes a provision when all of the following conditions are met:

4.5. Provisions, contingent assets and liabilities (continued)

i. You have a present obligation, either legal or implied.
ii. It arises because of a past event.
iii. It is probable that an entity will have to give up resources embodying economic benefits to settle the obligation.
iv. A reliable estimate of the amount of the obligation can be made.

The following diagram helps to define the accounting treatment when analyzing the probability of an outflow of resources embodying economic benefits:

Resource output	Analysis	Treatment
Likely	The probability that the event will occur is greater than the probability that it will not occur in the future	Recognition of liabilities (Allowance)
Possible	The probability that the event will occur is less than the probability that it will not occur in the future	Disclosure of contingent liabilities
Remote	Low probability of the event occurring in the future	None

In the event that no reliable estimate can be made, a liability cannot be recognized, an exceptional situation that will give rise to a contingent liability that will be disclosed in the notes to the financial statements.

4.6. Equity

FLAR's equity consists of subscribed and paid-in capital; institutional reserves; profit for the year; and other comprehensive income.

4.6.1 Capital

A member may not withdraw, dispose of or pledge its paid-in capital contributions to the Fund unless it denounces the Articles of Agreement, and such denunciation has taken full effect. In such a case, FLAR shall pay the withdrawing member its paid-in capital, after offsetting its outstanding obligations to FLAR. If any obligation remains outstanding (in favor of the member or FLAR), a guarantee of payment shall be provided.

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

4.6.1 Capital (continued)

The reimbursed capital shall be used exclusively for the payment by set-off of the member's obligations.

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

4.6.2 Institutional Reserves

FLAR Regulations establish that institutional reserves must be at least 10% of paid-in capital. These reserves may be used to cover eventual losses that may occur in a given financial year. The institutional reserves are constituted with the additional contribution that each member makes when making capital contribution payments and with the amount of the profits that are approved annually by the Assembly.

4.6.3 Capitalization of earnings

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

4.7. Revenue and expense recognition

FLAR applies accrual accounting for the recognition of its revenues and expenses. That is, it recognizes the effects of transactions and other events and circumstances on economic resources and creditors' claims in the periods in which they occur, even if the resulting receipts and payments occur in a different period.

FLAR's primary source of income includes interest income from loans granted to central banks of member countries, which is generated from the time of disbursement and is accrued, using the effective interest rate method in accordance with the terms and rates agreed upon in each loan.

Interest income and capital gains from investment portfolios are recognized on a systematic and periodic basis according to the terms of each instrument purchased and sold.

4.7. Revenue and expense recognition (continued)

Fees income from contracts with customers are recognized when the following services are transferred: administration of trusts and portfolios; management and custody of portfolios; and, in general, those provided to central banks and public institutions. The following stages are considered in the recognition process:

- Identification of the contract
- Identification of obligations
- Transaction Pricing
- Distribution of the transaction price among the obligations of the contract.
- Posting of revenue as obligations are satisfied.

4.8. Tax exemptions

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

4.9. New and amended IFRS

FLAR has applied and assessed the following new and/or amended IFRSs that have been issued and became effective as of January 1, 2020; along with the review of standards issued during 2021.

FLAR has not early adopted any published standards, interpretations or amendments that are not yet in force.

A number of amendments and interpretations apply for the first time in 2020 and 2021, but have no impact on these Financial Statements:

Improvements 2018 - 2020

Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of benchmark interest rates

The amendments provide a number of exemptions that apply to all hedging relationships that are directly affected by the benchmark interest rate reform. A hedging relationship is affected if the reform results in uncertainty about the timing and or amount of the benchmark cash flows of the hedged item or hedging instrument.

4.9. New and amended IFRS (continued)

These reforms are under review so that, at the time of the changes in the reference interest rates used by FLAR, the necessary adjustments and disclosures are determined at the time of the changes in the reference interest rates used by FLAR. To date, FLAR does not have hedging relationships on interest rates in the process of change.

Amendments to IAS 1: Classifications of Current and Non-Current Liabilities

On January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify the following points:

- The meaning of the right to defer settlement of a liability
- That the right to defer settlement of the liability should be granted at year-end.
- That the classification is not affected by the likelihood that the entity will
- exercise its right to defer settlement of the liability
- That only if any embedded derivative in a convertible liability itself represents an equity instrument would the terms of the liability not affect its
- classification

These amendments were evaluated by FLAR and had no impact on the Financial Statements at the reporting date. FLAR will continue to evaluate the application of the standard going-forward in case additional implementation or disclosures are required.

Amendments to IFRS 3: Reference to the Conceptual Framework

In May 2020, the IASB issued amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace the reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with the reference to the Conceptual Framework for Financial Reporting, issued in March 2018, without significantly changing its requirements. The Board also added an exception to the recognition principle in IFRS 3 to avoid the issue of potential "day 2" gains or losses arising from liabilities and contingent liabilities, which would fall within the scope of IAS 37 or IFRIC 21 Liens, if incurred separately.

At the same time, the Board decided to clarify the existing IFRS 3 guidance in respect of contingent assets that would not be affected by the replacement of the reference to the Framework for the Preparation and Presentation of Financial Statements. These modifications were evaluated by FLAR and had no impact on these Financial Statements at the closing date.

4.9. New and amended IFRS (continued)

Amendments to IAS 16: Property, Plant and Equipment: Revenue before intended use

In May 2020, the IASB issued Property, plant and equipment - Revenue before intended use, which prohibits entities from deducting the cost of an item of property, plant and equipment, i.e. any revenue from the sale of the items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the entity should recognize in profit or loss the proceeds from the sale of those items and the costs incurred in their production.

FLAR has reviewed the amendments related to its property and equipment and determined that there are no current or future impacts on these Financial Statements.

Amendments to IAS 37: Onerous Contracts - Costs Incurred in the Performance of a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity should include when assessing whether a contract is onerous or loss-making.

The amendments state that a "directly related cost approach" should be applied. Costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs are not directly related to the contract and should be excluded unless they are explicitly attributable to the counterparty under the contract.

FLAR has reviewed the amendments related to onerous contracts and determined that there are no current or future impacts with respect to these Financial Statements.

Amendment to IFRS 9: Fees in the '10 percent' test for determining derecognition of financial liabilities

The amendment clarifies that the fees that entities include when assessing whether the terms of any new or amended financial liability are substantially different from the terms of the original financial liability.

These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on behalf of the other.

4.9. New and amended IFRS (continued)

Entities shall apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which they first apply the amendment.

FLAR has reviewed the amendments to the disclosures on accounting policies and considers that no required additional disclosures for these presented in this Financial Statements.

Improvements 2021

Amendments to IAS 8: Definition of Accounting Estimates

The amendment was published by the IASB in February 2021 and clearly defines an accounting estimate: "Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty".

Clarify the use of an accounting estimate and differentiate it from an accounting policy. In particular, it mentions, "an accounting policy may require elements of the financial statements to be measured in a manner that involves measurement uncertainty-that is, the accounting policy may require these elements to be measured at monetary amounts that cannot be directly observed and must be estimated. In this case, an entity develops an accounting estimate to achieve the stated objective of the accounting policy".

FLAR has reviewed the amendments related to the definition of accounting estimates and determined that there are no additional current or future impacts or disclosures with respect to these Financial Statements.

The amendments clarify the following points:

- The word "significant" is amended to read "material or materially important".
- It clarifies the accounting policies to be disclosed in the notes to the financial statements, "an entity shall disclose information about its significant material accounting policies.
- Clarifies when an accounting policy is considered material.

Amendments to IAS 1 - Disclosures about Accounting Policies

It incorporates the following paragraph: "Information about accounting policies that focuses on how an entity has applied the requirements of IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardized information or information that merely duplicates or summarizes the requirements of IFRSs.

4.9. New and amended IFRS (continued)

FLAR has reviewed the amendments to the disclosures on accounting policies and considers that no additional disclosures are required to those presented in the Financial Statements.

