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working world**

FINANCIAL STATEMENTS

Latin American Reserve Fund "FLAR"

As of December 31, 2021
With independent Auditor's Report

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

Latin American Reserve Fund "FLAR"

Financial Statements

For the year ended December 31, 2021

Index

External Auditor Report	1
Financial Statements	
Statements of Financial Position	4
Statements of Comprehensive Income.....	5
Statements of Changes in Shareholders' Equity	6
Statements of Cash Flows.....	7
Notes to the Financial Statements.....	8

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 (hereafter “the Fund”), which comprise the statement of financial position as of December 31, 2021 and the corresponding statements of comprehensive income, changes in equity and cash flows for the year 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 the Fund as of December 31, 2021, the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of report. I am independent of the Fund, in accordance with the Code of Ethics Manual for Professional Accountants, together with the ethical requirements that are relevant to my audit of financial statements, and I have complied with all other applicable ethical responsibilities. 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.

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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.
- 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 I conclude that a material uncertainty exists, I am 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 my opinion. The 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 communicated those responsible for the governance 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 the audit.



Other Matters

I have audited the financial statements under International Financial Information Standards of the Latin American Reserve Fund 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.

A handwritten signature in black ink, consisting of several loops and a vertical line, is placed over the printed name of the auditor.

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

Bogotá D.C., Colombia
March 8th, 2022.

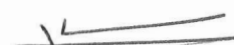
FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND -FLAR

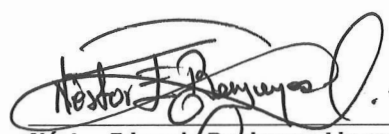
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Stated In U.S. dollar)



ASSETS	Notes	December 31, 2021	December 31, 2020
Cash	7	11,303,411	10,152,959
Investment portfolios managed internally		6,716,748,742	5,540,445,024
Financial assets held for trading	8	1,163,536,402	1,428,522,956
Financial assets at amortized cost	8	5,553,212,340	4,111,922,068
Special Drawing Rights - SDR	9	-	96,677,773
Investment portfolios managed externally		777,269,863	670,348,526
Financial assets held for trading	8	774,169,898	650,063,567
Financial assets at amortized cost	8	3,099,965	20,284,959
Derivatives - Rights	10	6,660,026	1,680,938
Accounts receivable on sale of investments	11	189,090,785	62,925,146
Loans to central banks	12	308,772,173	123,749,739
Property and equipment	13	2,075,146	2,174,722
Other assets	14	1,036,601	1,098,605
Total assets		8,012,956,747	6,509,253,432
LIABILITIES			
Deposits from central banks and other institutions	15	4,670,202,865	3,284,182,885
Demand deposits		55,195,157	28,037,318
Time deposits		4,615,007,708	3,256,145,567
Derivatives - Obligations	10	40,130	40,434
Accounts payable on purchase of investments	11	158,370,215	38,655,869
Commissions received for loans granted	16	677,600	1,048,346
Other liabilities	17	2,600,679	3,158,805
Total liabilities		4,831,891,489	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	1,330,980	1,313,639
Net (Losses) Profits for the period		(1,119,176)	172,589,121
Total equity		3,181,065,258	3,182,167,093
Total liabilities and equity		8,012,956,747	6,509,253,432

Notes are an integral part of these financial statements


José Darío Uribe Escobar
Executive President



Néstor Eduardo Benjumea Lizarazo
Accounting manager


FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND -FLAR

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Stated In U.S. dollar)

	Notes	December 31, 2021	December 31, 2020
Interest income	19	28,522,659	81,365,028
Loans to central banks		1,900,087	40,159,882
Deposits with commercial banks		2,507,982	9,611,563
Internally managed investment portfolios		15,465,749	19,420,837
Externally managed investment portfolios		8,648,841	12,172,746
Interest expense on deposits from central banks and other institutions	22	(3,283,691)	(16,273,341)
Demand deposits		-	(333,412)
Time deposits		(3,283,691)	(15,939,929)
Net interest income		25,238,968	65,091,687
Net (expense) income from return on marketable investments	20	(12,597,648)	37,487,156
Internally managed investment portfolios		(3,226,608)	31,553,031
Externally managed investment portfolios		(8,499,315)	1,800,551
Special Drawing Rights - SDR		(1,249,480)	4,133,574
Derivatives - Credit operations portfolio		377,755	-
Net (expense) income from commissions	21	(3,527,804)	37,626,681
Commissions received for credit risk on loans granted		-	37,260,683
Effect of change in policy commissions received and performance incentive on loans granted		(4,401,698)	-
Fees received for portfolio management		873,894	709,759
Commissions paid - Incentive on loan fulfillment		-	(343,761)
Net income (expense) from credit loss on financial assets	23	(366,538)	43,039,614
Loans granted to central banks		(1,677)	42,555,538
Effect of change in policy - Loans granted to central banks		233,554	-
Investments at amortized cost		(598,415)	484,076
Personnel and operating expenses	24	(8,264,656)	(8,194,184)
Personnel expenses		(4,663,667)	(4,435,533)
Operating expenses		(3,389,990)	(3,319,351)
Other operating expenses		(210,999)	(439,300)
Other income and expenses	25	(1,601,498)	(2,461,833)
Other financial income		36,614	85,515
Other financial expenses		(1,638,112)	(2,547,348)
Net (Losses) Profits for the period		(1,119,176)	172,589,121
Other comprehensive income	18	17,341	(2,276,419)
Total comprehensive income		(1,101,835)	170,312,702

Notes are an integral part of these financial statements


 José Darío Uribe Escobar
 Executive President


 Néstor Eduardo Benjumea Lizarazo
 Accounting manager

FONDO LATINOAMERICANO DE RESERVAS - LATIN AMERICAN RESERVE FUND -FLAR

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Stated In U.S. dollar)

	Notes	Subscribed and Paid- in Capital	Institutional Reserves	Net (Losses) Profits for the period	Other Comprehensive Income	Total Equity
BALANCES AS OF DECEMBER 31, 2019		<u>3,062,208,253</u>	<u>307,774,880</u>	<u>123,528,750</u>	<u>3,590,058</u>	<u>3,497,101,941</u>
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 the year ended December 31, 2020	18	-	-	172,589,121	-	172,589,121
Other comprehensive income						
Surplus from revaluation of property and equipment	18	-	-	-	(2,188,438)	(2,188,438)
Adjustments to the pension reserve		-	-	-	(87,981)	(87,981)
BALANCES AS OF DECEMBER 31, 2020		<u>2,689,259,567</u>	<u>319,004,766</u>	<u>172,589,121</u>	<u>1,313,639</u>	<u>3,182,167,093</u>
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 the year ended December 31, 2021		-	-	(1,119,176)	-	(1,119,176)
Other comprehensive income						
Surplus from revaluation of property and equipment	18	-	-	-	21,549	21,549
Adjustments to the pension reserve		-	-	-	(4,208)	(4,208)
BALANCES AS OF DECEMBER 31, 2021		<u>2,846,158,768</u>	<u>334,694,686</u>	<u>(1,119,176)</u>	<u>1,330,980</u>	<u>3,181,065,258</u>

Notes are an integral part of these financial statements

José Darío Uribe Escobar
Executive President

Néstor Eduardo Benjumea Lizarazo
Accounting manager

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Stated In U.S. dollar)

