INTERIM FINANCIAL STATEMENTS

Latin American Reserve Fund "FLAR".

As of June 30, 2022
With Independent Auditor's Report

Latin American Reserve Fund "FLAR".

Interim Financial Statements

For the six-month period ended June 30, 2022.

Index

Deloitte.

Deloitte & Touche Ltda.
Nit. 860.005.813-4
Carrera 7 No. 74-09
Ed. Deloitte
Bogotá
Colombia

Tel: +57 (601) 426 2000
www.deloitte.com/co

EXTERNAL AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Latin American Reserve Fund (hereinafter Fund), which comprise the statement of financial position as of June 30, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Fund as of June 30, 2022, the result of its operations and its cash flow for the six-month period then ended, and notes to the financial statements, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements, and we have fulfilled other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We are also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Other matters

The financial statements for the year ended December 31, 2021, and for the six-month period ended June 30, 2021, which are included for comparative purposes only, were audited by another auditor who expressed an unqualified opinion on March 8, 2022, and August 20, 2021, respectively.

Deloitte & Touche Ltda.

Deloitte & Touche LTDA.
Bogota, Colombia

September 14, 2022

LATIN AMERICAN RESERVES FUND - FLAR

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022, AND DECEMBER 31, 2021
(Stated in dollars of the United States of America)

ASSETS	Notes	June 30, 2022	December 31, 2021
Cash	7	$ 11,498,732	$ 11,303,411
Internally managed investment portfolios		6,687,695,751	6,716,748,742
Financial assets held for trading	8	1,081,768,061	1,163,536,402
Financial assets at amortized cost	8	5,605,927,690	5,553,212,340
Special Drawing Rights (SDR)	9	3,877	-
Externally managed investment portfolios		769,196,525	777,269,863
Financial assets held for trading	8	769,196,525	774,169,898
Financial assets at amortized cost	8	-	3,099,965
Derivative financial instruments	10	3,641,276	6,660,026
Trade receivable on sale of investments	11	79,113,379	189,090,785
Loans to central banks	12	308,760,648	308,772,173
Property and equipment, net	13	2,043,028	2,075,146
Other assets	14	578,856	1,036,601
Total assets		$ 7,862,532,072	$ 8,012,956,747
LIABILITIES			
Deposits from central banks and other institutions	15	$ 3,511,521,804	$ 4,670,202,865
Demand deposits		126,237,454	55,195,157
Term deposits		3,385,284,350	4,615,007,708
Derivative financial instruments	10	2,131,570	40,130
Accounts payable on purchase of investments	11	626,403,662	158,370,215
Commissions received on loans granted	16	677,600	677,600
Other liabilities	17	2,714,804	2,600,679
Total Liabilities		4,143,449,440	4,831,891,489
EQUITY			
Subscribed and paid-in capital	18	3,346,158,768	2,846,158,768
Subscribed capital		4,437,500,000	3,937,500,000
Less: capital installments receivable		(1,091,341,232)	(1,091,341,232)
Institutional reserves		392,175,510	334,694,686
Other comprehensive income	18	1,330,980	1,330,980
Profit for the year		(20,582,626)	(1,119,176)
Total Equity		3,719,082,632	3,181,065,258

LATIN AMERICAN RESERVES FUND - FLAR

STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED JUNE 30, 2022, AND DECEMBER 31, 2021
(Stated in dollars of the United States of America)

ASSETS	**Notes**	**June 30, 2022**	**December 31, 2021**
Total Liabilities and Equity		$ 7,862,532,072	$ 8,012,956,747

The notes are an integral part of these financial statements.

Jose Darío Uribe Escobar
Executive President

Néstor Eduardo Benjumea Lizarazo
Accounting Manager

LATIN AMERICAN RESERVES FUND - FLAR

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED JUNE 30, 2022, AND 2021
(Stated in dollars of the United States of America)

	Notes	June 30, 2022	June 30, 2021
Interest income	19	$ 17,229,351	$ 14,914,028
Loans to central banks		2,090,550	1,106,578
Deposits in commercial banks		2,829,615	1,246,437
Internally managed investment portfolios		7,946,203	8,090,050
Externally managed investment portfolios		4,362,983	4,470,963
Interest expense on deposits from central banks and other institutions	22	(8,647,139)	(1,301,175)
Short term demand Deposits		(95,139)	-
Long term Deposits		(8,552,000)	(1,301,175)
Net interest income		8,582,212	13,612,853
Net Expense from return on marketable investments	20	(24,270,773)	(6,090,648)
Internally managed investment portfolios		5,551,994	(2,094,002)
Externally managed investment portfolios		(31,749,316)	(3,494,782)
Special Drawing Rights (SDR)		4,178	(501,864)
Derivatives - Credit operations portfolio		1,922,371	-
Net commission income	21	394,001	1,455,471
Commissions received for credit risk on loans granted		-	1,026,748
Fees received for portfolio administration		394,001	428,723
Net expense from expected credit losses on financial assets	23	(304,115)	(390,016)
Loans granted to central banks		25	155,095
Investments at amortized cost		(304,140)	(545,111)
Employee Benefits and operating expenses	24	(4,171,100)	(4,120,762)
Personnel expenses		(2,349,385)	(2,349,887)
Operating expenses		(1,783,614)	(1,630,396)
Other operating expenses		(38,101)	(140,479)

LATIN AMERICAN RESERVES FUND - FLAR

STATEMENT OF TOTAL COMPREHENSIVE INCOME
FOR THE PERIOD ENDED JUNE 30, 2022, AND 2021
(Stated in dollars of the United States of America)

	Notes	June 30, 2022	June 30, 2021
Other income and expenses	25	(812,851)	(807,609)
Other financial income		23,256	21,932
Other financial expenses		(836,107)	(829,541)
(Loss) profit for the period		(20,582,626)	3,659,289
Other Comprehensive Income	18	-	-
Total Comprehensive Income		$ (20,582,626)	$ 3,659,289

The notes are an integral part of these financial statements.

Jose Darío Uribe Escobar
Executive President

Néstor Eduardo Benjumea Lizarazo
Accounting Manager

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2022, AND DECEMBER 31, 2021
(Stated in dollars of the United States of America)

	Notes	Subscribed and Paid-in Capital	Institutional Reserves	Net Profit (Loss) for the period	Other comprehensive income	Total Equity
BALANCES AS OF DECEMBER 31, 2020		$ 2,689,259,567	$ 319,004,766	$ 172,589,121	$ 1,313,639	$ 3,182,167,093
Appropriation of profits according to agreement No. 215 of FLAR's Representative Assembly of March 23, 2021	18	156,899,201	15,689,920	(172,589,121)	-	-
Net income for the six months ended June 30, 2021		-	-	3,659,289	-	3,659,289
BALANCES AS OF JUNE 30, 2021		2,846,158,768	334,694,686	3,659,289	1,313,639	3,185,826,382
Net losses for the six months ended December 31, 2021	18	-	-	(4,778,465)	-	(4,778,465)
Other Comprehensive Income						
Surplus from revaluation of real estate	18	-	-	-	21,549	21,549
Adjustments to pension reserves		-	-	-	(4,208)	(4,208)
BALANCES AS OF DECEMBER 31, 2021		2,846,158,768	334,694,686	(1,119,176)	1,330,980	3,181,065,258
Contributions received for the entry of the Banco de Chile to FLAR as an Associated Bank approved by agreement No. 219 of the Assembly of Representatives on February 16, 2022		500,000,000	58,600,000			558,600,000

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2022, AND DECEMBER 31, 2021
(Stated in dollars of the United States of America)

	Notes	Subscribed and Paid-in Capital	Institutional Reserves	Net Profit (Loss) for the period	Other comprehensive income	Total Equity
Appropriation of institutional reserves to cover 2021 losses according to agreement No. 221 of FLAR's Representative Assembly on April 12, 2022.	18	-	(1,119,176)	1,119,176	-	-
Net losses for the six months ended June 30, 2022		-	-	(20,582,626)	-	(20,582,626)
BALANCES AS OF JUNE 30, 2022		$ 3,346,158,768	$ 392,175,510	$ (20,582,626)	$ 1,330,980	$ 3,719,082,632

The notes are an integral part of these financial statements.