5. MAIN POLICIES IN ASSET MANAGEMENT

- **Management and distribution of FLAR's portfolios** - FLAR's financial assets are divided into different portfolios, in accordance with the provisions of Board of Directors Agreement No. 324 of April 30, 2005, as amended. These documents contain the guidelines for the management of FLAR's assets. The investment objectives and guidelines of the investment portfolios are described below:

- **Liquidity Portfolio** - Its main objective is to manage FLAR's working capital. **The Assets and Liabilities Committee -** "**ALCO**" determines the size range and investment strategy of this portfolio, considering, among others, FLAR's operating expenses and possible loan disbursements. The investments in this portfolio have a maturity of 397 days or less.

- **Aggregate Investment Portfolio** - It is comprised of FLAR's equity resources, excluding the resources of the Operations Portfolio and the Liquidity Portfolio.

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

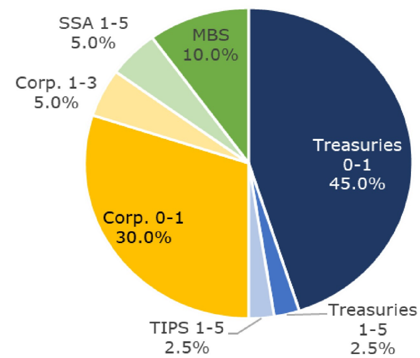
  The Aggregate Investment Portfolio is structured and invested in such a way that its liquidity, together with debt alternatives or other resources, allows it to meet potential credit requests from FLAR member countries.

  The Aggregate Investment Portfolio can be managed both internally and externally, in the latter case through the contracting of **External Asset Managers (EAM)**. The resources managed by the EAM are presented in this report as externally managed portfolios.

  The benchmark index approved by the board in March 2021, has the following composition: 45% U.S. Treasuries 0 to 1 year, 2.5% U.S. Treasuries 1 to 5 years, 2.5% in TIPS 1 to 5 years, 30% in corporate bonds rated AAA to A 0 to1 year, 5% in corporate bonds rated AAA to A 1 to 3 years, 5% in supranational, agency and sovereign bonds rated AAA to A 1 to 5 years and 10% in agency-backed mortgage-backed securities (MBS). The Board of Directors every three years or sooner reviews the benchmark if required.

5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

Graphic 1
Aggregate Investment Portfolio Benchmark Index



Source: FLAR.

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

Specifically, within the scope of the Asset Allocation of ALCO (AAA), the ALCO determines the distribution of resources to be managed internally and externally. The composition of the reference indexes of the sub-portfolios comprising the Aggregate Investment Portfolio and the duration thereof, subject to the preferences defined by the Board of Directors in the Global Risk Policy contained in the investment guidelines.

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 the Intermediation 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 will be matched.

  Notwithstanding the above, resources from the Intermediation Portfolio may be used to finance credits. 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 size, except for the Republic of Costa Rica.

  The ALCO periodically evaluates and decides the target value of the intermediation portfolio, considering the economic, market environment, and the investment needs of the member countries, without this target value being higher than the limit established for this portfolio by the Board of Directors.

5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

- **Asset and Liability Management Portfolio** - The objective of the Asset and Liability Management Portfolio shall be to invest the funds raised from FLAR's medium-term issues or other asset and liability management needs of FLAR. For this purpose, the exposure to liquidity, interest rate and exchange rate risks shall be matched, including derivative operations tied to them, if applicable. At present there are no resources destined to this portfolio.

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

  Considering the current portfolio structure of FLAR, described above. Below is the summary of assets, aggregated by portfolio, as of June 30, 2021, and December 31, 2020:

	June 30,2021	December 31,2020
Liquidity Portfolio	$ 19,475,553	$ 18,175,271
Aggregate investment Portfolio	3,255,255,884	2,946,499,727
Intermediation Portfolio	4,077,401,331	3,319,809,152
Foreign exchange and credit operations portfolio	83,542,079	220,427,513
Other non-financial assets	4,655,372	4,341,769
Total Assets	**$ 7,440,330,219**	**$ 6,509,253,432**

In order to disclose the results of the financial year in accordance with the portfolio structure, a summary of the results obtained as of June 30, 2021, and 2020 is presented below:

Portfolio	Interest income	Portfolios Gains/(Losses)	Derivatives Gains/(Losses)	Net Gains/(Losses)	Other revenues by fees and (administrative expenses)	Total Contribution
Investment aggregate	$ 12,443,802	$ (10,498,752)	$ 3,886,671	$ (6,612,081)	$ -	$ 5,831,721
Intermediation	51,600	587,644	-	587,644	-	639,244
Liquidity	10,874	(292)	-	(292)	-	10,582
Operations (Credits to central banks)	1,106,578	155,095	-	155,095	1,026,748	2,288,421
Exchange operations	15,398	(517,262)	-	(517,262)	-	(501,864)
Personnel and operative expenses	-	-	-	-	(4,608,815)	(4,608,815)
Net income as of June 2021	**$13,628,252**	**$(10,273,567)**	**$ 3,886,671**	**$ (6,386,896)**	**$ (3,582,067)**	**$ 3,659,289**

Portfolio	Interest income	Portfolios Gains/(Losses)	Derivatives Gains/(Losses)	Net Gains/(Losses)	Other revenues by fees and (administrative expenses)	Total Contribution
Investment aggregate	$ 15,839,742	$ 27,512,567	$ (6,256,844)	$ 21,255,723	$ -	$ 37,095,466
Intermediation	(5,673,829)	10,122,009	-	10,122,009	-	4,448,180
Liquidity	875,021	43,226	-	43,226	-	918,247
Operations (Credits to central banks)	37,501,510	37,029,245	-	37,029,245	34,791,104	109,321,859
Exchange operations	142,135	(476,358)	-	(476,358)	-	(334,223)
Personnel and operative expenses	-	-	-	-	(4,615,183)	(4,615,183)
Net income as of June 2020	**$48,684,579**	**$74,230,689**	**$ (6,256,844)**	**$67,973,845**	**$30,175,921**	**$146,834,346**

5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

The investment guidelines are contained in Board Resolution No. 324 of April30, 2005, as amended. These documents establish the eligible investment instruments and FLAR's tolerance to market, credit and liquidity risks. The following is a summary of the most relevant investment guidelines:

- Type of issuer: Governments, Government Agencies, International Financial Institutions, Commercial Banks and Corporations.
- Permissible securities: Government Bonds, Government Agency Bonds, Corporate Bonds, mortgage-backed securities (MBS and CMO) issued by U.S. agencies (GSE, Government Sponsored Enterprises), as well as discount notes and commercial paper.
- The maximum maturity for U.S. Treasury bonds, MBS and Treasury bond futures is 30 years. For any other fixed income instruments other than those described above, the maximum maturity is 10 years.
- Permitted investments include short- and medium-term securities with fixed and floating rate yields.
- Short-term securities must have a credit rating of not less than any of the following: Standard and Poor's A-2, Moody's P-2 and Fitch Ratings F2.
- 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-.
- Currency, bond and interest rate derivatives transactions.
- EAM can make actively managed investments in U.S. dollar-denominated auto and credit card Asset-Backed Securities (ABS)[2].
- EAM may invest up to 5% of the market value of the portfolio in financial instruments indexed to the Standard & Poor's 500 Index (SPX Index). EAM may invest up to 3% in instruments representing commodity indices (such as the S&P GSCI (SPGCCITR Index) or any of its subcomponents). In any case, the sum of exposure to equity and commodity indices may not exceed 5% of the market value of the portfolio at the time of purchase and net short positions are not permitted. The purchase of individual stocks or commodities are not permitted[3].

Investments in the eligible indices may only be executed through Exchange Traded Funds (ETFs), index funds, total return swaps, bonds indexed to the permitted indices or through futures contracts where the underlying is one of the permitted indices.

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

[2] Approved by the Board of Directors at its meeting held on March 29, 2021.

[3] At its meeting held on March 29, 2021, the Board of Directors eliminated the restriction whereby eligible equity and commodity indices were only authorized for EAM. Thus, internally managed portfolios may have investments in these financial instruments.

5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

- **Operational portfolio** - is composed of credits granted to member countries.

  According to the Articles of Constitutive Agreement (Article 3), one of FLAR's objectives is "*to support the balance of payments of member countries by extending credits or guaranteeing loans from third parties*". In other words, FLAR is a countercyclical lender. In relation to this, FLAR makes a permanent macroeconomic follow-up of the economies with which it has credit operations, as well as of its other member countries. To determine the current situation of current credits and foresee future requests for the use of established credit lines.