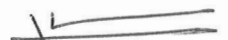



	Notes	December 31, 2021	December 31, 2020
CASH FLOW FROM OPERATING ACTIVITIES:			
Net (Losses) Profits for the period		(1,119,176)	172,589,121
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	13	162,793	163,927
Provided by payment of loan obligations granted, offset without cash movement	12	-	(436,449,828)
Provided by interest and commissions on non-cash loans, offset	12	4,401,698	(61,896,535)
Unrealized (gain) loss on:			
Marketable securities		12,490,147	(2,340,266)
Expected credit losses on loans	12	(231,877)	(42,555,538)
Expected credit losses on investments at amortized cost		598,415	(484,076)
Externally managed portfolios		7,743,715	(4,793,524)
Derivative transactions	10	(2,997,440)	(4,084)
Losses (gains) on sale/disposal of fixed assets		1,955	4,617
Deposits in COP		582,666	(582,666)
Net decrease in externally managed portfolios		(114,904,054)	(17,610,969)
(Used) Provided in credit operations with Central Banks		(185,066,667)	1,254,242,904
Commissions received on loans granted		677,600	475,773
Performance incentive on credits		(5,450,044)	343,761
Provided (used) in SDR foreign exchange portfolio transactions	9	96,677,773	(4,133,574)
(Used) provided by sale, redemption and purchase transactions of marketable securities		(1,636,661,881)	325,093,738
Provided (used) for deposits with commercial banks		438,570,284	(1,147,942,779)
Provided (Used) in demand deposit liabilities operations		27,157,839	(144,374,453)
Provided (Used) in term deposit liability transactions		1,358,794,694	128,786,180
(Increase) Decrease in derivative transactions		(1,981,952)	598,694
Increase (decrease) in other assets	14	62,004	(244,339)
(Decrease) increase in other liabilities		(562,334)	682,744
Interest accrued on deposits received from central banks and other institutions		3,283,691	15,939,929
Interest paid on deposits received from central banks and other institutions		(3,216,244)	(21,652,642)
Interest accrued on loans granted, investment securities and deposits in commercial banks		(28,522,659)	(82,104,788)
Interest received on loans granted, investment securities and deposits in commercial banks		30,703,129	69,335,009
Net cash provided by operating activities		1,194,075	1,086,336
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchases of fixed assets	13	(43,623)	(86,171)
Sales of fixed assets		-	109
Net cash (used in) investing activities		(43,623)	(86,062)
CASH FLOW FROM FINANCING ACTIVITIES:			
New capital contributions and member country reserves		-	-
Net cash provided by financing activities		-	-
NET INCREASE IN CASH		1,150,452	1,000,274
CASH AT THE BEGINNING OF PERIOD		10,152,959	9,152,685
CASH AT THE END OF THE PERIOD		11,303,411	10,152,959

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


Néstor Eduardo Benjumea Lizarazo
 Accounting manager

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

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, Latin American Reserve Fund (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 FLAR's 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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

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.

FLAR is financing 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 members, 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.

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 foreseeable 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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

2.1. COVID-19 Impacts (continued)

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 would warrant revising the expected loss model for investments in treasury portfolios.

In the foreseeable future, the treasury portfolio is expected to generate lower yields because of the effect of the increase in market 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 increased credit spreads or higher than expected market increases in interest rates, which would affect the performance of the treasury portfolios.

FLAR is a multilateral entity whose role is to be a counter-cyclical lender. Throughout its more than 40-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.

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.

On the operational front, during 2021 and part of 2020, FLAR staff members 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 also in the few instances when they must interact in person. Management continues to closely monitor the evolution of the pandemic and will act accordingly, considering the safety of employees and continuity of operations.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

2.2. Basis of presentation and statement of compliance

The comparative financial statements of FLAR as of December 31, 2021, have been prepared in accordance with International Financial Reporting Standards IFRS, issued by the International Accounting Standards Board IASB.

Management is responsible for the information contained in these Financial Statements, 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.

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 considering 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 cash 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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

2.4. Accounting estimates and judgments (continued)

- 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.

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	December 31, 2021	December 31, 2020
COP/USD	3,981.16	3,432.50
SDR/USD	1.39959	1.44878

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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

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 cash 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.

3.1. Change in accounting policy on the recording of commissions and incentives for compliance in FLAR loans

For the year 2021, in order to improve the presentation of commissions and incentives for compliance on loans granted, a change in their recording and presentation was determined.

The change consists of maintaining the credit risk commissions received recorded in liabilities, which only become income for FLAR when the debtor defaults on its obligations (financial and non-financial) and consequently loses the right to the performance incentive.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
3.1. Change in accounting policy on the recording of commissions and incentives for compliance in FLAR loans (continued)

This change eliminates accounting asymmetries between the income from commissions that were amortized over the term of the loan in some periods and the incentive expenses for compliance that were only incurred at a single moment after maturity and payable for an amount equivalent to the value of the commissions for credit risk received.

The change is detailed below:

Item	Previous Presentation		Current Presentation	
	Debit	Credit	Debit	Credit
Financial income - commissions on loans granted	\$ -	\$ 1,048,346	\$ -	\$ -
Interest income - net of expected credit losses on loans granted	-	233,553	-	-
Financial expenses - Incentive for compliance with credit granted	5,450,044	-	-	-
Financial expenses - Change in accounting policy on commissions and incentive on credits	-	-	4,168,145	-
Total effect on results**	\$ 4,168,145	\$ -	\$ 4,168,145	\$ -

** The effect of the change in policy does not represent a material effect on the institution's results.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1. Financial instruments

FLAR recognizes a 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.

4.2. 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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.2.1. Date of recognition

Effective January 1, 2020, FLAR changed the method of recording all its investment transactions, 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.

4.2.2. 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). They mainly correspond to simple debt instruments with determinable dates and cash flows.

As a result 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 in income. 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: Effective interest method is a technique of calculating the amortized cost and of allocating the interest income or cost of a financial instrument over its term.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

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

The effective interest rate is the rate that 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. At 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 upon 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;
- It 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.

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
4.2.2. Classification and measurement of financial assets and liabilities
(continued)

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 method¹ and
- 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 held for trading	Fair value through profit or loss	8
Portfolio of investments in fixed income at a discount	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.

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

¹ A method of calculating the amortized cost and of allocating the financial income or cost of a financial instrument over its term.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.2.3 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, bonds and interest rates futures contracts and foreign exchange forwards for the management of its investment portfolios, within the market and counterparty risk limits 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 A3 and Fitch A-.

The general purpose of the derivative financial instruments in effect 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.

4.2.4 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 effective interest rate of financial asset.

For loans granted, 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 have arrears with multilaterals, they generally settle them before those with private sector creditors.

The de facto PCT has been vitally important to the fact that multilaterals have historically experienced lower default rates and higher recovery rates than commercial lenders have on their sovereign exposures.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.2.4 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 monitoring of borrowers' economies to review their reasonable repayment capacity.

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

- 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 offset against any overdue obligations that any of them may have with FLAR.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

4.2.4 Impairment of financial assets (continued)

In both cases, the obligations are settled on a net amount, thus acting 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.

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:

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.2.4 Impairment of financial assets (continued)

- **Loans granted:** Given FLAR's de facto preferred creditor status PCT and the nature of the debtors, a loan would be classified at this stage upon discussion and instruction of the Board of Directors. 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 avails itself of the bankruptcy laws of its jurisdiction. In this case, the provision is made in default category, assuming an expected recovery rate of 55% or higher as determined in the 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 December 31, 2021.