Jose Darío Uribe Escobar
Executive President

Néstor Eduardo Benjumea Lizarazo
Accounting Manager

NOTES TO FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022
(Stated in dollars of the United States of America)

	Note	June 30, 2022	June 30, 2021
CASH FLOW FROM OPERATING ACTIVITIES:			
(Loss) Income for the period		$ (20,582,626)	$ 3,659,290
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	13	48,791	80,826
Unrealized (gain) loss in:			
Internally managed portfolios		26,702,929	10,822,649
Externally managed portfolios		20,398,478	4,114,508
Derivative transactions	10	577,211	134,899
Expected credit risk losses on loans granted	12	(25)	(155,095)
Expected credit risk losses on investments at amortized cost		304,140	545,111
Gain on sale/disposal of fixed assets		-	1,955
Increase (decrease) for COP Deposits		735,598	(482,107)
Net decrease due to operations in externally managed portfolios		(12,130,367)	(136,184,836)
Increase from credit operations to central banks		-	81,955,555
Commissions received on loans granted		-	(1,026,748)
(Decrease) Increase in foreign exchange portfolio SDR	9	(3,877)	54,377,087
Increase (decrease) by transactions of sales, redemptions, and purchases of marketable securities		267,929,920	(1,255,128,264)
Increase in deposits operations in commercial banks		313,795,644	481,186,732
Increase (decrease) in demand deposits liabilities operations		71,042,297	(320,172)
(Decrease) increase in term deposits liabilities transactions		(1,231,454,591)	757,463,260
Increase (decrease) in derivative transactions		2,534,327	(1,128,303)
Increase for collateral received in derivative transactions		1,998,652	
Increase in other assets	14	457,745	776,228
Increase (decrease) in other liabilities		114,125	(649,275)
Interest accrued on received deposits from central banks and other institutions		8,647,139	1,301,175
Interest paid on deposits received from central banks and other institutions		(6,915,906)	(1,490,237)
Interest accrued on loans granted, investments securities and deposits in commercial banks		(17,229,351)	(14,914,028)

(Stated in dollars of the United States of America)

	Note	June 30, 2022	June 30, 2021
Interest received on loans granted, investment securities and deposits in commercial banks		14,641,741	16,064,202
Net cash (used) provided by operating activities		(558,388,006)	1,004,412
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	13	(16,673)	(19,822)
Net cash (used) in investing activities		(16,673)	(19,822)
CASH FLOW FROM FINANCING ACTIVITIES:			
Increase due to new capital and reserves contributions from associated central bank		558,600,000	-
Net cash provided by financing activities		558,600,000	-
NET INCREASE IN CASH		195,321	984,590
CASH AT THE BEGINING OF PERIOD		11,303,411	10,152,959
CASH AT THE END OF PERIOD		$ 11,498,732	$ 11,137,549
ADDITIONAL INFORMATION ON TRANSACTIONS THAT DID NOT GENERATE CASH MOVEMENTS			
Appropriation of earnings to paid-in capital and reserves for the year 2020		$ -	$ 172,589,121
Appropriation of institutional reserves to cover losses for the year 2021		$ (1,119,176)	$ -

The notes are an integral part of these financial statements.

Jose Darío Uribe Escobar Executive President	Néstor Eduardo Benjumea Lizarazo Accounting Manager

1. ORGANIZATION AND OPERATIONS

The Latin American Reserve Fund (hereinafter FLAR) is the organization established under public international law that replaced the Andean Reserve Fund (FAR), which was established in 1978. In 1988, the "Convention for the Establishment of the Latin American Reserves Fund" (Constitutive Convention) replaced the treaty by which the FAR was constituted.

On July 12, 2021, the Assembly of Representatives approved the creation of a complementary linkage mechanism to FLAR, establishing the membership category known as an "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.

The following are the main objectives of the FLAR:

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

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

c) to improve the investment status of member countries' international reserves.

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

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

To better fulfill its purposes, the Latin American Reserve Fund enjoys the immunity of its properties and other assets and all deposits and other resources entrusted to FLAR, whether they consist of liabilities, represent equity 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 FLAR's dominion 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 is headquartered 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 agreed upon 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 countercyclical financial assistance to its members, which are sovereign states, and their associated central banks.

With respect to the obligations of the member countries and central banks associated with FLAR, they have always given FLAR de facto Preferred Creditor Treatment, hereinafter "PCT". This refers to the fact that sovereigns traditionally continue to pay their financial obligations to multilateral agencies, even when they have defaulted to private sector creditors.

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

Currently, the full members of FLAR are Bolivia, Colombia, Costa Rica, Ecuador, Peru, Paraguay, Uruguay, and Venezuela; for its part, as of March 2022, the central bank of Chile has become the first member of FLAR as an associate central bank.

2. BASIS OF PREPARATION

These financial statements have been prepared on a going concern, 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, except for the preparation of the statement of cash flows.

2.1. Significant events - In 2022, following the COVID-19 pandemic, economic recovery continues, although there are signs of slowing further ahead. Currently, inflationary pressures persist around the world, resulting from supply chain issues and the conflict between Russia and Ukraine, which has impacted agricultural commodities and energy prices. In this context, the Federal Reserve has reduced monetary stimulus, resulting in higher interest rates at different maturities of the yield curve and widening credit spreads. FLAR portfolios, which are invested primarily in U.S. dollar fixed income securities with high credit ratings have depreciated moderately because of valuation effects at higher rates. However, higher interest income should offset this effect. Management will continue monitoring the market environment and will act accordingly if needed.

2.2. Basis of presentation and statement of compliance - The Financial statements of FLAR 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 interim financial statements as of June 30 and annual financial statements as of December 31 are presented to the Board of Directors, are expressed in U.S. dollars, and include the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the explanatory notes.

The statement of financial position is presented in order of liquidity.

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

The statement of cash flows is presented under the indirect method and in accordance with the nature of its operations.

2.4. Accounting estimates and judgments - The preparation of financial statements requires management to make judgments and estimates based on historical experience and other factors, including the expectation of the occurrence of future events that are considered reasonable under the circumstances.

The most significant estimates used in the application of accounting policies are fundamentally based on the definitions of the business model in relation to the 5 lines of business that determine how to invest the resources from the work of the following: the short-term intermediation, the management of investment portfolios derived from capital contributions, the loans to central banks, the resources from issuances in the financial markets and the management of third-party investments in which it acts as trustee.