  FLAR has four lines of credit to its member countries:

  - **Liquidity:** Non-renewable term of up to one year and a limit of up to 1 time the paid-in capital (1.1 times for Bolivia and Ecuador).

  - **Contingency:** This line has an availability period of up to 6 months, extendable at the request of the debtor for two periods of up to 6 months each, with prior authorization from FLAR. Once disbursed, the term is up to six months, extendable 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 have a guarantee to the satisfaction of FLAR.

  - **Balance of payments support:** Term up to three years and up to one-year 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 up to five years and up to 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 on total 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 TAP that members have given to FLAR throughout its history, FLAR does not differentiate in the credit rates it gives to its members, as is the practice in other multilateral financial organizations. The lending 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.

5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

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

A summary of the main risk policies applied by FLAR, in addition to the investment policies described above, are detailed in Note 27 - Risk Management.

6. FAIR VALUE MEASUREMENT

6.1 Valuation principles

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

In estimating the fair value of an asset or liability, FLAR considers the characteristics of the asset or liability and whether market participants would consider those characteristics when pricing the asset or liability at the measurement date.

6.2 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 on the valuation date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (price derivatives).

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

FLAR may designate financial instruments at fair value through profit or loss – FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

6.3 Valuation techniques

- **Financial assets held for trading:** FLAR performs the valuation of investments with information provided by the price provider ICE data services.

  G7 sovereign bonds, exchange-traded futures, TBAs on US agency-guaranteed mortgages and Exchange Traded Funds on equity indices, commodities and investment grade debt are generally classified within Level 1 of the fair value hierarchy due to the use of unadjusted quotes from published prices in an active market.

  For instruments without a market price, the prices obtained from the valuation source are used. In this case, fair values are estimated using standardized valuation techniques and models that use observable market data to the extent possible. These techniques include the determination of future cash flows, which are discounted with yield curves that are derived from observable market data of comparable instruments. The types of instruments that are valued using this methodology include securities issued by government agencies, multilaterals, investment-grade corporate and agency-guaranteed mortgage-backed securities. These instruments are generally classified within Level 2 fair value.

- **Derivative financial instruments**: FLAR trades government bond and interest rate futures on a future stock exchange. These instruments are valued at the exchange- traded price and are classified as Level 1 fair value.

  Additionally, FLAR uses forward exchange rate contracts that are traded over the counter. For the valuation, the spot rate of the day of the currency, the forward points for that same currency against the base currency and the interest rate of the base currency are used in order to determine the present value of the profit or loss generated on 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 firm Wilshire domiciled in California - United States of America. These instruments are classified in Level 2 of fair value.

6.4 Financial assets and liabilities by fair value hierarchy

All of FLAR's investments, given their nature are made in liquid markets and are priced daily in valuation feeds. As of June 30, 2021, FLAR performed additional analysis with respect to the depth of market quotes and volumes traded. This resulted in certain securities being classified as Level 2.

6.4 Financial assets and liabilities by fair value hierarchy (continued)

The following are the instrument categories according to the fair value hierarchy:

June 30, 2021

Fair Value hierarchy	Level 1	Level 2	Total	Valuation Techniques Level 2	Main input data
Derivatives	$ 2,339,340	$ 299	$ 2,339,639	Market	Comparable Yield curve
Government and sovereigns	893,406,355	226,143,919	1,119,550,274	Market	Comparable Yield curve
Financials	-	68,542,858	68,542,858	Market	Comparable Yield curve
No financials	-	24,430,030	24,430,030	Market	Comparable Yield curve
Internally managed portfolio	**895,745,695**	**319,117,106**	**1,214,862,801**		
Derivatives	364,229	(69,960)	294,269	Market	Comparable Yield curve
Government and sovereigns	267,229,445	178,969,392	446,198,837	Market	Comparable Yield curve
Financials	4,007,904	208,293,671	212,301,575	Market	Comparable Yield curve
No financial	-	114,364,512	114,364,512	Market	Comparable Yield curve
Externally managed Portfolio	**271,601,578**	**501,557,615**	**773,159,193**		
Assets at fair value through profit or losses	**$1,167,347,273**	**$ 820,674,721**	**$ 1,988,021,994**		

December 31, 2020

Fair Value hierarchy	Level 1	Level 2	Total	Valuation Techniques Level 2	Main input data
Derivatives	$ 819,141	$ -	$ 819,141	Market	Comparable Yield curve
Government and sovereigns	1,210,374,098	122,780,570	1,333,154,668	Market	Comparable Yield curve
Financials	2,163	74,936,640	74,938,803	Market	Comparable Yield curve
No financial	-	20,429,485	20,429,485	Market	Comparable Yield curve
Internally managed portfolio	**1,211,195,402**	**218,146,695**	**1,429,342,097**		
Derivatives	756,126	65,238	821,364	Market	Comparable Yield curve
Government and sovereigns	100,693,240	200,580,505	301,273,745	Market	Comparable Yield curve
Financials	23,306,742	180,527,595	203,834,337	Market	Comparable Yield curve
No financial	-	144,955,485	144,955,485	Market	Comparable Yield curve
Externally managed Portfolio	**124,756,108**	**526,128,823**	**650,884,931**		
Assets at fair value through profit or losses	**$1,335,951,510**	**$744,275,518**	**$2,080,227,028**		

6.5 Transfers between Fair Value Hierarchy Levels

As of June 30, 2021, and December 31, 2020, FLAR had no transfers between fair value hierarchy levels.

6.6 Fair value of financial assets and liabilities not measured at fair value

June 30, 2021	Book value	Fair value		
		Level 1	Level 2	Total
Cash on hand and banks	$ 11,137,549	$ 11,137,549	$ -	$ 11,137,549
Investments at amortized cost – Internally managed Portfolio	5,242,481,113	1,846,059,978	3,398,074,043	5,244,134,021
Investments at amortized cost – Externally managed Portfolio	29,485,679	-	29,494,048	29,494,048
Accounts receivable on sale of investments	83,107,341	83,107,341	-	83,107,341
Financial assets	**$5,366,211,682**	**$1,940,304,868**	**$3,427,568,091**	**$5,367,872,959**

June 30, 2021	Book value	Fair Value		
		Level 1	Level 2	Total
Deposits from central banks and other institutions	$4,041,136,911	$4,041,136,911	$ -	$4,041,136,911
Accounts payable on purchase of investments	210,715,473	210,715,473	-	210,715,473
Commissions received for loans granted	21,598	21,598	-	21,598
Financial liabilities	**$4,251,873,982**	**$4,251,873,982**	**$ -**	**$4,251,873,982**

December 31, 2020	Book value	Fair value		
		Level 1	Level 2	Total
Cash on hand and banks	$ 10,152,959	$ 10,152,959	$	$ 10,152,959
Investments at amortized cost – Internally managed Portfolio	4,111,922,068	2,326,834,280	1,786,166,580	4,113,000,860
Investments at amortized cost – Externally managed Portfolio	20,284,959	-	20,300,243	20,300,243
Accounts receivable on sale of investments	62,925,146	62,925,146		62,925,146
Financial assets	**$4,205,285,132**	**$2,399,912,385**	**$1,806,466,823**	**$4,206,379,208**
Deposits from central banks and other institutions	$3,284,182,885	$3,284,182,885	$ -	$3,284,182,885
Accounts payable on purchase of investments	38,655,869	38,655,869	-	38,655,869
Commissions received for loans granted	1,048,346	1,048,346	-	1,048,346
Financial liabilities	**$3,323,887,100**	**$3,323,887,100**	**$ -**	**$3,323,887,100**

The following methods and assumptions were used to calculate the fair value of each class of financial instruments not carried at fair value:

- Cash on hand and at banks, deposits with banks (included in Investments at amortized cost in internally managed portfolios), receivables on sale of investments, deposits from central banks and official institutions, receivables on purchase of investments: the amounts recorded approximate fair value due to their short-term nature and are classified in level 1.

- Investments at amortized cost in internally and externally managed portfolios: investments are valued by discounting future cash flows using yield curves derived from observable market data and are classified in level 2.