4.2.5 Derecognition 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 transfer or retains substantially all the risks and rewards of ownership and continues to retain control of the transferred asset.

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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.2.6 Derecognition of financial assets and liabilities (continued)

- 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 derecognized in the statement of financial position when:

- i. The obligation has been paid or cancelled, or has expired.
- ii. 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.
- iii. 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.

4.2.7 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.

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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

4.2.7 Financing instruments (continued)

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

4.3. Property and equipment

FLAR's fixed assets are presented in the Financial Statements at historical cost less accumulated depreciation. For the category of real state, 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	%
	According to appraisal	
Real state	(75 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.

During 2021, because of the periodic evaluation of the fair value of the property, it was determined that the real state presents a surplus 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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

4.3. Property and equipment (continued)

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.

4.4. Intangible assets

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

4.5. 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 through cash payments or the provision of goods and services (non-monetary benefits).

4.5.1 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.

4.5.2 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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.5.2 Post-employment benefits (continued)

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 at the time of settlement of the plans, are recorded in income for the period when constituted. The new actuarial measurements are recorded in ORI - Other Comprehensive Income -.

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 December 31, 2021, and December 31, 2020 were recognized in accordance with the actuarial calculation performed as of December 31, 2021 by an independent firm. See Note 17 Other Liabilities.

4.5.3 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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.5.4 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 December 31, 2021, and December 31, 2020, there are no long-term or termination benefits.

4.5.5 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.

4.5.6 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:

- i. There is a present obligation, whether 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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

4.5.6 Provisions, contingent assets and liabilities.

The following chart 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 <u>is greater</u> than the probability that it will not occur in the future	Recognition of liabilities (Allowance)
Possible	The probability that the event will occur <u>is less</u> than the probability that it will not occur in the future	Disclosure of contingent liabilities
Remote	<u>Low</u> 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: i) A cumulative fall in real gross domestic product of more than 30% in the last three years, and, ii) An annual inflation rate of more than 100% in the last three years.

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

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

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

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.

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

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

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

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.

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 rating is not affected by the likelihood that the entity will exercise its right to defer settlement of the liability

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.9. New and amended IFRS (continued)

- 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.9. New and amended IFRS (continued)**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.

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".

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

4.9. New and amended IFRS (continued)

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 with relative importance".
- 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 or with relative importance.

Amendments to IAS 1 - Disclosures about Accounting Policies

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".

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

5. MAIN POLICIES IN ASSET MANAGEMENT

- **FLAR's portfolios Management and distribution** - 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:

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

5. MAIN POLICIES IN ASSET MANAGEMENT

- **Liquidity Portfolio** - Its main objective is to manage FLAR's working capital. **The Assets and Liabilities Committee - "ALC"** 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.

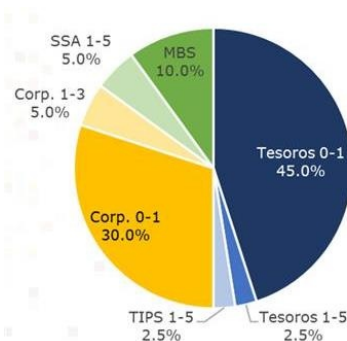
The investment objective of the Aggregate Investment Portfolio is to preserve FLAR's capital in nominal terms over a three-year investment horizon. It is understood that for investment periods of less than three years negative returns may be observed.

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 from AAA to A 0 to 1 year, 5% in corporate bonds with credit ratings between AAA and A from 1 to 3 years, 5% in supranational, agencies 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.

Graphic 1
Aggregate Investment Portfolio Benchmark Index



Source: FLAR.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

5. MAIN POLICIES IN ASSET MANAGEMENT

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 ALC (AAA), the ALC determines the distribution of resources to be managed internally and externally. The composition of the benchmark 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 foregoing, 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 ALC 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.

- **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. Currently 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 FLAR's current portfolio structure, described above. Below is the summary of assets, aggregated by portfolio, as of December 31, 2021, and December 31, 2020:

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

	December 31, 2021	December 31, 2020
Liquidity Portfolio	\$ 18,745,972	\$ 18,175,271
Aggregate investment Portfolio	2,916,946,291	2,946,499,727
Intermediation Portfolio	4,723,152,874	3,319,809,152
Foreign exchange and credit operations portfolio	350,703,226	220,427,513
Other non-financial assets	3,408,384	4,341,769
Total Assets	\$ 8,012,956,747	\$ 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 December 31, 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	\$ 23,662,164	\$ (19,463,401)	\$ 4,941,986	\$ (14,521,415)	\$ -	\$ 9,140,749
Intermediation	(345,356)	333,959	2,057,472	2,391,431	-	2,046,075
Liquidity	22,074	(128)	-	(128)	-	21,946
Operations (Credits to central banks)	1,900,087	(1,677)	377,755	376,078	(4,168,145)	(1,891,980)
Exchange operations	19,396	(1,268,876)	-	(1,268,876)	-	(1,249,480)
Personnel and operative expenses	-	-	-	-	(9,186,486)	(9,186,486)
Net income as of December 2021	\$ 25,258,365	\$(20,400,123)	\$ 7,377,213	\$(13,022,910)	\$(13,354,631)	\$(1,119,176)

Portfolio	Interest income	Portfolios Gains/(Losses)	Derivatives Gains/(Losses)	Net Gains/(Losses)	Other revenues by fees and (administrative expenses)	Total Contribution
Investment aggregate	\$ 29,435,891	\$ 27,475,093	\$ (5,734,306)	\$ 21,740,787	\$ -	\$ 51,176,678
Intermediation	(5,393,428)	11,861,271	-	11,861,271	-	6,467,843
Liquidity	889,342	235,600	-	235,600	-	1,124,942
Operations (Credits to central banks)	77,420,565	(30,299)	-	(30,299)	42,242,076	119,632,342
Exchange operations	185,821	3,947,753	-	3,947,753	-	4,133,574
Personnel and operative expenses	-	-	-	-	(9,946,258)	(9,946,258)
Net income as of December 2020	\$102,538,191	\$43,489,418	\$ (5,734,306)	\$ 37,755,112	\$ 32,295,818	\$172,589,121

The investment guidelines are contained in Board of Directors Agreement No. 324 of April 30, 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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

- 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 permitted³.

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.

- **Operating 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 this regard, FLAR permanently monitors the macroeconomic situation of the economies with which it has credit operations, as well as of its other member countries. To determine the current situation of outstanding 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 one (1) time the paid-in capital (1.1 times for Bolivia and Ecuador).

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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

5. MAIN POLICIES IN ASSET MANAGEMENT (CONTINUED)

- **Contingency:** This line has an availability period of up to 6 months, extendable at the borrower's request 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).

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 PCT 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.

In all loans, 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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

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 an international pricing provider.

G7 sovereign bonds, exchange-traded futures, TBAs on US agency-guaranteed mortgages and Exchange Traded Funds (ETFs) 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 unlisted instruments, prices obtained from the valuation source are used. In this case, fair values are estimated using standardized valuation techniques and models that use, to the extent possible, observable market data. 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. These instruments are valued at the exchange-traded price and are classified as Level 1 fair value.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
6.3 Valuation techniques

Additionally, FLAR uses forward exchange rate contracts that are traded over the counter. The valuation is based on 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 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 FLAR's investments, given their nature are made in liquid markets and are priced daily at valuation sources. As of December 31, 2021, FLAR performed additional analysis with respect to the depth of market quotations and volumes traded. This resulted in certain securities being classified as Level 1, 2 or 3.