The general estimates that affect the judgments and estimates for the lines of business are shown below:

- The assumptions used to calculate the fair value of Level 2 and 3 investments (see Note 6 - Fair value measurement).

- The measurement of expected impairment losses on investments measured at amortized cost (see Note 4.2.4 - Impairment of financial assets).

Management considers the foregoing to be its best estimates based on the information available on the events analyzed at the date of preparation of these financial statements.

Estimates are reviewed periodically; in the case of material changes, their recognition would be prospective and treated as a change in an accounting estimate in the 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 the U.S. dollar are considered foreign currencies and are stated at 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 these 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 exchange rates of the principal non-U.S. dollar currencies used for the presentation of the financial statements are as follows:

Exchange Rate	**June 30 2022**	**December 31 2021**
USD/AUD	0.68765	0.72705
CAD/USD	1.28995	1.26315
USD/CHF	0.95735	0.91115
USD/EUR	1.04545	1.13720
USD/GBP	1.21445	1.35445
JPY/USD	135.855	115.155
NOK/USD	9.87975	8.81830
USD/NZD	0.62175	0.68465
SEK/EUR	10.24740	9.05385
SGD/USD	1.39170	1.34815
COP/USD	4,141.66	4,064.92
USD/DEG	1.3278	1.3996

3. CHANGES IN ACCOUNTING POLICIES

As of June 30, 2022, there have been no changes in institutional accounting policies.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1. Cash - FLAR presents as cash the sum of petty cash balances, the dollar account balances at correspondent banks, the balance of cash accounts in the custody of internally managed portfolios and the balances of accounts in Colombian pesos at correspondent banks.

Demand deposits and deposits in commercial banks are presented as part of internally and externally managed assets and therefore do not appear in the financial statements as cash equivalents.

4.2. Financial instruments

4.2.1. FLAR recognizes a financial asset or liability when it becomes an obligated party to a contract that gives rise to a financial asset or liability or an equity instrument of another institution.

Recognition and initial measurement of 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, at initial recognition.

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

4.2.2. Recognition date – FLAR records all its investment transactions on the trade date. Trading transactions of financial assets and liabilities are made within the term generally established by regulation or market convention.

Credits to member central banks are recognized on the date on which the funds are transferred to the member countries' accounts.

4.2.3. Classification and measurement of financial assets and liabilities

4.2.3.1. Classification:

FLAR classifies all its financial assets at fair value through profit or loss (FVTPL) except for those that are classified at amortized cost based on two main criteria:

a) Evaluation of the business model 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:

- Credits to member central banks.
- Management of investment portfolios derived from the paid-in capital contributions of member countries.
- Short-term intermediation operations.
- Management of investment portfolios derived from capital market issues; and
- Management of third-party investment portfolios in which FLAR acts as trustee.

b) Test of the characteristics of contractual cash flows from the financial asset solely represents payments of Principal and Interest Payment, hereinafter "SPPI". These correspond mainly to simple debt instruments with determinable dates and cash flows.

4.2.3.2. Measurement

a) Amortized cost, referring to financial assets whose purpose is to be held to obtain 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 mainly concentrated in a term of less than three months.

The effective interest method is a method of calculating the amortized cost and of systematically allocating the interest income or cost of a financial instrument over its term.

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 at initial recognition.

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

b) Fair value through profit or loss (FVTPL), referring to financial assets that are traded in active markets with the objective of obtaining the benefits 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 the 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.

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

Financial assets at fair value through profit or loss (FVTPL) are recorded at fair value, recognizing in income any gain or loss arising from their revaluation.

The net income or loss recognized in income includes any dividends or interest earned on financial assets and is included in "Net expense from return on marketable investments".

4.2.4. Impairment of financial assets - At the end of each reporting period, investments other than those measured at fair value through profit or loss are tested for impairment.

For financial assets (loans and investments) carried at amortized cost, the amount of the impairment loss is recognized as the expected loss over a time horizon.

For this type of investment, FLAR does not have a preferred creditor treatment; therefore, it is necessary to estimate the present value of the credit losses that may arise in a possible default scenario. For this purpose, the current rating of the instrument and the probability of default assigned by the risk rating agencies over a 12-month horizon are directly considered.

For loans granted, FLAR adopts the expected credit loss model in accordance with IFRS 9, considering the usual practices of similar multilateral agencies and the de facto PCT that sovereigns give to these agencies. The de facto PCT has been instrumental for multilaterals historically experiencing lower default rates and higher recovery rates than commercial lenders have on their sovereign exposures (see Note 1-Organization and operations).

The model estimates expected credit losses based on the modeling of two scenarios, which are assigned a probability of occurrence.

The scenarios have the following characteristics:

- Base scenario: assumes a lower probability of default considering the TAP (two notches above that associated with the average rating of the rating agencies) and a higher recovery rate.

- Stressed scenario: includes a higher probability of default (three notches below that associated with the average rating of the rating agencies) and a lower recovery rate.

- The loss estimate for a stage 1 loan will correspond to the expected losses of the loan according to the average rating of the rating agencies, using the probabilities of default in 12 months and the principal amount of the loan (EAD).

- The loss estimate for a stage 2 loan will correspond to the expected losses of the loan according to the average rating of the risk rating agencies, using the probabilities of default in the remaining life of the loan and the total balance of the obligation.

- The loss estimate for a stage 3 loan will correspond to the expected recovery rate of the loan considering FLAR's preferred creditor status in a stressed scenario, multiplied by the total balance of the obligation.

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 mutual cooperation. All members have paid-in capital in FLAR.

- FLAR's monitoring of borrowers' economies to review 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 the Board's evaluation: i) A cumulative fall in real gross domestic product of more than 30% over the last three years and/or ii) An annual inflation rate of more than 100% over the last three years.

The aforementioned power of the Board of Directors was granted by the Assembly of Representatives in a General Capital Repayment Policy approved by Agreement 213 of 2020. Once the repayment has been made, compensation of the reciprocal obligations between FLAR (repayment of a portion of the paid-in capital) and the member (payment of the loan) is made.

In addition to this General Policy, FLAR Regulations provide that the profits from each financial period 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.

In both cases, the obligations are settled at the net amount, thus acting as a collateral or as a subsequent financial covenant when the situation so requires.

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

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

Stage 1 - Financial assets that have not experienced a significant increase in credit risk since initial recognition. The classification conditions in this stage depend on the type of asset.

Loans: This category includes loans granted that are current or up to 180 days past due.

Investments at amortized cost: This category includes investments that are current or in arrears for a period not exceeding the grace period contained in the prospectus and, in the absence thereof, up to 30 days.

In both cases, a provision is made for expected losses over a 12-month horizon.

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

Stage 2 - Financial assets that have experienced a significant increase in credit risk since their initial recognition. The classification conditions at this stage depend on the type of asset.

- **Loans**: In this category are the loans granted that present delinquency or arrears of more than 180 days in their payments or for which 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 debt balance. 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 at amortized cost**: This category includes investments in arrears exceeding the grace period (according to the prospectus) or in arrears for more than 30 days if there is 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 - Financial assets with evidence of impairment at the reporting date. The classification conditions at this stage depend on the type of asset.