Measurement of Loans to central banks: For determining the fair value of these credit instruments, FLAR considered the concepts defined in IFRS13 paragraph 16 and determined impracticable the application of fair value on credits based on the following arguments:

6.6 Fair value of financial assets and liabilities not measured at fair value (continued)

i. The credits issued are counter-cyclical and are granted to members that are sovereign states.
ii. The unique relationship between FLAR and its members, who have awarded it the PCT throughout its history.
iii. The non-existence of a main or more advantageous market for the type of loans granted.

For further information, see note 12 Loans to central banks.

7. CASH

The following is a detail of immediately available cash, which is unrestricted. As of June 30, 2021, and December 31, the balances were as follows:

		June 30, 2021		December 31, 2020
Cash on hand	$	8,785	$	8,901
Correspondent Banks		9,829,669		9,530,189
Custodian Bank		160,424		163,183
In United States dollars		**9,998,878**		**9,702,273**
Cash on hand		665		728
Local Banks		1,138,006		449,958
In Colombian pesos		**1,138,671**		**450,686**
Total Cash	**$**	**11,137,549**	**$**	**10,152,959**
Average interest rate during the period		0,19%		0,51%
Interest rate in effect at the end of the period		0,15%		0,15%

As a supplement, Note 11 presents the purchase and sale transactions of investments with a settlement date after June 30 that affect cash.

8. INVESTMENT PORTFOLIO

The distribution by type of issuer of the financial instruments comprising FLAR investment portfolios, as of June 30, 2021, and December 31, 2020, are presented below:

8. INVESTMENT PORTFOLIO (CONTINUED)

	Jun 30, 2021	December 31, 2020
Government and sovereigns	$ 1,119,550,274	$ 1,333,154,668
Financials	68,542,858	74,938,803
No financials	24,430,030	20,429,485
Financial assets held for trading	**1,212,523,162**	**1,428,522,956**
Government and sovereigns	$1,605,202,339	$1,811,953,867
Financials	3,121,744,586	2,150,624,266
Non financials	516,727,437	149,993,178
Expected credit losses	(1,193,249)	(649,243)
Financial assets at amortized cost	**5,242,481,113**	**4,111,922,068**
A. Internally managed portfolio	**$6,455,004,275**	**$5,540,445,024**
Government and sovereigns	446,198,837	301,273,745
Financials	212,301,575	203,834,337
Non financials	114,364,512	144,955,485
Financial assets held for trading	**772,864,924**	**650,063,567**
Government and sovereigns	2,397,179	998,196
Financials	22,598,255	15,297,814
Non financials	4,496,634	3,994,233
Expected credit losses	(6,389)	(5,284)
Financial assets at amortized cost	**29,485,679**	**20,284,959**
B. Externally managed portfolio	**$ 802,350,603**	**$ 670,348,526**
Total investments portfolio (A+B)	**$ 7,257,354,878**	**$ 6,210,793,550**

9. SPECIAL DRAWING RIGHT -SDG -HOLDINGS

As of June 30, 2021, and December 31, 2020, the SDR holdings of the foreign currency management sub-portfolio of credit operations translated into U.S. dollars are as follows:

	June 30, 2021	December 31, 2020
SDR holdings (IMF)	$ 41,411,469	$ 94,450,489
Interest receivable on SDR holdings	7,044	16,754
Unrealized Gains (losses)	882,174	2,210,530
	$ 42,300,687	**$ 96,677,773**

The exchange rate used for the translation of SDRs to USD is related in note 2.5 Functional currency and foreign currency transactions.

10. DERIVATIVE INSTRUMENTS

FLAR's investment guidelines allow the use of interest rate and foreign exchange derivatives. These derivatives are used in a limited manner within the portfolios, with the purpose of managing interest rate and foreign exchange risks in the portfolios, either to hedge risk exposures, or to take positions in the authorized markets and always complying with the investment guidelines.

10. DERIVATIVE INSTRUMENTS (CONTINUED)

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:

		June 30, 2021		December 31, 2020
Derivatives internally managed	$	2,339,639	$	819,141
Derivatives externally managed		414,594		861,797
Rights	**$**	**2,754,233**	**$**	**1,680,938**
Derivatives externally managed		(120,325)		(40,434)
Obligations	**$**	**(120,325)**	**$**	**(40,434)**
Net	**$**	**2,633,908**	**$**	**1,640,504**

On June 30, 2021 and December 31, 2020, U.S. Treasury note and interest rate futures contracts had the following composition:

		June 30, 2021		
Future	**Contracts**	**Value per contract**	**Market Price**	**Notional**
FV2109FV	Short 909	100,000	123.14	(111,932,442)
TU2109TU	Long 100	200,000	110.05	22,010,200
TY2109TY	Short 651	100,000	132.16	(86,036,160)
US2109US	Long 8	100,000	160.24	1,281,920
UT2109UT	Long 4	100,000	192.22	768,880
UX2109UX	Long 10	100,000	147.07	1,470,650

		December 31, 2020		
Future	**Contracts**	**Value per contract**	**Market Price**	**Notional**
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)

The sub-portfolios of the Aggregate Investment Portfolio held positions in foreign exchange forwards in the following magnitude[4]:

	Exposure as of June 30, 2021	**Exposure as of December 31, 2020**
Foreign Exchange Forwards Positions	0.07%	0.11%

[4] The 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.

11. ACCOUNTS RECEIVABLE AND PAYABLE ON SALE AND PURCHASE OF INVESTMENTS

The sale and purchase transactions of investments are recorded on the trade date in accordance with the term generally established by regulation or market convention. Accounts receivable and payable as of June 30, 2021, and December 31, 2020, arising from the difference between the trade date and the date of actual collection or payment are detailed below:

	June 30, 2021	December 31, 2020
Sales of externally managed instruments	$ 43,236,177	$ 19,671,919
Received deposits established	39,871,164	43,253,227
Accounts receivable	**$ 83,107,341**	**$ 62,925,146**
Purchases of internally managed instruments	17,995,441	-
Purchases of externally managed instruments	192,720,032	38,655,869
Accounts Payable	**$ 210,715,473**	**$ 38,655,869**

12. LOANS TO MEMBER CENTRAL BANKS

The detail of loans to central banks, including principal and accrued interest, is as follows:

	June 30, 2021	December 31, 2020
Central Bank of Ecuador	$ 41,319,851	$ 123,983,293
Expected credit losses	(78,459)	(233,554)
Total	**$ 41,241,392**	**$ 123,749,739**

Below are the movements of loans granted and their movements between stages of impairment, for the periods from January to June 2021 and January to December 2020:

	Stage 1		Stage 2		Total	
	Gross book value	Allowance	Gross book value	Allowance	Net book value	Allowance
Balances as of January 1, 2021	**$ 123,983,293**	**$ (233,554)**	**$ -**	**$ -**	**$ 123,983,293**	**$ (233,554)**
Interest accrual	1,106,578	-	-	-	1,106,578	-
Principal and interest payments	(83,770,020)	155,095	-	-	(83,770,020)	155,095
Balances as of June 30,2021	**$ 41,319,851**	**$ (78,459)**	**$ -**	**$ -**	**$ 41,319,851**	**$ (78,459)**

	Stage 1		Stage 2		Total	
	Gross book value	Allowance	Gross book value	Allowance	Net book value	Allowance
Balances as of January 1, 2020	**$ 917,564,730**	**$ (453,990)**	**$ 436,449,828**	**$ (42,335,101)**	**$ 1,354,014,558**	**$ (42,789,091)**
Interest accrual	11,307,917	-	28,851,965	-	40,159,882	-
Transfers to Stage 2	-	-	-	42,335,101	-	42,335,101
Principal and interest payments	(804,889,354)	220,436	(465,301,793)	-	(1,270,191,147)	220,436
Balances as of December 31, 2021	**$ 123,983,293**	**$ (233,554)**	**$ -**	**$ -**	**$ 123,983,293**	**$ (233,554)**

12. LOANS TO MEMBER CENTRAL BANKS (CONTINUED)

Details and events related to loans to central banks at June 30, 2021 and December 31, 2020, are presented below:

i. Central Bank of Ecuador: Balance of Payments Support Credit approved by Board of Directors Agreement No. 434 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 applicable rate is three-month LIBOR + 326 Basic Points., which on June 30, 2021, is 3.454%. The balance of the loan on June 30, 2021, is $41,241,391.60.