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

December 31, 2021

Fair Value hierarchy	Level 1	Level 2	Level 3	Total	Valuation Techniques Level 2	Main input data
Derivatives	\$ 3,124,427	\$ 3,035,403	\$ -	\$ 6,159,830	Market	Comparable
Government and sovereigns	967,416,433	106,954,943	-	1,074,371,376	Market	Yield curve
Financials	467,450	65,719,648	-	66,187,098	Market	Comparable
No financials	-	22,977,928	-	22,977,928	Market	Yield curve
Internally managed portfolio	971,008,310	198,687,922	-	1,169,696,232		
Derivatives	432,792	67,404	-	500,196	Market	Comparable
Government and sovereigns	128,724,612	269,038,883	2,217,599	399,981,094	Market	Yield curve
Financials	34,845,759	209,493,440	-	244,339,199	Market	Comparable
No financial	-	129,849,605	-	129,849,605	Market	Yield curve
Externally managed Portfolio	164,003,163	608,449,332	2,217,599	774,670,094		
Assets at fair value through profit or losses	\$1,135,011,473	\$807,137,254	\$2,217,599	\$1,944,366,326		

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
6.4 Financial assets and liabilities by fair value hierarchy (continued)
December 31, 2020

Fair Value hierarchy	Level 1	Level 2	Level 3	Total	Valuation Techniques	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 Transfer between levels of the fair value hierarchy

The table below presents the changes in fair value hierarchy between the securities that were part of the FLAR investments as of December 2020 and continue in the portfolios as of December 2021 but whose hierarchy level changed:

Change 2020 - 2021	# Securities	Sector	Market Value
From level 1 to level 2	23		\$ 144,046,443
	22	TBAs	120,618,177
	1	SUPRAS & SOVEREIGN	23,428,267
From level 2 to level 3	7		\$ 2,217,599
	7	MBS	2,217,599

At year-end 2021, assets classified as level 3 were MBSs, in their entirety, with an estimated value of \$2,217,599.

To estimate a possible impact on such valuations, FLAR uses a reasonable range of changes in assumptions depending on the type of asset. In the case of MBSs, the valuation of these instruments varies according to their prepayment speeds (PSA)⁴

Assuming different PSAs and holding all other variables constant, the market value of MBS varies as follows:

- Favorable impact: a reduction in prepaid speed to its lowest level in the last 12 months implies a valuation of \$2,245,310, representing an increase of \$27,714 over the initial value.

⁴ PSA - Public Security association standard prepayment model.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
6.5 Transfer between levels of the fair value hierarchy (continued)

- Unfavorable impact: an increase in prepaid speed to its highest level in the last 12 months implies a valuation of \$2,172,217, representing a decrease of \$45,379 from the initial value.

6.6 Fair value of financial assets and liabilities not measure at fair value
December 31, 2021

	Book Value	Level 1	Fair value	
			Level 2	Total
Cash on hand and banks	\$ 11,303,411	\$ 11,303,411	\$ -	\$ 11,303,411
Investments at amortized cost – Internally managed Portfolio	5,553,212,340	1,887,342,055	3,666,270,617	5,553,612,672
Investments at amortized cost – Externally managed Portfolio	3,099,965	-	3,101,073	3,101,073
Accounts receivable on sale of investments	189,090,785	189,090,785	-	189,090,785
Financial assets	\$ 5,756,706,501	\$ 2,087,736,251	\$ 3,669,371,690	\$ 5,757,107,941

December 31, 2021

	Book Value	Level 1	Fair Value	
			Level 2	Total
Deposits from central banks and other institutions	\$4,670,202,865	\$ 4,670,202,865	\$ -	\$ 4,670,202,865
Accounts payable on purchase of investments	158,370,215	158,370,215	-	158,370,215
Commissions received for loans granted	677,600	677,600	-	677,600
Financial liabilities	\$4,829,250,680	\$4,829,250,680	\$ -	\$4,829,250,680

Diciembre 31 de 2020

	Book Value	Level 1	Fair value	
			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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
6.6 Fair value of financial assets and liabilities not measure at fair value (continued)

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:

- 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 December 31, 2021, and 2020:

	December 31, 2021	December 31, 2020
Cash on hand	\$ 8,636	\$ 8,901
Correspondent Banks	10,790,007	9,530,189
Custodian Bank	168,878	163,183
In United States dollars	10,967,521	9,702,273
Cash on hand	628	728
Local Banks	335,262	449,958
In Colombian pesos	335,890	450,686
Total Cash	\$ 11,303,411	\$ 10,152,959
Average interest rate during the period	0,12%	0,51%
Interest rate in effect at the end of the period	0,06%	0,15%

As a supplement, note 11 presents the purchase and sale transactions of investments with a settlement date after December 31, 2021, that affect cash.

8. INVESTMENT PORTFOLIO

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
8. INVESTMENT PORTFOLIO (continued)

	December 31, 2021	December 31, 2020
Government and sovereigns	\$ 1,074,371,375	\$ 1,333,154,668
Financials	66,187,099	74,938,803
No financials	22,977,928	20,429,485
Financial assets held for trading	1,163,536,402	1,428,522,956
Government and sovereigns	2,028,810,107	1,811,953,867
Financials	2,493,380,849	2,150,624,266
Non financials	1,032,273,628	149,993,178
Expected credit losses	(1,252,244)	(649,243)
Financial assets at amortized cost	5,553,212,340	4,111,922,068
<u>A. Internally managed portfolio</u>	<u>\$ 6,716,748,742</u>	<u>\$ 5,540,445,024</u>
Government and sovereigns	399,981,094	301,273,745
Financials	244,339,199	203,834,337
Non financials	129,849,605	144,955,485
Financial assets held for trading	774,169,898	650,063,567
Government and sovereigns	-	998,196
Financials	3,100,663	15,297,814
Non financials	-	3,994,233
Expected credit losses	(698)	(5,284)
Financial assets at amortized cost	3,099,965	20,284,959
<u>B. Externally managed portfolio</u>	<u>\$ 777,269,863</u>	<u>\$ 670,348,526</u>
<u>Total investments portfolio (A+B)</u>	<u>\$ 7,494,018,605</u>	<u>\$ 6,210,793,550</u>

9. SPECIAL DRAWING RIGHT -SDG -HOLDINGS

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

	December 31, 2021 *	December 31, 2020
SDR holdings (IMF)	\$ -	\$ 94,450,489
Interest receivable on SDR holdings	-	16,754
Unrealized Gains (losses)	-	2,210,530
	\$ -	\$ 96,677,773

*FLAR sold its SDR holdings during 2021, with a portion of the exposure traded at the end of 2021 with a compliance date in 2022. 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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
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:

	December 31, 2021	December 31, 2020
Derivatives internally managed	\$ 5,782,075	\$ 819,141
Derivatives externally managed	500,196	861,797
Credit operations portfolio	377,755	-
Rights	\$ 6,660,026	\$ 1,680,938
Derivatives externally managed	(40,130)	(40,434)
Obligations	\$ (40,130)	\$ (40,434)
Net	\$ 6,619,896	\$ 1,640,504