- **Loans**: In this category are the credits granted that, after discussion and instruction by the Board of Directors, have been arranged to be cataloged here, given the de facto preferred creditor status of FLAR and the nature of the debtors. In this case, a provision would be made for expected 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 at amortized cost**: This category includes investments in which the debtor is subject to the bankruptcy laws of its jurisdiction. In this case, the provision is made in the default category, assuming an expected recovery rate of 55% or a higher value as determined in the liquidation process.

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

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

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 does not transfer or substantially retain 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 substantially retains all the risks and rewards of ownership of a transferred financial asset. This is related to the derecognition of financial assets and liabilities.

Derecognition of financial assets and liabilities:

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 the FLAR retains an option to repurchase part of a transferred asset), the 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:

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

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

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

4.2.6. 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) will 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 FLAR Board of Directors by means of Agreement No. 108 of September 20, 1986, which qualified as authorized holders of Andean Pesos the central banks or Latin American institutions other than those of the subregion that sign the respective agreement with FLAR.

The Andean Pesos will be used exclusively to make payments through the FLAR among authorized holders. As of June 30, 2022, and December 31, 2021, there are no outstanding balances of Andean Pesos.

FLAR Treasury Notes - By Resolution No. 100 of March 12, 1986, the Board of Directors of FLAR authorized the issuance of short-term obligations denominated "FLAR Treasury Notes" to be offered to central banks and other institutions. As of June 30, 2022, and December 31, 2021, 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 real state category, accumulated impairment losses are presented in other comprehensive income.

Depreciation is recognized as 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 period, and the effect of any change in the recorded estimate is recognized on a prospective basis. Depreciation is calculated by the straight-line method based on the probable useful lives of the assets at annual rates.

Category	Useful Life	%
Real Estate	According to appraisal (74.5 years as of June 30, 2022	1.2
Systems equipment	3 years	33.0
Office equipment	10 years	10.0
Furniture and fixtures	10 years	10.0
Vehicles	5 years	20.0

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

An item of property and equipment is derecognized when its ownership is transferred or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising from the sale or 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 software licenses and computer programs acquired by FLAR are recognized directly in statement of profit or loss for the period.

4.5. Employee benefits - FLAR recognizes as employee benefits all considerations originated in formal plans or agreements, legal requirements or nonformalized practices that generate implicit obligations, granted in exchange for services rendered by employees or severance payments. Benefits comprise all payments made 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 (nonmonetary 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 the FLAR consumes the economic benefit arising from the service rendered by the employee, unless another IFRS requires or permits their inclusion as the cost of an asset.

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

For some expatriate staff, FLAR has contracted with an international insurance company for pension savings and a policy covering disability and death risks. Other expatriate staff members contribute to the pension system of their country of origin or to the local pension system at FLAR headquarters.

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.

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 cost**: 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 care plans, no current service costs are incurred.

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 as a consequence 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. **Remeasurements of the obligation**: These mainly 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 gain or loss arising at the time of settlement of the plans, are recorded in the results of the period when constituted. The new actuarial measurements are recorded in Other Comprehensive Income (OCI).

To date, there are no specific assets for the payment of defined benefit plan obligations.

The fair values of the allowances and the retiree medical plan as of June 30, 2022, and December 31, 2021, 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 or her to them using a simplified actuarial method. Actuarial gains and losses arising annually are directly taken as income for the period.

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.

4.5.5. Other financial liabilities

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

These also include accounts payable to suppliers, short-term labor obligations and the pension liability for allowances and the medical plan of the three retirees in charge (See Note 17 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 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.

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

Output of resources	Analysis	Treatment
Probably	The probability that the event will occur is greater than the probability that it will not occur in the future	Recognition of liabilities (provision)
Possible	The probability that the event will occur is less than the probability that the event will not occur in the future	Disclosure of contingent liabilities
Remote	Low probability of the event occurring in the future	None

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

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 Constitutive Agreement and such denunciation has taken full effect, or the bonding agreement between the FLAR and the member has been terminated, as applicable.

In this case, the FLAR will pay the withdrawing member its paid-in capital after offsetting its outstanding obligations to the FLAR. If any outstanding obligation remains (in favor of the member or FLAR), a guarantee of payment must be provided.

The associated central banks may not withdraw, dispose of, or pledge their paid-in capital contributions. The associated central banks may only withdraw the capital once the linkage agreement has been terminated.

In Agreement 213 of March 24, 2020, the Assembly of Representatives of FLAR approved 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 credits in arrears or overdue for 180 days or more and the country meets at least one of the following criteria evaluated by FLAR: i) a cumulative drop in real gross domestic product of more than 30% in the last three years and 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 offset of the member's obligations.

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

4.6.2. Institutional Reserves

The 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 approved annually by the Assembly.

4.6.3. Capitalization of net income

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

Since 1982, FLAR's profit distribution policy has been to capitalize profits (after contributions to the institutional reserve) 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 for 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.

Income from commissions derived from contracts with customers is recognized at the time the following services are transferred: trust and portfolio management; portfolio 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 performance obligations
- Determination of the transaction price
- Allocation of the transaction price among the obligations of the contract
- Recognize revenue when a performance obligation is satisfied.

4.8. Tax exemptions - FLAR is exempt in the signatory countries of the Articles of Agreement from all types 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 evaluated the following new and/or amended IFRS that have been issued and are effective as of January 1, 2022, or in future periods.

The FLAR has not adopted any standards, interpretations or amendments that have been earlier published and are not yet in effect.

Several amendments and interpretations are effective for the first time in 2022 or in the future but have no material impact on these Financial Statements:

Improvements 2022 - At the end of June 30, 2022, no new IFRS or amendments to existing IFRS have been presented.

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 as follows: "Accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty".

This serves to clarify the use of an accounting estimate and differentiate it from an accounting policy. It is mentioned that "an accounting policy may require that elements of the financial statements be measured in a manner that involves measurement uncertainty-that is, the accounting policy may require that these elements 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." The amendments clarify the following points:

- The word "significant" is changed to "material or with relative importance".

- The accounting policies to be disclosed are clarified in the financial statements notes as suggested that "an entity shall disclose information about its significant accounting policies that are material."

- The consideration of an accounting policy as material or materially significant is clarified.

This standard will be effective on January 1, 2023. The 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.

Amendments to IAS 1 - Disclosures about Accounting Policies - These amendments incorporate 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".

This standard will be effective on January 1, 2023. The FLAR has reviewed the amendments on the disclosure of accounting policies and considers that no additional disclosures to those presented in the financial statements are needed.

Improvements 2018-2020

Amendments to IAS 1: Classifications of Liabilities as Current or Noncurrent - In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify the following points:

- The meaning of the right to defer the settlement of a liability.

- The right to defer the settlement of the liability must be granted at the end of the fiscal year.

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

- The terms of the liability do not affect its classification only if any embedded derivative in a convertible liability itself represents an equity instrument.

In July 2021, the IASB decided to postpone the effective date of the amendments to 2023.

These amendments were evaluated by FLAR and had no impact on the financial statements at the closing date. FLAR will continue to evaluate the application of the standard going forward in case additional implementation or disclosures are needed.

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, prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the 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 such items and the costs incurred in their production.

The FLAR has reviewed the amendments related to property, plant and equipment and determined that there are no current or future impacts on these financial statements.

Amendments to IAS 37: Onerous Contracts – Costs of fulfilling 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.