13. PROPERTY AND EQUIPMENT, NET

There are no restrictions on property and equipment. The balance as of June 30, 2021, and December 31, 2020, is presented below:

	June 30, 2021	December 31, 2020
Real Estate	$2,297,445	$2,297,445
Furniture and furnishings	155,423	155,423
Office and computer equipment	1,705,723	1,727,355
Vehicles	119,828	119,828
Total Gross Fixed Assets	4,278,419	4,300,051
Less accumulated depreciation	(2,166,656)	(2,125,329)
Total Fixed Assets - Net	**$2,111,763**	**$2,174,722**

The following were the movements presented in property and equipment:

Balances/ Movements	Real Estate	Furniture and furnishings	Office and computer equipment	Vehicles
	Cost			
As of December 31, 2020	**$ 2,297,445**	**$ 155,423**	**$ 1,727,355**	**$ 119,828**
Additions	-	-	19,822	-
Sales / disposals	-	-	(41,454)	-
As of June30 2021	**$ 2,297,445**	**$ 155,423**	**$ 1,705,723**	**$ 119,828**
	Accumulated Depreciation			
As of December 31, 2020	**$ (367,846)**	**$ (128,803)**	**$ (1,522,156)**	**$ (106,524)**
Depreciation charge	(12,109)	(1,837)	(62,889)	(3,991)
Credit for sales/disposals	-	-	39,499	-
As of June30 2021	**$ (379,955)**	**$ (130,640)**	**$ (1,545,546)**	**$ (110,515)**
	Net Book Value			
December 31, 2020	**$ 1,929,599**	**$ 26,620**	**$ 205,199**	**$ 13,304**
June 30, 2021	**$ 1,917,490**	**$ 24,783**	**$ 160,177**	**$ 9,313**

14. OTHER ASSETS

The composition of other assets as of June 30, 2021, and December 31, 2020, is presented below:

	June 30, 2021	December 31, 2020
Fees receivable	$ 172,706	$ 362,323
Taxes receivable	51,451	153,122
Works of art and imports in progress	51,619	69,382
Prepaid expenses	8,629	429,806
Accounts receivable from staff members	4,928	43,673
Other minor assets	33,043	40,299
Total other assets	**$ 322,376**	**$ 1,098,605**

15. DEPOSITS RECEIVED FROM CENTRAL BANKS AND OTHER INSTITUTIONS

The balance of this account comprises deposits received from member and non-member Central Banks and other Latin American official institutions; the figures presented below include interest accrued. The detail as of June 30, 2021, and December 31, 2020, is as follows:

	June 30, 2021	December 31, 2020
Demand deposits		
Balance	**$27,717,146**	**$28,037,318**
Average rate during the period	0.00%	0.43%
Average rate in force at the end of period	0.00%	0.00%
Maximum days to maturity	A la vista	A la vista
Term deposits		
Balance	**$4,013,419,765**	**$3,256,145,567**
Average rate during the period	0.08%	0.39%
Average rate in force at the end of period	0.08%	0.13%
Maximum term to maturity in days	125	187

16. COMMISSIONS RECEIVED FOR LOANS GRANTED

As part of the conditions agreed for loans granted to member countries, funds were received as a credit risk fee. On June 30, 2021 and December 31, 2020, the balance of these funds is $21,598 and $1,048,346, respectively. These amounts are amortized from income over the life of the loan. The amortized value for this concept is presented in Note 21 Net fee income.

17. OTHER LIABILITIES

Other liabilities as of June 30, 2021, and December 31, 2020, correspond mainly to accounts payable to suppliers, the actuarial calculation of the retirement plan and health insurance for retired personnel under FLAR and other current liabilities, as detailed below:

	June 30, 2021	December 31, 2020
Suppliers (1)	$ 968,501	$ 1,545,071
Post-employment benefits retirement pensions (2)	463,713	538,827
Post-employment benefits pensioners medical plan (3)	47,314	52,147
Other labor liabilities (4)	1,030,002	1,022,760
	$ 2,509,530	**$ 3,158,805**

(1) Accounts payable to suppliers correspond to accounts payable due, related to FLAR's operating expenses, such as custody of securities, portfolio management, price providers, internal and external audits and other general services.

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

Changes in obligations related to pension liabilities and post-employment benefits for the periods ended June 30, 2021, and December 31, 2020, are presented below:

	June 30, 2021	December 31, 2020
Post-employment benefits retirement pensions		
Changes in the obligation:		
Benefits accrued at the beginning of the period	$ 538,827	$ 539,108
Profit earned during the period - cost of service	11,341	24,968
Benefits paid	(41,564)	(80,453)
Devaluation effect	(44,891)	(24,527)
Pension liability adjustment - OCI	-	79,731
Profit accrued at the end of the period	**$ 463,713**	**$ 538,827**

17. OTHER LIABILITIES (CONTINUED)

(3) Corresponds to the present value of the health insurance payments for the two (2) Colombians pensioned by FLAR within the pension benefits scheme:

	June 30, 2021	December 31, 2020
Post-employment benefits pensioners medical plan		
Cambios en la obligación:		
Benefits accrued at the beginning of the period	$ 52,147	$ 47,051
Profit earned during the period - cost of service	1,148	2,474
Benefits paid	(1,536)	(3,340)
Devaluation effect	(4,445)	(2,288)
Pension liability adjustment - OCI	-	8,250
Profit accrued at the end of the period	**$ 47,314**	**$ 52,147**

The following are the benefit payments, which reflect future service and expected payments on December 31, 2021, and subsequent 9 years, in accordance with the disclosure requirements of IAS 19 Employee Benefits:

Year	Pension Liabilities	Post-employment benefits
Year 1	$ 77,396	$ 3,430
Year 2	69,961	3,502
Year 3	62,475	3,565
Year 4	55,156	3,618
Year 5	48,220	3,660
Next 5 Years	161,210	18,429

The main assumptions used in the determination of these obligations for the pension plan in charge of FLAR, correspond to the estimates of the last actuarial study in Colombian pesos as of December 31, 2020:

	Pension Liabilities	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

On 30 June 2021 and 31 December 2020, no assets have been allocated to the pension plan.

17. OTHER LIABILITIES (CONTINUED)

(4) Other labor liabilities are due to short-term employee benefits such as:

	June 30, 2021	December 31, 2020
Severances	$ 96,939	$ 141,723
Interest on severances	5,921	22,580
Legal and Extra-legal Holidays	138,401	126,170
Provident fund	788,741	732,287
	$ 1,030,002	**$ 1,022,760**

18. EQUITY

FLAR's paid-in capital is the basis for granting the central banks of the member countries credits or other financial support of up to 2.5 times (2.6 times in the case of Bolivia and Ecuador) in accordance with the regulations established in the constitutive agreement. The subscribed and paid-in capital is made up as follows:

		June 30, 2021	
Member countries	**Subscribed**	**Installment's receivable**	**Paid-in**
Bolivia	$ 328,125,000	$ 47,440,515	$ 280,684,485
Colombia	656,250,000	94,745,098	561,504,902
Costa Rica	656,250,000	94,599,385	561,650,615
Ecuador	328,125,000	47,382,280	280,742,720
Paraguay	328,125,000	47,882,704	280,242,296
Peru	656,250,000	94,799,108	561,450,892
Uruguay	328,125,000	46,836,022	281,288,978
Venezuela	656,250,000	617,656,120	38,593,880
	$ 3,937,500,000	**$1,091,341,232**	**$2,846,158,768**

		December 31, 2020	
Member countries	**Subscribed**	**Installment's 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**

As mentioned above (See Note 4), FLAR may reinstate all or 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.

18. EQUITY (CONTINUED)

In line with this provision, on March 26, 2020, FLAR reinstated $466,849,210.91 of Venezuela's paid-in capital that was used for the payment by offset of obligations due to date.

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

Reserves - As of June 30, 2021, and December 31, 2020, FLAR's institutional reserves correspond to 11.86% and 10.05% of paid-in capital, respectively.

Profits Distribution - The Assembly of Representatives of FLAR, by Resolution No. 215 dated March 30, 2021, approved the recommendation of the Board of Directors to capitalize on March 31, 2021; the profits generated during the year ended December 2020, as has been the institutional practice since 1982.