The following table shows the value of financial derivatives, recorded as assets or liabilities, together with their notional amounts (this value is calculated as the sum of the absolute values of the notional amount of the derivatives) as of December 31, 2021, and 2020:

December 31, 2021

Derivatives Assets	Level 1		Level 2		Level 3		Total	
	Notional	Value	Notional	Value	Notional	Value	Notional	Value
Futures	137,300,000	3,557,219	-	-	-	-	137,300,000	3,557,219
Foreign Exchange Forwards	-	-	123,832,088	2,725,052	-	-	123,832,088	2,725,052
Interest rate Swaps	-	-	308,000,000	377,755	-	-	308,000,000	377,755
Total	137,300,000	3,557,219	431,832,088	3,102,807	-	-	569,132,088	6,660,026

Derivatives Liabilities	Level 1		Level 2		Level 3		Total	
	Notional	Value	Notional	Value	Notional	Value	Notional	Value
Futures	-	-	-	-	-	-	-	-
Foreign Exchange Forwards	-	-	5,994,267	40,130	-	-	5,994,267	40,130
Interest rate Swaps	-	-	-	-	-	-	-	-
Total	-	-	5,994,267	40,130	-	-	5,994,267	40,130

December 31, 2020

Derivatives assets	Level 1		Level 2		Level 3		Total	
	Notional	Value	Notional	Value	Notional	Value	Notional	Value
Futures	144,500,000	1,575,266	-	-	-	-	144,500,000	1,575,266
Foreign Exchange Forwards	-	-	7,089,990	105,672	-	-	7,089,990	105,672
Interest rate Swaps	-	-	-	-	-	-	-	-
Total	144,500,000	1,575,266	7,089,990	105,672	-	-	151,589,990	1,680,938

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
10. DERIVATIVE INSTRUMENTS (CONTINUED)

December 31, 2020

Derivatives liabilities	Level 1		Level 2		Level 3		Total	
	Notional	Value	Notional	Value	Notional	Value	Notional	Value
Futures	-	-	-	-	-	-	-	-
Foreign Exchange	-	-	-	-	-	-	-	-
Forwards	-	-	6,129,154	40,434	-	-	6,129,154	40,434
Interest rate Swaps	-	-	-	-	-	-	-	-
Total	-	-	6,129,154	40,434	-	-	6,129,154	40,434

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 December 31, 2021, and 2020, arising from the difference between the trade date and the date of actual collection or payment are detailed below:

	December 31, 2021	December 31, 2020
Sales of externally managed instruments	\$ 12,980,337	\$ 19,671,919
Sales of Special Drawing Rights - SDRs	41,553,071	
Received deposits established	134,557,377	43,253,227
Accounts receivable	\$ 189,090,785	\$ 62,925,146
Purchases of internally managed instruments	20,000,000	-
Purchases of externally managed instruments	138,370,215	38,655,869
Accounts Payable	\$ 158,370,215	\$ 38,655,869

12. LOANS TO MEMBER CENTRAL BANKS

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

	December 31, 2021	December 31, 2020
Central Bank of Ecuador	\$ 308,773,850	\$ 123,983,293
Expected credit losses	(1,677)	(233,554)
Total	\$ 308,772,173	\$ 123,749,739

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
12. LOANS TO MEMBER CENTRAL BANKS (continued)

	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)
Loans granted	308,000,000	-	-	-	308,000,000	-
Interest accrual	773,850	-	-	-	773,850	-
Transfers to Stage 2	-	-	-	-	-	-
Principal and interest payments	(123,983,293)	231,877	-	-	(123,983,293)	231,877
Balances as of December 31, 2021	\$ 308,773,850	\$ (1,677)	\$ -	\$ -	\$ 308,773,850	\$ (1,677)

	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)

Details and events related to loans to central banks as of December 31, 2021, are presented below:

- i. Central Bank of Ecuador:
 - a. 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 loan was paid in July 2021, complying with its payment schedule.
 - b. Liquidity credit: approved by the Executive Presidency, its disbursement was made on October 26, 2021. This loan is for a one-year term with quarterly interest payments and principal payment on the last installment. It was agreed at a fixed interest rate of 1.35%.

13. PROPERTY AND EQUIPMENT, NET

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

	December 31, 2021	December 31, 2020
Real Estate	\$ 2,318,994	\$ 2,297,445
Furniture and furnishings	155,423	155,423
Office and computer equipment	1,727,373	1,727,355
Vehicles	119,828	119,828
Total Gross Fixed Assets	4,321,618	4,300,051
Less accumulated depreciation	(2,246,472)	(2,125,329)
Total Fixed Assets - Net	\$ 2,075,146	\$ 2,174,722

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
13. PROPERTY AND EQUIPMENT, NET (continued)

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	-	-	43,623	-
Sales / disposals	-	-	(43,605)	-
Revaluation surplus	21,549			
As of December 31 2021	\$ 2,318,994	\$ 155,423	\$ 1,727,373	\$ 119,828
Accumulated Depreciation				
As of December 31, 2020	\$ (367,846)	\$ (128,803)	\$ (1,522,156)	\$ (106,524)
Depreciation charge	(25,461)	(3,672)	(125,677)	(7,983)
Credit for sales/disposals	-	-	41,650	-
As of December 31 2021	\$ (393,307)	\$ (132,475)	\$ (1,606,183)	\$ (114,507)
Net Book Value				
December 31, 2020	\$ 1,929,599	\$ 26,620	\$ 205,199	\$ 13,304
December 31, 2021	\$ 1,925,687	\$ 22,948	\$ 121,190	\$ 5,321

14. OTHER ASSETS

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

	December 31, 2021	December 31, 2020
Fees receivable	\$ 408,343	\$ 362,323
Taxes receivable	142,797	153,122
Works of art and imports in progress	65,847	69,382
Prepaid expenses	355,366	429,806
Accounts receivable from staff members	29,098	43,673
Other minor assets	35,150	40,299
Total other assets	\$ 1,036,601	\$ 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 December 31, 2021, and 2020 is as follows:

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
15. DEPOSITS RECEIVED FROM CENTRAL BANKS AND OTHER INSTITUTIONS (continued)

	December 31, 2021	December 31, 2020
Demand deposits		
Balance	\$55,195,157	\$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	At Sight	At Sight
Term deposits		
Balance	\$4,615,007,708	\$3,256,145,567
Average rate during the period	0.08%	0.39%
Average rate in force at the end of period	0.13%	0.13%
Maximum term to maturity in days	304	187

16. COMMISSIONS RECEIVED FOR LOANS GRANTED

As part of the conditions agreed for loans granted to member countries, cash funds were received as commissions that support the effects of recording expected credit losses risk, which are initially recorded as a liability; such liability will only cease to be required and will be convertible into income for FLAR only if the member country fails to comply with the conditions (financial and non-financial) of the loan. Otherwise, if at the end of the term of the loan the debtor complies with payments and conditions, debtor is entitled to receive an incentive for equivalent compliance up-to the amount of the commissions received.

As of December 31, 2021, and 2020, the balance of these funds is \$677,600 and \$1,048,346, respectively.

During 2021, to improve the presentation in the financial statements of the effects of income and expenses related to the amortization of commissions received and expenses caused by incentives for compliance, a change in their recording was determined that does not imply material changes in the results (see note 3.1 Change in accounting policy on the recording of commissions and incentive for compliance in FLAR loans).