The 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: The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

Entities must apply the amendment to financial liabilities that are modified or exchanged from the beginning of the annual period in which they first apply this amendment.

This standard became effective on January 1, 2022. The FLAR has reviewed the amendments on the disclosure of accounting policies and considers that no additional disclosures to those presented in the financial statements are needed.

5. MAIN POLICIES IN ASSET MANAGEMENT

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, and its amendments. These documents contain the guidelines for the management of FLAR's assets. The objectives and guidelines of the investment portfolios are described below:

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

- **Aggregate Investment Portfolio** - It comprises 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 and in the latter case through the contracting of External Asset Managers (EAM).

  The resources administered 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. Treasury bonds 0 to 1 year, 2.5% U.S. Treasury bonds 1 to 5 years, 2.5% in TIPS 1 to 5 years, 30% in corporate bonds with credit ratings between AAA and A from 0 to 1 year, 5% in corporate bonds with credit ratings between AAA and A from 1 to3 years, 5% in supranational, agency and sovereign bonds with credit ratings between AAA and A from 1 to 5 years and 10% in agency-backed mortgage-backed securities MBS. The benchmark is reviewed by the Board of Directors every three years, or sooner if needed.

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

Specifically, within the scope of the ALCO asset allocation (AAA), the ALCO determines the distribution of resources to be managed internally and externally, the composition of the benchmark indices of the sub-portfolios comprising the Aggregate Investment Portfolio, and their duration, 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 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 papers issues made by FLAR. For this purpose, the exposure to liquidity, interest rate and exchange rate risks will be adjusted.

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

  ALCO periodically evaluates and decides the target value of the intermediation portfolio, considering the economic and market environment and the investment needs of the member countries, without this target value 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 will be to invest the funds raised from FLAR's medium-term issues or to meet FLAR's other asset and liability management needs. To this end, the exposure to liquidity, interest rate and exchange rate risks will be matched, including derivative operations tied to these, if applicable. At present, there are no resources allocated to this portfolio.

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

  Considering FLAR's current portfolio structure described above. Below is the summary of assets, aggregated by portfolio, as of June 30, 2022, and December 31, 2021:

	June 30, 2022	December 31, 2021
Liquidity portfolio	$ 18,113,007	$ 18,749,877
Aggregate investment portfolio	4,011,880,544	2,936,946,292
Intermediation portfolio	3,517,674,157	4,744,652,244
Credit operations and foreign exchange portfolio	311,150,033	309,149,928
Other nonfinancial assets	3,714,331	3,458,405
Total Assets	$ 7,862,532,072	$ 8,012,956,747

To disclose the net income of the financial year in accordance with the portfolio structure, a summary of the results obtained as of June 30, 2022, and 2021 is presented below:

Portfolio	Accrued interest	Portfolio Gains/(Losses)	Derivatives Gains/(Losses)	Net Gains/(Losses)	Other incomes from commissions and (administrative expenses)	Total Contribution
Investment aggregate	$ 11,749,561	$ (42,707,997)	$ 7,764,599	$ (34,943,398)	$ -	$ (23,193,837)
Intermediation	(5,291,886)	(10,320,435)	18,825,778	8,505,343	-	3,213,457
Liquidity	33,987	150	-	150	-	34,137
Operations (Credits to central banks)	2,090,550	25	1,922,371	1,922,396	-	4,012,946
Foreign currency transactions	4,081	97	-	97	-	4,178
Personnel and operating expenses	-	-	-	-	(4,653,507)	(4,653,507)
Net income June-30-2022	$ 8,586,293	$ (53,028,160)	$ 28,512,748	$ (24,515,412)	$ (4,653,507)	$ (20,582,626)

Portfolio	Accrued interest	Portfolio Gains/(Losses)	Derivatives Gains/(Losses)	Net Gains/(Losses)	Other incomes from commissions and (administrative expenses)	Total Contribution
Investment aggregate	$12,443,802	$ (10,498,752)	$ 3,886,671	$ (6,612,081)	$ -	$ 5,831,721
Intermediation	51,600	587,644	-	587,644	-	639,244
Liquidity	10,874	(292)	-	(292)	-	10,582
Operations (Credits to central banks)	1,106,578	155,095	-	155,095	1,026,748	2,288,421
Foreign currency transactions	15,398	(517,262)	-	(517,262)	-	(501,864)

Portfolio	Accrued interest	Portfolio Gains/(Losses)	Derivatives Gains/(Losses)	Net Gains/(Losses)	Other incomes from commissions and (administrative expenses)	Total Contribution
Personnel and operating expenses	-	-	-	-	(4,608,815)	(4,608,815)
Net income June-30-2021	$ 13,628,252	$ (10,273,567)	$ 3,886,671	$ (6,386,896)	$ (3,582,067)	$ 3,659,289

The investment guidelines are contained in Board of Directors Agreement No. 324 of April 30, 2005, and amendments. These documents establish the eligible investment instruments and FLAR's tolerance to market, credit, and liquidity risks. Below 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, and 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 fixed income instrument other than those described above, the maximum maturity is 10 years.
- Permitted investments include short- and medium-term securities with fixed and floating rate yields.
- Short-term securities shall have a short-term credit rating of not less than any of the following: Standard and Poor's A-2, Moody's P-2, and Fitch Ratings 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-.
- Foreign exchange bonds and interest rate derivatives transactions.
- External managers may make actively managed investments in U.S. dollar-denominated asset-backed securities (ABS) of automobiles and credit cards.
- Up to 5% of the portfolio's market value may be invested in financial instruments indexed to the Standard & Poor's 500 Index (SPX Index). 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 is not permitted.

Investments in the eligible indices can only be made through exchange traded funds (ETFs), index funds, total return swaps, bonds indexed to the permitted indices or futures contracts where the underlying is one of the permitted indices.

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

- **Operating portfolio** - consists of loans granted to member countries.

According to the Articles of Agreement (Article 3), one of FLAR's objectives is "To support the balance of payments of member countries by granting credits or guaranteeing credits from third parties".

In this regard, FLAR permanently monitors the macroeconomic situation of the economies with which it has credit operations, as well as that of its other member countries, to determine the current credit situation and foresee future requests for the use of the established credit lines.

As of June 30, 2022, FLAR has not granted any third-party guarantees to its members.

FLAR offers three lines of credit to its member countries:

- **Liquidity**: This line has a nonrenewable term of up to one year and a limit of up to 1 times paid-in capital (1.1 times for Bolivia and Ecuador).

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

- **Balance of payments support**: This line has a 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 loans or other financial support that a country has with FLAR may not exceed 2.5 times the paid-in capital (2.6 times in the case of Bolivia and Ecuador).

Considering the de facto PCT that members have given to FLAR throughout its history, FLAR does not differentiate in the rates of credits it gives to its members, as is the practice in other multilateral financial organizations.

The loan rates are based on a variable reference rate that is adjusted quarterly and a fixed margin that seeks to incorporate the estimated cost of FLAR's financing in international markets. Upon agreement with FLAR, members may choose to convert the loan to a fixed rate based on market conditions.

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

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 its characteristics and whether market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

6.2. Determination of fair value - To show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below:

Level 1: Quoted prices (unadjusted) in an active market for identical assets or liabilities that the 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: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

6.3. Valuation techniques

- **Financial assets held for trading**: FLAR performs the valuation of investments with the information provided by an international price vendor.