Earnings generated during the year ended December 2021 of $172,589,121.34 were distributed as follows:

- $15,689,920.13 to increase FLAR's institutional reserves.
- $156,899,201.21 to be capitalized as follows:

Member countries	December 31 2020 Profits
Bolivia	$ 14,894,185.70
Colombia	29,795,584.44
Costa Rica	29,803,313.89
Ecuador	14,897,275.86
Paraguay	14,870,721.45
Peru	29,792,718.45
Uruguay	14,926,262.37
Venezuela	7,919,139.05
	$ 156,899,201.21

Other comprehensive income - Comprises the remeasurements of the defined benefit plan and changes in the fair value of real estate, as follows:

	Balance as of December 31, 2020	New measurement	Changes in fair value	Balance as of June 30, 2021
Retirement pensions	$ (79,731)	$ -	$ -	$ (79,731)
Health assistance	(8,250)	-	-	(8,250)
Defined Benefit Plan	(87,981)	-	-	(87,981)
Fair value of real estate	1,401,620	-	-	1,401,620
Total OCI	**$ 1,313,639**	**$ -**	**$ -**	**$1,313,639**

18. EQUITY (CONTINUED)

	Balance as of December 31,2019	New measurement	Changes in fair value	Balance as of December 31, 2020
Retirement pensions	$ -	$ (79,731)	$ -	$ (79,731)
Health assistance	-	(8,250)	-	(8,250)
Defined Benefit Plan	-	(87,981)	-	(87,981)
Fair value of real estate	3,590,058	-	(2,188,438)	1,401,620
Total OCI	$ 3,590,058	$ (87,981)	$(2,188,438)	$ 1,313,639

19. INTEREST INCOME

Comprises all accrued interest on financial assets measured at amortized cost. As of 30 June 2020 and 2021, its composition was as follows:

	June 30, 2021	June 30,2020
Deposits Commercial banks	**$ 1,246,437**	**$ 7,570,113**
Balance of payments credit	1,106,578	37,501,510
Loans to central banks	**1,106,578**	**37,501,510**
Governments and sovereigns	7,010,039	7,131,588
Financial	805,586	3,402,073
Non-financial	274,425	234,311
Internally managed investment portfolios	**8,090,050**	**10,767,972**
Governments and sovereigns	1,706,250	2,798,945
Financial	1,504,703	2,632,733
Non-financial	1,260,010	1,520,932
Externally Managed Investment Portfolios	**4,470,963**	**6,952,610**
Interest income	**$ 14,914,028**	**$ 62,792,205**

20. NET INCOME FROM MARKETABLE INVESTMENTS

Includes all gains and losses arising from changes in fair value, interest income and exchange differences related to marketable investments. As of June 30, 2021, and June 30, 2020, their detail was as follows:

	June 30, 2021	June 30,2020
Derivatives	$ 1,611,570	$ (1,226,358)
Governments and sovereigns	(3,988,466)	17,429,521
Financial	377,159	6,089,273
Non-financial	(94,265)	6,716,667
Internally managed investment portfolios	**(2,094,002)**	**29,009,103**
Special Drawing Rights SDR	**(501,864)**	**(334,223)**
Derivatives	2,275,100	(5,030,486)
Governments and sovereigns	(3,046,390)	3,411,722
Financial	(901,688)	1,506,439
Non-financial	(1,821,804)	2,249,089
Externally Managed Investment Portfolios	**(3,494,782)**	**2,136,764**
Net income (expense) from income from marketable investments	**$ (6,090,648)**	**$ 30,811,644**

21. NET COMMISSION INCOME

Correspond mainly to income from commissions received for credit risk on loans granted, commissions for management of trusts under administration, as follows:

	June 30, 2021	June 30,2020
Credit risk on loans granted	$ 1,026,748	$ 34,791,104
Trust Asset Management	428,723	313,123
Commission income	**1,455,471**	**35,104,227**
Incentive for compliance in loans granted	-	(343,761)
Commission expense	**-**	**(343,761)**
Net commission income	**$1,455,471**	**$ 34,760,466**

22. INTEREST EXPENSE

Interest expense on deposits received from Central Banks and other institutions for the periods ended June 30, 2021, and June 30, 2020, is presented below:

	June 30, 2021	June 30, 2020
Interest on demand deposits received from central banks	$ -	$ (333,412)
Interest on term deposits received from central banks	(830,902)	(6,131,737)
Interest on term deposits received from Other Institutions	(470,273)	(7,784,612)
Total interest expense	**$ (1,301,175)**	**$ (14,249,761)**

23. EXPECTED CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

The following table shows the expense and recovery of provisions for impairment of financial instruments:

	June 30, 2021	June 30, 2020
Expected credit recovery (losses) on loans granted	$ 155,095	$ 37,373,006
Expected credit recovery (losses) on investments at amortized cost of Internally Managed	(544,006)	273,877
Expected credit recovery (losses) on investments at amortized cost of Externally Managed	(1,105)	1,215
Net income (expense) from expected credit loss on financial assets	**$ (390,016)**	**$ 37,648,098**

24. PERSONNEL AND OPERATING EXPENSES

The accrued personnel and operating expenses correspond to the budget expenses approved by the Assembly of Representatives and the Board of Directors; the other operating expenses correspond to the depreciation of fixed assets and the exchange difference on the items in Colombian pesos related to the operating budget. The accumulated balances as of June 30, 2021, and 2020 are presented below:

	June 30, 2021	June 30, 2020
Salaries	$ (1,079,268)	$ (1,027,921)
Bonuses	(1,81,581)	(171,606)
Other employee benefits	(1,079,454)	(1,006,568)
Personnel expenses	**(2,340,303)**	**(2,206,095)**
Operating expenses	**(1,652,469)**	**(1,570,126)**
Other operative expenses	**(140,479)**	**(421,951)**
Personnel and operating expenses	**$ (4,133,251)**	**$ (4,198,172)**

25. OTHER INCOME AND EXPENSES

Other income - corresponds to interest generated by savings accounts in Colombian pesos and recovery of funds associated with the materialization of operating events.

Other expenses - correspond mainly to custody and portfolio management expenses, expenses related to the management of fiduciary asset contracts, interest on pension liabilities, studies and approval of loans, issuance expenses and others.

25. OTHER INCOME AND EXPENSES (CONTINUED)

As of June 30, 2021, and 2020, other income and expenses are detailed below:

	June 30, 2021	June 30, 2020
Interest earned on Colombia peso accounts	$ 21,932	$ 53,594
Other Income	**21,932**	**53,594**
Custody and portfolio management fees	(732,599)	(729,586)
Expenditure on trust asset contracts	(64,184)	(23,843)
Studies and credit approval	(12,000)	(24,500)
Issuing and other expenses	(8,269)	(5,799)
Other Expenses	**(817,052)**	**(783,728)**
Other Income and Expenses	**$ (795,120)**	**$ (730,134)**

26. FIDUCIARY ASSETS

FLAR acts as trustee of an autonomous patrimony. The purpose of the trust is to safeguard, monitor and control risks to the portfolio managed by third parties in accordance with the investment terms defined by the trustee.

For this management, FLAR charges a quarterly management fee calculated on the monthly average of the market value of the portfolio in trust. FLAR's obligations in this trust are to follow up and control, 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, which is not part of its financial statements, since they are not assets of its property:

	June 30, 2021	December 31, 2020
Risk management, monitoring and control trust fund	$ 689,316,292	$ 626,449,750

27. RISK MANAGEMENT

As part of its purpose as an international multilateral financial organization, FLAR is exposed to a variety of risks including market risk (interest rate, margin and exchange rate risk), credit risk (investment portfolio risk and risk in lending to its member countries) and liquidity risk.

27.1 Corporate Governance

FLAR conducts its operations within a framework of prudent financial policies and risk management 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 sets conservative limits on exposure to different risk factors (foreign exchange, interest rate and credit).

FLAR regulations and Board Resolution No. 324 of April 30, 2005, and its amendments establish the risk levels that FLAR is willing to accept in its investment activities and has the capacity to manage adequately (see Note5).

On the other hand, Board Resolution No. 323 of April 30, 2005, and its amendments establish the corporate governance of investment and risk management.