17. OTHER LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
17. OTHER LIABILITIES (continued)

	December 31, 2021	December 31, 2020
Suppliers (1)	\$ 967,944	\$ 1,545,071
Post-employment benefits retirement pensions (2)	416,931	538,827
Post-employment benefits pensioners medical plan (3)	54,804	52,147
Other labor liabilities (4)	1,161,000	1,022,760
	\$ 2,600,679	\$ 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 (3) 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 December 31, 2021 and 2020 are presented below:

	December 31, 2021	December 31, 2020
Post-employment benefits allowances 3 pensioners		
Changes in the obligation:		
Benefits accrued at the beginning of the period	\$ 538,827	\$ 539,108
Profit earned during the period - cost of service	22,324	24,968
Benefits paid	(84,645)	(80,453)
Devaluation effect	(52,064)	(24,527)
Pension liability adjustment - OCI	(7,511)	79,731
Profit accrued at the end of the period	\$ 416,931	\$ 538,827

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

	December 31, 2021	December 31, 2020
Post-employment benefits pensioners medical plan		
Changes in the obligation:		
Benefits accrued at the beginning of the period	\$ 52,147	\$ 47,051
Profit earned during the period - cost of service	(2,260)	2,474
Past service costs - adjustment to plan	13,774	-
Benefits paid	(2,989)	(3,340)
Devaluation effect	(9,171)	(2,288)
Pension liability adjustment - OCI	3,303	8,250
Profit accrued at the end of the period	\$ 54,804	\$ 52,147

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
17. OTHER LIABILITIES (continued)

The following are the benefit payments, which reflect future service and expected payments as of December 31, 2022 and subsequent 9 years, in accordance with the disclosure requirements of IAS 19 Employee Benefits:

Year	Pension Liabilities	Post-employment benefits
Year 1	\$76,126	\$4,508
Year 2	67,613	4,625
Year 3	59,295	4,731
Year 4	51,416	4,825
Year 5	44,197	4,902
Next 5 Years	143,974	24,964

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, 2021:

	Pension Liabilities	Post-employment benefits
Nominal discount rate	6.75%	6.75%
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	31/10/2021	31/10/2021

As of December 31, 2021 and 2020, no assets have been allocated to the pension plan.

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

	December 31, 2021	December 31, 2020
Severance	\$ 116,108	\$ 141,723
Interest on severance	13,613	22,580
Legal and Extra-legal Holidays	150,714	126,170
Provident fund	880,565	732,287
	\$ 1,161,000	\$ 1,022,760

18. EQUITY

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
18. EQUITY (CONTINUED)

December 31, 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 Main accounting policies), FLAR may reinstate all or part of paid-in capital to members that are 180 days or more in arrears in the payment of their obligations and that meet certain specific conditions.

In line with this statement, 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 of the above movements, Venezuela's paid-in capital in FLAR in 2020 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 December 31, 2021 and 2020, FLAR's institutional reserves correspond to 11.76% and 11.86% of paid-in capital, respectively.

Profits Distribution - The Assembly of Representatives of FLAR, by Agreement 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.

Profits generated during the year ended December 2020 of \$172,589,121.34 were distributed as follows:

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
18. EQUITY (CONTINUED)

- \$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 December 31, 2021
Retirement pensions	\$ (79,731)	\$ (7,511)	\$ -	\$ (87,242)
Health assistance	(8,250)	3,303	-	(4,947)
Defined Benefit Plan	(87,981)	(4,208)	-	(92,189)
Fair value of real estate	1,401,620	-	21,549	1,423,169
Total OCI	\$ 1,313,639	\$ (4,208)	\$ 21,549	\$ 1,330,980

	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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

Comprises all accrued interest on financial assets measured at amortized cost. As of December 31, 2020 and 2021, its composition was as follows:

	December 31, 2021	December 31, 2020
Deposits Commercial banks	\$ 2,507,982	\$ 9,611,563
Balance of payments credits	1,126,237	40,159,882
Liquidity credits	773,850	-
Loans to central banks	1,900,087	40,159,882
 Governments and sovereigns	 13,105,954	 13,982,104
Financial	1,789,832	4,922,966
Non-financial	569,963	515,767
Internally managed investment portfolios	15,465,749	19,420,837
Governments and sovereigns	3,484,307	4,881,893
Financial	3,010,136	4,304,919
Non-financial	2,154,398	2,985,934
Externally Managed Investment Portfolios	8,648,841	12,172,746
Interest income	\$ 28,522,659	\$ 81,365,028

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 December 31, 2021 and 2020, their detail was as follows:

	December 31, 2021	December 31, 2020
Derivatives	\$ 4,144,743	\$ (1,199,847)
Governments and sovereigns	(8,309,704)	19,023,316
Financial	619,119	6,969,795
Non-financial	319,234	6,759,767
Internally managed investment portfolios	(3,226,608)	31,553,031
Special Drawing Rights SDR	(1,249,480)	4,133,574
Derivatives	2,854,716	(4,534,459)
Governments and sovereigns	(5,456,345)	2,975,564
Financial	(2,848,200)	1,443,411
Non-financial	(3,049,486)	1,916,035
Externally Managed Investment Portfolios	(8,499,315)	1,800,551
Derivatives Credit operations portfolio	377,755	-
Derivatives Credit operations portfolio	377,755	-
Net (Expense) income from marketable investments returns	\$ (12,597,648)	\$ 37,487,156

21. NET (EXPENSE) INCOME FROM COMMISSIONS

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

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

	December 31, 2021	December 31, 2020
Commissions		
Received for credit risk on loans granted	\$ -	\$ 37,260,683
For fiduciary asset management	873,894	709,759
Commission income	873,894	37,970,442
Incentive for compliance in loans granted	-	(343,761)
Effect of change in recording policy on commissions received and performance incentive on loans granted	(4,401,698)	-
Commission expense	(4,401,698)	(343,761)
Net (expense) income from commissions	\$ (3,527,804)	\$ 37,626,681

22. INTEREST EXPENSE

Interest expense on deposits received from Central Banks and other institutions for the periods ended December 31, 2021 and 2020 is presented below:

	December 31, 2021	December 31, 2020
Interest on demand deposits received from central banks	\$ -	\$ (333,412)
Interest on term deposits received from central banks	(2,120,980)	(7,508,259)
Interest on term deposits received from Other Institutions	(1,162,711)	(8,431,670)
Total interest expense	\$ (3,283,691)	\$ (16,273,341)

23. (EXPENSE) INCOME FROM CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

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

	December 31, 2021	December 31, 2020
Expected recoveries or (losses) due to credit risk on loans granted	\$ (1,677)	\$ 42,555,538
Effect of change in policy expected credit risk recovery (loss) on loans granted	233,554	-
Expected recovery or (losses) on investments at amortized cost of Internally Managed portfolios	(603,002)	478,063
Expected recovery or (losses) on investments at amortized cost of externally Managed portfolios	4,587	6,013
Net (expense) income from credit loss on financial assets	\$ (366,538)	\$ 43,039,614

24. PERSONNEL AND OPERATING EXPENSES

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

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 foreign exchange difference on the items in Colombian pesos related to the operating budget. The accumulated balances as of December 31, 2021 and 2020 are presented below:

	December 31, 2021	December 31, 2020
Salaries	\$ (2,149,702)	\$ (2,075,162)
Salary Bonuses	(366,556)	(372,966)
Other employee benefits	(2,147,409)	(1,987,405)
Personnel expenses	(4,663,667)	(4,435,533)
Operating expenses	(3,389,990)	(3,319,351)
Other operative expenses	(210,999)	(439,300)
Personnel and operating expenses	\$ (8,264,656)	\$ (8,194,184)

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.