  G7 sovereign bonds, exchange-traded futures, TBAs on U.S. 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 because they use unadjusted quotations of published prices in an active market.

  For unquoted 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 using yield curves 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 as level 2 fair value.

- **Money market instruments**: Deposits (made by FLAR and collected from customers) and private sector money market instruments are valued at amortized cost.

- **Derivative financial instruments**: FLAR trades government bonds and interest rate futures. These instruments are valued at the price established on the exchange and are classified as level 1 fair value.

  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 to determine the present value of the profit or loss generated on a future date.

  The cross transactions are opened in two transactions that are valued against the base currency, which are valued with the forward price formula. 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 Wilshire Associates, based in California US. These instruments are classified as level 2 fair value. The exposure to counterparty risk derived from these operations is not significant.

  FLAR's guidelines allow hedging exposures in its balance sheet from fixed to floating rates using over-the-counter interest rate swaps.

  The forward curves promised, the expected flows, and the present value model are used for valuation. The source of prices and rates for the valuation of these derivatives is the Bloomberg system. FLAR requests collateral from its counterparties to reduce its credit exposure. The residual exposure is not significant, and therefore, no adjustments are made in the valuation for credit risk.

- **Property and equipment**: FLAR's properties are appraised by external experts, who use valuation techniques based on comparable prices and replacement costs.

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 in valuation sources. As of June 30, 2022, FLAR performed an additional analysis with respect to the depth of market quotations and volumes traded. This resulted in the securities being classified as level 1, 2 or 3.

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

June 30, 2022

Fair Value Hierarchy	Level 1	Level 2	Level 3	Total	Valuation techniques for levels 2 and 3	Main input data
Derivatives	$ 822,336	$ 2,446,949	$ -	$ 3,269,285	Market	Comparable Yield curve
Governments and Sovereigns	944,297,933	68,688,732	-	1,012,986,665	Market	Comparable Yield curve
Financials	4,210,182	42,316,529	-	46,526,711	Market	Comparable Yield curve
Non financials	-	22,254,684	-	22,254,684	Market	Comparable Yield curve
Internally Managed portfolio	949,330,451	135,706,894	-	1,085,037,346		
Derivatives	202,951	169,041	-	371,992	Market	Comparable Yield curve
Governments and Sovereigns	29,287,791	298,505,654	-	327,793,445	Market	Comparable Yield curve
Financials	126,372,708	203,143,987	-	329,516,695	Market	Comparable Yield curve
Non financials	508,291	111,378,094	-	111,886,385	Market	Comparable Yield curve
Externally Managed portfolio	156,371,742	613,196,776	-	769,568,517		
Assets measured at fair value through profit or loss	$ 1,105,702,193	$ 748,903,669	$ -	$1,854,605,863		

December 31, 2021

Fair Value Hierarchy	Level 1	Level 2	Level 3	Total	Valuation techniques for levels 2 and 3	Main input data
Derivatives	$ 3,124,427	$ 3,035,403	$ -	$ 6,159,830	Market	Comparable Yield curve
Governments and Sovereigns	967,416,433	106,954,943	-	1,074,371,376	Market	Comparable Yield curve
Financials	467,450	65,719,648	-	66,187,098	Market	Comparable Yield curve
Non financials	-	22,977,928	-	22,977,928	Market	Comparable Yield curve
Internally Managed portfolio	971,008,310	198,687,922	-	1,169,696,232		
Derivatives	432,792	67,404	-	500,196	Market	Comparable Yield curve
Governments and Sovereigns	128,724,612	269,038,883	2,217,599	399,981,094	Market	Comparable Yield curve
Financials	34,845,759	209,493,440	-	244,339,199	Market	Comparable Yield curve
Non financials	-	129,849,605	-	129,849,605	Market	Comparable Yield curve
Externally Managed portfolio	164,003,163	608,449,332	2,217,599	774,670,094		
Assets measured at fair value through profit or loss	$ 1,135,011,473	$ 807,137,254	$ 2,217,599	$1,944,366,326		

6.5. Transfers between fair value hierarchy levels - The table below presents the changes in fair value hierarchy of securities that were part of the FLAR investments as of December 2021 and continue in the portfolios as of June 2022 but whose hierarchy level changed:

Changes 2021-2022	# Securities	Sector	Market Value
From level 3 to level 2	6	MBS	$ 1,784,354
	6	MBS	$ 1,784,354

As of June 30, 2022, the FLAR had no assets classified as level 3.

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

Changes from June to December 2021	# Securities	Sector	Market Value
From level 1 to level 2	1		$ 23,428,267
	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 assumption (PSA).

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.

- 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 measured at fair value

June 30, 2022			Fair Value	
	Book Value	Level 1	Level 2	Total Level 1 and 2
Cash on hand and at banks	$ 11,498,732	$ 11,498,732	$ -	$ 11,498,732
Investments at amortized cost – Internally managed portfolio (Investments)	4,031,249,779	-	4,026,048,498	4,026,048,498
Investments at amortized cost – Internally managed portfolio (Deposits)	1,574,677,911	-	1,574,685,755	1,574,685,755
Investments at amortized cost – externally managed portfolio	-	-	-	-
Accounts receivable on sale of investments	79,113,379	79,113,379	-	79,113,379
Financial assets	$ $5,696,539,801	$ 90,612,111	$ 5,600,734,253	$ 5,691,346,364

			Fair Value	
	Book Value	Level 1	Level 2	Total Level 1 and 2
Deposits from central banks and other institutions	$ 3,511,521,804	$ -	$ 3,509,052,652	$ 3,509,052,652
Accounts payable on purchase of investments	626,403,662	626,403,662	-	626,403,662
Commissions received on loans granted	677,600	677,600	-	677,600
Financial liabilities	$ 4,138,603,066	$ 627,081,262	$ 3,509,052,652	$ 4,136,133,914

December 31, 2021			Fair Value	
	Book Value	Level 1	Level 2	Total Level 1 and 2
Cash on hand and at banks	$ 11,303,411	$ 11,303,411	$ -	$ 11,303,411
Investments at amortized cost – Internally managed portfolio (Investments)	3,665,870,285	-	3,666,270,617	3,666,270,617
Investments at amortized cost – Internally managed portfolio (Deposits)	1,887,342,055	-	1,887,353,543	1,887,353,543
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	$ 200,394,196	$ 5,556,725,233	$ 5,757,119,429
Deposits from central banks and other institutions	$ 4,670,202,865	$ -	$ 4,670,341,564	$ 4,670,341,564
Accounts payable on purchase of investments	158,370,215	158,370,215	-	158,370,215
Commissions received on loans granted	677,600	677,600	-	677,600
Financial liabilities	$ 4,829,250,680	$ 159,047,815	$ 4,670,341,564	$ 4,829,389,379

These financial assets are measured at least every six months. Therefore, they are measured on a recurring basis.

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, receivables on sale of investments, 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 are valued by discounting future cash flows using yield curves derived from observable market data and are classified in level 2.

Measurement of Loans to members: For the purpose of determining the fair value of these credit instruments, the FLAR considered the concepts defined in IFRS13 paragraph 16 and determined impracticable the application of fair value on loans based on the following arguments (see Note 12 - Loans to central banks):

i. The credits issued are countercyclical and are granted to members that are sovereign states and central banks.

ii. The unique relationship between the FLAR and its members, who have awarded it the TAP throughout its history.

iii. The nonexistence of a principal or more advantageous market for the type of loans granted.