The Board of Directors establishes the policies concerning the financial management of FLAR, and it 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 investment guidelines and leverage operations.

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

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

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

27.2 Financial risk management objectives

Risk is managed with a comprehensive Balance-Sheet Approach. Investment objectives of FLAR investment portfolios are to preserve nominal capital over a three-year horizon and to generate a positive intermediation margin while assuming moderate credit risk and maintaining ample liquidity (See Note 5 for more detail on FLAR’s portfolios).

27.2 Financial risk management objectives (continued)

FLAR manages these risks through a comprehensive management that takes into consideration eligible investments and risk preferences defined by the Board of Directors in the global risk policy. Management of different risks to which FLAR's balance sheet is exposed is described below.

27.3 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 with 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. This measure is defined as the difference in the price sensitivity of interest-earning 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*	**June 30, 2021**	**December 31, 2020**
Asset's duration	0.43	0.42
Liability's duration	0.07	0.04
Liability's/Asset's	0.56	0.50
Duration gap	**0.39**	**0.40**

* For the calculation of the duration gap, the duration of assets and the contribution to the duration of liabilities are used. The latter considers the ratio of liabilities to assets.

Given these exposures, if interest rates move in parallel by 10 B.P. the impact on FLAR would be $1.24 million on June 30, 2021, and $1.27 million on December 31, 2020.

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

Agreement 324 of April 30, 2005, and its amendments establish that, for the portfolios with authorized active management, the effective duration can be located in a range of +/- 1 around the duration of the reference index.

27.3 Market risk (continued)

	June 30, 2021	December 31, 2020
Portfolio duration	0.91	0.89
Benchmark duration	1.13	0.85

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

The VaR of the Aggregate Investment Portfolio is presented below:

	June 30, 2021	December 31, 2020
VaR ($ million)	$ 1.2	$ 1.0
VaR (B.P)	4.3 B.P.	4.8 B.P.

Source: FLAR

On the other hand, 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 associated to the 3-month LIBOR rate, in the Trading Portfolio; loans are associated 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 in demand accounts and other short-term investments.

ii. *Currency risk:*

Foreign currency risk is the risk that the fair value or future cash flows of an exposure could fluctuate because of changes in exchange rates.

Foreign exchange exposures are managed within the parameters of the policies approved by Board Resolution 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 Krona (SEK), Onshore Renminbi (CNY), Offshore Renminbi (CNH), Hong Kong Dollar (HKD), Singapore Dollar (SGD), South Korean Won (KRW) and IMF SDRs.

27.3 Market risk (continued)

Additionally, FLAR has a low exposure to the Colombian Peso (COP) to cover its operating expenses in Colombia.

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

Actively managed portfolios (Aggregate Investment Portfolio): Unhedged active currency positions are allowed up to a maximum of +/- 10% of the index's currency composition in the eligible currencies mentioned above. Subject to the above restriction, the purchase of bills and notes issued by agencies, sovereign governments, multilateral institutions, private companies and financial institutions in currencies other than the U.S. dollar is permitted up to 50% of the portfolio. The sub-portfolios of the Aggregate Investment Portfolio held positions in foreign exchange forwards in the following magnitude[5]:

	Exposures as of June 30, 2021	Exposures as of December 31, 2021
Forward currency positions	0.07%	0.11%

The amounts of realized and unrealized gains and losses on foreign currency derivatives on June 30, 2021, and December 31, 2020, are detailed in Note 10 Derivative Instruments.

- *Other portfolios without active management (Trading 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 U.S. dollar.

As mentioned above, FLAR has exposure to Specialized Drawing Rights SDRs[6]. The resulting exposure with respect to the value of the Equity portfolio to currencies other than the US dollar were:

	Exposures as of June 30, 2021	Exposures as of December 31, 2021
SDRs	0.79%	1.84%

A 1% fluctuation of the SDR against the dollar would imply a change in value of $967,000, in December 2020 and $423,000 in June 2021.

[5] 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.

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

27.3 Market risk (continued)

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

27.4 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. L*oans it makes to member countries.*

Credit operations or other financial supports from FLAR to its member countries are subject to the evaluation of the applicant's reasonable payment capacity by the Board of Directors or the Executive Presidency, depending on the type of credit.

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 admissible amount for credits, the collection of commissions for credit risk and the compensation of profits if credits are in arrears.

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

The credit risk of investments is monitored by FLAR's Risk Management Department, which is responsible for reviewing and managing the credit risk. Counterparty limits are established using a risk classification methodology that considers the issuer's credit rating according to the main rating agencies and market signals (see Issuer Credit Evaluation Process below).

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

Regarding investments in short-term or money market instruments, 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 following an approach of preference for high credit rating of exposures, sector diversification, and appropriate granularity in exposures to individual short and medium-term issuers.

27.4 Credit Risk (continued)

An activity that implies that FLAR assumes credit risk is the one associated to the intermediation activity. Agreement 323 of 2005 and its amendments establish that the ALCO has the faculty to periodically evaluate and decide the objective value of the Intermediation Portfolio, considering the economic and market environment.

During 2020, the ALCO determined that the target range of the Intermediation Portfolio's term deposits would be between $2.0 billion and $3.5 billion, allowing a deviation of up to $500 million around this range. In that period the minimum value of the monthly portfolio closings was $1,997 million in July and the maximum was $3,249 million in December.

During 2021, the ALCO determined that the target range of the Intermediation Portfolio's term deposits would be between $2 billion and $4 billion, allowing a deviation of up to $500 million around this range. In that period the minimum value of the portfolio's monthly closings was $2,816 million in January and the maximum was $4,011 million in June.

As of June 30, 2021, investments in the Intermediary Portfolio that match time deposits received amounted to $4,010 million. As of December 31, 2020, investments in the Intermediary Portfolio that match time deposits received amounted to $3,249 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 global fixed income market fundamentals and conditions, determining the countries, markets and sectors in which there is value and reasonable certainty in investment opportunities.

Based on the selection of global markets and sectors, a comprehensive credit evaluation methodology is followed in order to select those issuers that meet the criteria of credit quality, probability of default, implicit rating and fundamental analysis, consistent with the 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 and the updates in the quality of capital established in Basel III, have solid liquidity conditions and a systemic importance within the sector.

27.4 Credit Risk (continued)

For the latter, we look for a competitive and leading position in the industry, healthy credit metrics, financial flexibility and conservative management.

Credit quotas depend on the term to maturity. For medium term investments (maturity greater than 397 days), the quota is 1% of the market value of the respective portfolio. For investments in the money market or short-term investments (up to 397 days to maturity) exposure limits are managed up to 1% for non-financial issuers, between 2% and 3% (depending on the credit rating) for banks, financial institutions and multilateral and quasi-government issuers.

Overnight deposits with systemic 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 June 30, 2021, and December 31, 2020, respectively.

Table 1
Composition by sector and credit quality as of June 30, 2021
(Amounted in Millions of USD)

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	-	-	-	-	-	-	41,2	41,2	0,6%
Cash	-	-	-	10,0	-	-	-	10,0	0,1%
Money Market	-	-	-	2.970,8	696,5	-	-	3.667,3	49,3%
Supranational and quasi-governments	60,3	54,4	117,2	1.621,7	39,9	-	-	1.893,6	25,5%
US Treasury Bonds	-	801,8	-	-	-	-	-	801,8	10,8%
TIPS	-	70,9	-	-	-	-	-	70,9	1,0%
US T-Bills	-	-	-	110,7	-	-	-	110,7	1,5%
US Agencies	-	-	-	-	-	-	-	-	0,0%
MBS	125,8	27,1	-	-	-	-	-	152,9	2,1%
TBA	-	143,5	-	-	-	-	-	143,5	1,9%
SDR	42,3	-	-	-	-	-	-	42,3	0,6%
Corporates	6,3	66,6	216,3	104,0	20,7	-	-	413,9	5,6%
ETF	-	-	-	-	-	1,8	-	1,8	0,0%
Receivables and to-receive deposits	-	-	-	83,1	-	-	-	83,1	1,1%
Futures margin accounts	-	-	2,7	-	-	-	-	2,7	0,0%
Forwards with positive valuation	0,0	-	0,1	-	-	-	-	0,1	0,0%
Total by rating	234,7	1.164,3	336,3	4.900,3	757,1	1,8	41,2	7.435,7	100,0%
% Total by rating	3,2%	15,7%	4,5%	65,9%	10,2%	0,0%	0,6%	100,0%	

Source: Risk Management. Includes the effect of provisions for expected losses. It does not include cash in Colombian Pesos for $2.2 million. Considering property and equipment, other assets, commissions receivable and reserve assets the total value of assets is $7.440.3 million.