As of December 31, 2021 and 2020, other income and expenses are detailed below:

	December 31, 2021	December 31, 2020
Interest earned on Colombia peso accounts	\$ 36,614	\$ 85,515
Other Income	36,614	85,515
Custody and portfolio management fees	(1,447,646)	(1,485,828)
Expenditure on trust asset contracts	(125,651)	(75,467)
Studies and credit approval	(31,415)	(216,453)
Issuing and other expenses	(33,400)	(769,600)
Other Expenses	(1,638,112)	(2,547,348)
Other Income and Expenses	\$ (1,601,498)	\$ (2,461,833)

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

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:

	December 31, 2021	December 31, 2020
Risk management, monitoring and control trust fund	\$ 718,638,002	\$ 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 loans to its member countries) and liquidity risk.

27.1. Corporate Governance

FLAR conducts its operations within a prudent financial and risk management policy framework and follows a well-defined management decision-making process aimed at avoiding or limiting its exposure to risk. The asset and liability management policy defines the Board's risk tolerance and 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, as amended, establish the levels of risk that FLAR is willing to accept in its investment activities and has the capacity to adequately manage (see Note 5).

Board Resolution No. 323 of April 30, 2005, as amended, establishes the corporate governance of investment and risk management.

Board of Directors establishes the policies concerning FLAR's financial management 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.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

27.1 Corporate Governance (continued)

The ALC defines the internal framework required to comply with the general financial management policies determined by the Board of Directors. In addition, the ALC evaluates the international economic environment, the investment strategy of 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 Direction is responsible for the execution and implementation of financial decisions approved by the ALC; Risk Direction oversees risk control and compliance with investment policy, Operations management oversees operations compliance and Accounting Management oversees 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 paid-in capital over a three-year horizon and to generate a positive net interest margin while assuming moderate credit risk and maintaining ample liquidity (For further details on FLAR's portfolios see Note 5).

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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

27.3 Market risk (continued)

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:

	December 31, 2021	December 31, 2020
Duration gap components*		
Assets duration	0.30	0.42
Liabilities duration	0.06	0.04
Liabilities/Assets	0.59	0.50
Duration gap	0.27	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 \$0.86 million on December 31, 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 modifications 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 benchmark index.

	December 31, 2021	December 31, 2020
Portfolio duration	0.74	0.89
Benchmark duration	1.09	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:

	December 31, 2021	December 31, 2020
VaR (\$ million)	\$ 0.6	\$ 1.4
VaR (B.P.)	2.2 B.P.	4.8 B.P.

Source: FLAR

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

27.3 Market risk (continued)

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 with fixed rates, hedged with interest rate derivatives to convert them to SOFR rates, in Intermediation Portfolio the matching of assets and liabilities is very close (see liquidity risk below); and in the Liquidity Portfolio, resources are in demand accounts and other short-term investments.

ii. Foreign Exchange 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, as amended. 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.

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 magnitude⁵:

	Exposures as of December 31, 2021	Exposures as of December 31, 2020
Forward currency positions	0.12%	0.11%

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.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

27.3 Market risk (continued)

The amounts of realized and unrealized gains and losses on foreign currency derivatives on December 31, 2021 and 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 SDRs⁶. The resulting exposure with respect to the value of the Equity portfolio to currencies other than the US dollar were:

	Exposures as of December 31, 2021 ⁷	Exposures as of December 31, 2020
SDRs	0.00%	1.84%

A 1% fluctuation of the SDR against the dollar would imply a change in value of \$967,000, in December 2020 and \$414,000 in December 2021.

- 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:

- Loans it makes to member countries.

Credit operations or other financial support 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.

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.

⁷ This value was between trade date and settlement date.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)

27.4 Credit Risk (continued)

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

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

Credit risk of investments is monitored by FLAR's Risk Direction, 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-.

With regard to 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 adequate granularity in exposures to individual short and medium-term issuers.

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

During 2020, the ALC 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 ALC determined that the target range of the Intermediation Portfolio's term deposits would be between \$3 billion and \$4.5 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 \$4,649 million in October.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

27.4 Credit Risk (continued)

As of December 31, 2021, investments in the Intermediation portfolio that match time deposits received amounted to \$4,514 million. As of December 31, 2020, investments in the Intermediation portfolio that match time deposits received amounted to \$3,249 million.

27.4.1 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 fundamentals and conditions for global fixed income market, 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 capital quality updates established in Basel III, have solid liquidity conditions and are systemically important within the sector.

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 are 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. In addition, countries with AAA, AA and A credit ratings with significantly large GDP size (\$1 trillion) and categorized in BICRA groups 1 to 3 may have an exposure to their securities of up to 25%, 15% and 5% respectively of the market value of the portfolio.

Overnight deposits with systemic commercial banks have a quota of up to \$600 million.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
27.4 Credit Risk (continued)

The largest quotas are allocated only to global systemically important financial institutions (G-SIFIs) according to the classification established by the Financial Stability Board (FSB).

Tables 1 and 2, below, present the composition by sector and rating (using the S&P scale) of FLAR's investments as of December 31, 2021 and December 31, 2020, respectively.

Table 1
Composition by sector and credit quality as of December 31, 2021
(Amounted in Millions of USD)

Sector	Mit-Term Ratings			Short-Term Ratings		No rating	Credit OperationsSub-portfolio Liquidity Credit	Total Asset Class	% Total Asset Class
	AAA	AA	A	A-1	A-2				
Liquidity credit	-	-	-	-	-	-	308.8	308.8	3.9%
Cash	-	-	-	11.0	-	-	-	11.0	0.1%
Money Market	-	-	-	1,973.8	1,587.0	-	-	3,560.8	44.5%
Multilaterals y quasi-governments	827.0	30.7	28.1	954.6	419.9	-	-	2,260.3	28.2%
U.S treasury bonds	-	727.4	-	-	-	-	-	727.4	9.1%
TIPS	-	136.1	-	-	-	-	-	136.1	1.7%
U.S treasury Bills	-	-	-	115.4	-	-	-	115.4	1.4%
U.S. Agencies	-	-	-	-	-	-	-	-	0.0%
MBS	103.6	36.1	-	-	-	-	-	139.7	1.7%
TBA	-	124.2	-	-	-	-	-	124.2	1.6%
ABS	24.9	-	-	-	-	-	-	24.9	0.3%
DEG	-	-	-	-	-	-	-	(0.0)	0.0%
Corporate	4.2	68.1	196.7	97.3	36.8	-	-	403.1	5.0%
ETF	-	-	-	-	-	2.0	-	2.0	0.0%
Accounts receivable and deposit receivable ⁸	-	-	-	189.1	-	-	-	189.1	2.4%
Future margin accounts	-	-	3.6	-	-	-	-	3.6	0.0%
Forwards with positive valuation	-	-	2.7	-	-	-	-	2.7	0.0%
Swaps with positive valuation	-	-	0.4	-	-	-	-	0.4	0.0%
Total by rating	959.8	1,122.7	231.1	3,341.0	2,043.8	2.0	308.8	8,009.5	100.0%
% Total by rating	12.0%	14.0%	2.9%	41.7%	25.5%	0.0%	3.9%	100.0%	

Source: Risk Management. Includes the effect of provisions for expected losses. It does not include cash in Colombian Pesos for \$0.3 million. When considering property and equipment, other assets, for \$2.1 and 1 million, the total value of assets is \$8,012.9 million.