7. CASH

The following is a detail of immediately available cash, which is unrestricted, as of June 30, 2022, and December 31, 2021:

	June 30, 2022	December 31, 2021
Cash on hand	$ 10,988	$ 8,636
Correspondent banks	10,976,978	10,790,007
Custodian bank	168,165	168,878
In US dollars	11,156,131	10,967,521
Cash on hand	606	628
Local banks	341,995	335,262
In Colombian pesos	342,601	335,890
Total Cash	$ 11,498,732	$ 11,303,411
Average interest rate during the period	0.30%	0.12%
Current Interest rate at the end of the period	0.15%	0.06%

In addition, the purchase and sale of investments with a compliance date after June 30, 2022, and December 31, 2021, that affect cash on hand are presented (see Note 11 - Accounts receivable and payable on sale and purchase of investments).

8. INVESTMENT PORTFOLIO

The distribution by type of issuer of the financial instruments comprising FLAR's investment portfolios as of June 30, 2022, and December 31, 2021, is presented below.

	June 30, 2022	**December 31, 2021**
Governments and quasi-Governments	$ 1,012,986,665	$ 1,074,371,375
Financials	46,526,712	66,187,099
Non financials	22,254,684	22,977,928
Financial assets held for trading	1,081,768,061	1,163,536,402
Governments and quasi-Governments	658,333,863	2,028,810,107
Financials	3,260,616,833	2,493,380,849
Non financials	1,688,534,076	1,032,273,628
Expected credit losses	(1,557,082)	(1,252,244)
Financial assets at amortized cost	5,605,927,690	5,553,212,340
A. Internally managed portfolio	6,687,695,751	6,716,748,742
Governments and quasi-Governments	327,793,445	399,981,094
Financials	329,516,695	244,339,199
Non financials	111,886,385	129,849,605
Financial assets held for trading	769,196,525	774,169,898
Governments and quasi-Governments	-	-
Financials	-	3,100,663
Non financials	-	-
Expected credit losses	-	(698)
Financial assets at amortized cost	-	3,099,965
B. Externally managed portfolio	$ 769,196,525	$ 777,269,863
Total investment portfolio (A+B)	$ 7,456,892,276	$ 7,494,018,605

9. SPECIAL DRAWING RIGHTS (SDR)

FLAR is authorized by the International Monetary Fund (IMF) to acquire, hold, and use Special Drawing Rights (SDRs). SDRs are an international reserve asset issued by the IMF to supplement the official reserves of member countries; their value is based on a basket of 5 currencies (Euro, Japanese Yen, Chinese Renminbi, British Pound, and 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 accounting for the convenience of the reader of the information, SDR holdings are presented separately from other investments.

As of June 30, 2022, and December 31, 2021, the SDR holdings of the foreign currency management sub-portfolio of credit operations translated into U.S. dollars are as follows:

	June 30, 2022	December 31, 2021
SDR holdings (IMF)	$ 4,078	$ -
Interest receivable on SDR positions	4	-
Unrealized gains (losses) in SDRs	(205)	-
	$ 3,877	$ -

FLAR sold its SDR holdings during 2021, and the remaining balance in 2022 corresponds to minor interest generated from the balance held in 2021. The exchange rate used for the translation of SDRs to USD is that in effect at the end of the reporting period (see Note 2.5 - Functional currency and foreign currency transactions).

10. DERIVATIVE FINANCIAL INSTRUMENTS

FLAR's investment guidelines allow the use of interest rates and currency derivatives. These derivatives are used in a limited manner within the portfolios, with the purpose of managing interest rates 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.

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 improve the performance of the portfolio. 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 income.

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

Assets and liabilities for derivative financial instruments correspond to the market value of current contracts in accordance with FLAR's rights and obligations. FLAR does not apply hedge accounting for its derivative contracts, and all gains and losses are recognized in current earnings. The market value of derivative instruments is as follows:

	June 30, 2022	December 31, 2021
Internally managed instruments	$ 883,776	$ 5,782,075
Externally managed instruments	371,992	500,196
Credit operations portfolio	2,385,508	377,755
Rights	3,641,276	6,660,026
Internally managed instruments	(11,708)	(40,130)
Externally managed instruments	(118,813)	-
Credit operations portfolio	(2,001,049)	-
Liabilities	(2,131,570)	(40,130)
Net amount	$ 1,509,706	$ 6,619,896

11. TRADE 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 on June 30, 2022, and December 31, 2021, arising from the difference between the trade date and the date of actual collection or payment are detailed below:

	June 30, 2022	December 31, 2021
Sales of externally managed securities	$ 42,474,699	$ 12,980,337
Sale of Special Drawing Rights (SDRs)	-	41,553,071
Received deposits traded	36,638,680	134,557,377
Investment accounts receivable	$ 79,113,379	$ 189,090,785
Fees payable to correspondent banks	$ 54,419	$ -
Purchases of internally managed securities	439,379,257	20,000,000
Purchases of externally managed securities	186,969,986	138,370,215
Investment accounts payable	$ 626,403,662	$ 158,370,215

12. LOANS TO CENTRAL BANKS

The details of loans to central banks, including principal and accrued interest, are as follows:

	June 30, 2022	December 31, 2021
Central Bank of Ecuador	$ 308,762,300	$ 308,773,850
Expected credit losses	(1,652)	(1,677)
Total	$ 308,760,648	$ 308,772,173

Below are the movements of loans granted and their movements between stages of impairment for the periods from January to June 2022 and January to December 2021:

	Stage 1		Stage 2		Total	
	Gross book value	Provision	Gross book value	Provision	Gross book value	Provision
Balance as of January 1, 2022	$ 308,773,850	$ (1,677)	$ -	$ -	$ 308,773,850	$ (1,677)
Loan granted	-	-	-	-	-	-
Interest accrual	2,090,550	-	-	-	2,090,550	-
Transfers to stage 1-2-3	-	-	-	-	-	-
Principal and interest payments	(2,102,100)	25	-	-	(2,102,100)	25
Balance as of June 30, 2022	$ 308,762,300	$ (1,652)	$ -	$ -	$ 308,762,300	$ (1,652)

	Stage 1		Stage 2		Total	
	Gross book value	Provision	Gross book value	Provision	Gross book value	Provision
Balance as of January 1, 2022	$ 123,983,293	$ (233,554)	$ -	$ -	$ 123,983,293	$ (233,554)
Loan granted	308,000,000	-	-	-	308,000,000	-
Interest accrual	773,850	-	-	-	773,850	-
Transfers to stage 1-2-3	-	-	-	-	-	-
Principal and interest payments	(123,983,293)	231,877	-	-	(123,983,293)	231,877
Balance as of December 31, 2021	$ 308,773,850	$ (1,677)	$ -	$ -	$ 308,773,850	$ (1,677)

Details and events related to loans to central banks as of June 30, 2022 and December 31, 2021, are presented below:

i. Central Bank of Ecuador:

a. Liquidity credit was approved by the Executive Presidency and disbursed on October 26, 2021.