27.4 Credit Risk (continued)

Table 2
Composition by sector and credit quality December 31, 2020
(Amounted in Millions of USD)

Sector	Medium Term Ratings			Short Term Ratings		No Rating	Credit Operations Sub-portfolio Balance of Payments Support Credit	Total by Asset Class	% Total by Asset Class
	AAA	AA	A	A-1	A-2				
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 Management. It includes the effect of provisions for expected losses; it does not include cash or deposits in Colombian pesos for $1.0 million. When considering property and equipment, other assets and commissions receivable the total value of assets of $6.509,2 million is obtained.

27.5 Liquidity risk

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

27.5 Liquidity risk (continued)

The main objective of FLAR's liquidity management is to have resources to meet credit demands from member countries in a timely manner, with low settlement costs of the securities that make up the portfolios and to have the necessary liquidity to meet their obligations. 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 there are sufficient resources available to meet its debt commitments for a minimum period of twelve months and maintain, always, at least 25% of its paid-in capital invested in liquid instruments in the Liquidity Portfolio and in Aggregate Investment Portfolio, which invest in investment grade instruments that are highly liquid. As of June 30, 2021, and December 31, 2020, FLAR had no long-term debt.

As for the liquid asset requirement, the value of Aggregate Investment Portfolio and Liquidity Portfolio versus paid-in capital as of December 31, 2020, was 97.27% and as of June 30, 2021, was 107.7%.

Currently, FLAR has resources to meet credit demands from member countries in a timely manner and with low settlement costs of the securities that make up the portfolios. Financial liabilities are matched with assets with similar term characteristics.

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

Table 3
Maturities by tranche and type of asset and liability
30 June 2021 (Amounted in millions of USD)
Financial assets

Maturity	Within 1 Month	Within 3 Months	Between 3 and 6 Months	Between 6 and 12 Months	Between 1 and 2 Years	Beyond two Years	Total
Cash	10.0	0.0	0.0	0.0	0.0	0.0	**10.0**
Financial Instruments and Deposits	3,214.7	1,045.1	833.7	1,026.3	401.8	734.7	**7,256.2**
Central Banks Loans	41.2	0.0	0.0	0.0	0.0	0.0	**41.2**
Operations Portfolio - Currencies	0.0	42.3	0.0	0.0	0.0	0.0	**42.3**
Receivable from Sales of Financial Instruments Accounts	83.1	0.0	0.0	0.0	0.0	0.0	**83.1**
Derivative Financial Assets	2.8	0.0	0.0	0.0	0.0	0.0	**2.8**
Total	**3,351.8**	**1,087.4**	**833.7**	**1,026.3**	**401.8**	**734.7**	**7,435.7**

Source: Risk Management. Includes the effect of provisions for expected losses. It does not include cash and deposits in Colombian Pesos for $2.2 million. Considering property and equipment, other assets, commissions receivable and reserve assets, the total value of assets is $7.440.3 million.

27.5 Liquidity risk (continued)

Financial liabilities

Maturity	Within 1 Month	Within 3 Months	Between 3 and 6 Months	Between 6 and 12 Months	Between 1 and 2 Years	Beyond two Years	Total
Financial Liabilities (Deposits)	2,828.2	712.9	500.0	0.0	0.0	0.0	**4,041.2**
payable on purchases of financial instruments Accounts	210.7	0.0	0.0	0.0	0.0	0.0	**210.7**
Derivative Financial Liabilities	0.1	0.0	0.0	0.0	0.0	0.0	**0.1**
Total	**3,039.0**	**712.9**	**500.0**	**0.0**	**0.0**	**0.0**	**4,252.0**

Source: Risk Management. It does not include other liabilities and commissions received for loans granted for an amount of $2.5 million.

Below is a detail of the contractual maturities of financial assets and liabilities as of December 31, 2020:

Table 4
Maturities by tranche and type of asset and liability
31 December 2020 (Amounted in millions of USD)
Financial assets

Maturity	Within 1 Month	Within 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 2 years	Beyond two years	Total
Cash	9.7	0.0	0.0	0.0	0.0	0.0	**9.7**
Financial Instruments and Deposits	3,703.1	403.3	532.6	368.0	564.5	638.7	**6,210.1**
Central Banks Loans	0.0	0.0	123.7	0.0	0.0	0.0	**123.7**
Operations Portfolio - Currencies	0.0	96.7	0.0	0.0	0.0	0.0	**96.7**
Receivable from Sales of Financial Instruments Accounts	62.9	0.0	0.0	0.0	0.0	0.0	**62.9**
Derivative Financial Assets	1.7	0.0	0.0	0.0	0.0	0.0	**1.7**
Total	**3,777.5**	**499.9**	**656.3**	**368.0**	**564.5**	**638.7**	**6,505.0**

Source: Risk Management. Includes the effect of provisions for expected losses. It does not include cash in Colombian Pesos for $0.6 million. Taking into account property and equipment, other assets, commissions receivable and reserve assets the total value of assets is $7.045.76 million.

27.5 Liquidity risk (continued)

Financial liabilities

Maturity	Within 1 Month	Within 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 2 years	Beyond two years	Total
Financial Liabilities (Deposits)	3,217.9	52.0	0.0	14.3	0.0	0.0	**3,284.2**
payable on purchases of financial instruments Accounts	38.7	0.0	0.0	0.0	0.0	0.0	**38.7**
Derivative Financial Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Total	**3,256.6**	**52.0**	**0.0**	**14.3**	**0.0**	**0.0**	**3,322.9**

Source: Risk Management. It does not include other liabilities and commissions received for loans granted for an amount of $15.7 million.

As shown in Tables 3 and 4 above, as of June 30, 2021 and December 31, 2020, 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's assets mature in less than one year.

The previous section presented the composition of instruments by credit rating. As of June 2021, 89.3% of FLAR's reserve assets were in high credit quality instruments that are significantly liquid.

27.6 Risk-adjusted capital

Due to its nature as an international organization, FLAR is not subject to regulatory capital compliance as is the case with private financial institutions globally. According to the capital adequacy ratings made by the risk rating agencies, FLAR has a level of financial strength and equity solvency considered as 'very strong' by Standard and Poor's (S&P). Moody's considers FLAR's capital adequacy as 'a2'.

In the capital adequacy assessment of FLAR, the rating agencies favorably evaluate its preferred creditor status, the continuous strengthening of FLAR's capital, backed by the contributions of paid-in capital and reserves of member countries, the high credit quality of assets, a level of zero leverage, given that as of December 31, 2020, there are no debt issues outstanding.

One way of looking at capital adequacy is through the risk-adjusted capital ratio (RAC)[7]. To measure this indicator, the internally developed risk-adjusted capital ratio methodology is used, which is based on S&P methodology weightings and other assumptions made by Risk Management Department. As of June 30, 2021, this indicator was 112%, which compares to 108% as of December 31, 2020.

[7] 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 capital adequacy based on S&P's methodology and certain assumptions made internally based on information provided in S&P's August 2020 release.

27. RECLASSIFICATIONS

Certain amounts in the financial statements and disclosures have been reclassified for presentation purposes and comparability with the 2020 figures.

28. POST-CLOSING EVENTS

Cancellation of loans granted - On July 3, 2021, Central Bank of Ecuador completed the established schedule of payments of balance of payments loan by paying USD 41,339,512.25; with such payment of principal and interest respective loan was settled.

FLAR management has evaluated subsequent events occurring from June 30, 2021, through 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.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The Assets and Liabilities Committee ALCO approved the Financial Statements of Latin American Reserve Fund "FLAR" for the period ended June 30, 2021, on August 20, 2021, for presenting to the Board of Directors at its C meeting on September 27, 2021; therefore, they could be subject to modification by the Board of Directors.