⁸ Includes US\$41.5 million (29.7 million SDRs) which, at year-end, was between trade date and settlement date.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
27.4 Credit Risk (continued)

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

Sector	Mid-term Ratings			Short-Term ratings		No Rating	Credit Operations Sub-portfolio Liquidity Credit	Total Asset class	% Total 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	-	-	-	2,128.5	212.5	-	-	2,341.0	36.0%
Multilaterals and quasi-governments	889.1	21.5	99.5	984.4	1.0	-	-	1,995.5	30.7%
U.S. Treasury Bonds	-	917.8	-	-	-	-	-	917.8	14.1%
TIPS	-	141.9	-	-	-	-	-	141.9	2.2%
U.S. Treasury Bills	-	-	-	202.1	-	-	-	202.1	3.1%
U.S. Agencies	16.4	-	-	-	-	-	-	16.4	0.3%
MBS	127.3	31.0	-	-	-	-	-	158.3	2.4%
TBA	-	15.3	-	-	-	-	-	15.3	0.2%
SDR	96.7	-	-	-	-	-	-	96.7	1.5%
Corporate	-	56.2	184.5	155.7	24.4	-	-	420.8	6.5%
ETF	-	-	-	-	-	1.2	-	1.2	0.0%
Accounts receivable and deposits receivable	-	-	-	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	3,544.9	237.9	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, with values of \$2.1 and \$1.1 million, respectively. Total value of assets is \$6.509,2 million.

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.

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 Main Asset management policies) favor investments in assets with very low credit risk, high liquidity, and low transaction costs.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
27.5 Liquidity risk (continued)

Under its liquidity guidelines, FLAR must ensure that sufficient resources are available to meet its debt commitments for a minimum period of twelve months and maintain, 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 December 31, 2021, and 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 December 31, 2021, was 98.29%. Currently, FLAR has resources to meet credit demands from member countries in a timely manner and with low settlement costs for the securities that make up portfolios. Financial liabilities are matched with assets of 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
December 31, 2021 (Amounted in millions of USD)
Financial assets

Maturity	Less than one month	One to three months	Three to six months	Six to 12 months	One to two years	More than two years	Total
Cash	11.0	0.0	0.0	0.0	0.0	0.0	11.0
Financial instruments and deposits	3,740.4	1,806.7	539.9	631.6	141.7	633.6	7,494.0
Central Bank loans	0.0	0.0	0.0	308.8	0.0	0.0	308.8
Foreign exchange portfolio	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable on sales of financial instruments	189.1	0.0	0.0	0.0	0.0	0.0	189.1
Derivative financial assets	6.3	0.0	0.0	0.4	0.0	0.0	6.7
Total	3,946.8	1,806.7	539.9	940.8	141.7	633.6	8,009.5

Source: Risk Direction. Includes the effect of provisions for expected losses. It does not include cash and deposits in Colombian Pesos for \$0.3 million. Considering property and equipment and other assets, by \$ commissions receivable and reserve assets, the total value of assets is \$8,012.9 million.

Financial liabilities

Maturity	Less than one month	One to three months	Three to six months	Six to 12 months	One to two years	More than two years	Total
Financial liabilities (deposits)	3,513.8	1,137.3	0.0	19.1	0.0	0.0	4,670.2
Accounts payable on purchases of financial instruments	158.4	0.0	0.0	0.0	0.0	0.0	158.4
Accounts payable on purchases of financial instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	3,672.2	1,137.3	0.0	19.1	0.0	0.0	4,828.6

Source: Risk Direction. It does not include other liabilities and commissions received for loans granted for an amount of \$0.7 million.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)
27.5 Liquidity risk (continued)

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	Less than one month	One to three months	Three to six months	Six to 12 months	One to two years	More than two years	Total
Cash	9.7	0.0	0.0	0.0	0.0	0.0	9.7
Financial instruments and deposits	3,703.2	403.3	532.6	368.0	564.5	638.7	6,210.3
Central Bank loans	0.0	0.0	123.7	0.0	0.0	0.0	123.7
Foreign exchange portfolio	0.0	96.7	0.0	0.0	0.0	0.0	96.7
Accounts receivable on sales of financial instruments	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	500.0	656.3	368.0	564.5	638.7	6,505.0

Source: Risk Direction. 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.

Financial liabilities

Maturity	Less than one month	One to three months	Three to six months	Six to 12 months	One to two years	More than two years	Total
Financial liabilities (deposits)	3,217.9	52.0	0.0	14.3	0.0	0.0	3,284.2
Accounts payable on purchases of financial instruments	38.7	0.0	0.0	0.0	0.0	0.0	38.7
Accounts payable on purchases of financial instruments	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 Direction. 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 December 31, 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 December 2021, 70.6% of FLAR's reserve assets were in high credit quality instruments that are significantly liquid.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

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 paid-in capital and reserves contributions from member countries, the high credit quality of assets, a level of zero leverage, given that as of December 31, 2021, there are no debt issues outstanding.

One way of looking at capital adequacy is through the risk-adjusted capital ratio (RAC)⁹. 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. As of December 31, 2021, this indicator was 52%, which compares to 108% as of December 31, 2020.

28. RECLASSIFICATIONS

Certain amounts in the financial statements and disclosures have been reclassified and aggregated to improve presentation and comparability with the 2020 figures.

The purpose of the reclassifications of the statement of financial position and statement of comprehensive income corresponds to aggregations and classifications that allow the reader of the financial statements to understand the lines of business, investment portfolios and categories of financial instruments managed by FLAR.

29. POST-CLOSING EVENTS

Completion of the sale of SDR holdings - On January 5, the final sale of the SDR holdings that at the end of December 31 were included in accounts receivable in investment transactions for an amount of \$41,553,071 was satisfactorily completed (see Note 11 - Accounts receivable and payable on sale of investments).

The Central Bank of Chile joins FLAR: on February 16, 2022, the Board of Directors and the Assembly of Representatives approved the application of the Central Bank of Chile to become a member of the organization as an associate central bank.

⁹ 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 Direction'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 2021 release.

**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021
(IN DOLLARS OF THE UNITED STATES OF AMERICA)**

29. POST-CLOSING EVENTS (continued)

The decisions of the Board of Directors and the Assembly were unanimous and were made in the framework of the extraordinary meetings held on February 14 and 16, 2022, respectively. The incorporation of the Central Bank of Chile into FLAR will contribute to strengthening the institution's equity and its capacity to assist its members.

Like all members of FLAR, Chile acquires the rights to request the financial services offered by the organization, including balance of payments support, liquidity, and contingency credits. It will also continue to benefit from the technical support that FLAR provides to countries on crucial investment and international reserves management issues.

FLAR management has evaluated subsequent events occurring from December 31, 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.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements of the Latin American Reserve Fund "FLAR" for the period ending December 31, 2021, were approved on March 8, 2022, by the Assets and Liabilities Committee to be presented to the Board of Directors at its meeting on April 11, 2022, therefore, they may be subject to modification. These will be submitted to the Board of Directors for approval for publication.