This loan is for a one-year term maturing in October 2022, interest payments are quarterly, and principal is paid in the last installment. It was agreed upon at an interest rate of SOFR plus a margin of 115 basis points, which by choice of the Republic of Ecuador was converted to a fixed rate of 1.35%.

b. Balance of payments support credit facility was approved by Board Resolution No. 434 of October 2, 2017, for $368,800,000, and 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 repaid in July 2021, complying with its payment schedule.

13. PROPERTY AND EQUIPMENT, NET

There are no restrictions on property and equipment. The balance as of June 30, 2022, and December 31, 2021, are presented below:

	June 30, 2022	December31, 2021
Real Estate	$ 2,318,994	$ 2,318,994
Furniture and fixtures	155,423	155,423
Office and computer equipment	1,730,494	1,727,373
Vehicles	119,828	119,828
Total property and equipment, gross	4,324,739	4,321,618
Less accumulated depreciation	(2,281,711)	(2,246,472)
Total property and equipment, net	$ 2,043,028	$ 2,075,146

The following were the changes in property and equipment:

	Real Estate	Furniture and fixtures	Office and computer equipment	Vehicles	Total
			Cost		
December 31, 2021	$ 2,318,994	$ 155,423	$ 1,727,373	$ 119,828	$ 4,321,618
Additions	-	-	16,673	-	16,673
Sales/write-offs	-	-	(13,552)	-	(13,552)
Real state revaluation	-	-	-	-	-
June 30, 2022	$ 2,318,994	$ 155,423	$ 1,730,494	$ 119,828	$ 4,324,739
			Accumulated Depreciation		
December 31, 2021	$ (393,307)	$ (132,475)	$ (1,606,183)	$ (114,507)	$ (2,246,472)
Depreciation charges	(12,838)	(1,837)	(30,125)	(3,991)	(48,791)

	Real Estate	Furniture and fixtures	Office and computer equipment	Vehicles	Total
Credits for write-offs	-	-	13,552	-	13,552
June 30, 2022	$ (406,145)	$ (134,312)	$ (1,622,756)	$ (118,498)	$ (2,281,711)
			Net Book Value		
December 31, 2021	$ 1,925,687	$ 22,948	$ 121,190	$ 5,321	$ 2,075,146
June 30, 2022	$ 1,912,849	$ 21,111	$ 107,738	$ 1,330	$ 2,043,028

14. OTHER ASSETS

The composition of other assets as of June 30, 2022, and December 31, 2021, is presented below:

	June 30, 2022	December 31 2021
Commissions receivable	$ 369,828	$ 408,343
Taxes receivable	81,215	142,797
Works of art and imports in progress	51,619	65,847
Prepaid expenses	8,341	355,366
Accounts receivable from employees	37,821	29,098
Other minor assets	30,032	35,150
Total other assets	$ 578,856	$ 1,036,601

15. DEPOSITS RECEIVED FROM CENTRAL BANKS AND OTHER INSTITUTIONS

The balance of this account comprises deposits received from member and nonmember central banks and other Latin American official institutions; the figures presented below include accrued interest. The details as of June 30, 2022, and December 31, 2021, are as follows:

Demand deposits		
Balance	$ 126,237,454	$ 55,195,157
Average rate during the period	0.20%	0.00%
Average effective rate at the end of the period	0.50%	0.00%
Maximum days to maturity	On Demand	On Demand
Term Deposits		
Balance	$ 3,385,284,350	$ 4,615,007,708
Average rate during the period	0.44%	0.08%
Average effective rate at the end of the period	1.54%	0.13%
Maximum days to maturity	123	304

16. COMMISSIONS RECEIVED ON LOANS GRANTED

Within the conditions agreed upon for the loans granted to the members, cash funds are received through a deposit, as a commission to support the effects of the recording of expected losses due to credit risk, which are initially recorded as a liability; such liability will only cease to be demandable and will be convertible into income for FLAR if the member fails to comply with the conditions (financial and nonfinancial) of the loan. Otherwise, if at the end of the term of the loan the payments and conditions are fulfilled, the debtor is entitled to receive an incentive for equivalent compliance up to the amount of the commissions received.

As of June 30, 2022, the balance of these funds is $677,600.

17. OTHER LIABILITIES

Other liabilities as of June 30, 2022, and December 31, 2021, correspond mainly to accounts payable to suppliers, the actuarial calculation of the retirement and health insurance plan for retired personnel under the FLAR and other current liabilities, as detailed below:

	June 30, 2022	December 31 2021
Suppliers (1)	$ 1,026,262	$ 967,944
Postemployment benefits pensioners' allowances (2)	374,750	416,931
Postemployment benefits pensioner medical plan (3)	52,650	54,804
Other labor liabilities (4)	1,261,142	1,161,000
	$ 2,714,804	$ 2,600,679

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

(2-3) Present value of pension and postemployment medical plan payments for the three FLAR pensioners.

(4) Value of current employee benefits

Changes in obligations related to pension liabilities and postemployment benefits for the periods ended June 30, 2022, and December 31, 2021, are presented below:

Post-employment benefits 3 pensioners

		June 30, 2022		December 31, 2021
Changes in the obligation:				
Benefits accrued at the beginning of the period	$	416,931	$	538,827
Profit earned during the period - cost of service		12,927		22,324
Benefits paid		(41,954)		(84,645)
Devaluation effect		(13,154)		(52,064)
Adjustment of pension liabilities-OCI		-		(7,511)
Benefits accrued at the end of the period	$	374,750	$	416,931

(3) Corresponds to the present value of the health insurance payments for the two (2) FLAR pensioners who are included in the pension benefits scheme:

Postemployment benefits pensioner medical plan

Changes in the obligation:				
Benefits accrued at the beginning of the period	$	54,804	$	52,147
Profit earned during the period - cost of service		1,793		(2,260)
Profit earned during the period - cost of service		-		13,774
Benefits paid		(2,028)		(2,989)
Devaluation effect		(1,919)		(9,171)
Adjustment of pension liabilities-OCI		-		3,303
Benefit accrued at the end of the period	$	$52,650	$	54,804

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

Year		Pension Liabilities		Postemployme nt benefits
Year 1	$	73,427	$	4,349
Year 2		65,217		4,461
Year 3		57,193		4,564
Year 4		49,593		4,654
Year 5		42,631		4,729
Next 5 Years		138,870		24,079

The main assumptions used in the determination of these obligations for the FLAR pension plan correspond to the estimates of the latest actuarial study in Colombian pesos as of December 31, 2021:

	Pension Liabilities	Postemployme nt 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%

	Pension Liabilities	Postemployment benefits
Census date of plan participants	31/10/2021	31/10/2021

As of June 30, 2022, and December 31, 2021, no assets have been allocated to the pension plan.

(4) Other labor liabilities correspond to short-term employee benefits such as the following:

	June 30, 2022	December 31, 2021
Severance pay	$ $102,228	$ 116,108
Interest over severance payments	6,150	13,613
Legal and Extralegal Vacation obligations	144,665	150,714
Provident fund	1,008,099	880,565
	$ 1,261,142	$ 1,161,000

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 the member countries, in accordance with the regulations established in the constitutive agreement. The subscribed and paid-in capital is comprised as follows:

		June 30, 2022	
Members	Subscribed	Installment Receivables	Paid-in
Central Bank of Chile	$ 500,000,000	$ -	$ 500,000,000
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
Perú	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
	$ 4,437,500,000	$ 1,091,341,232	$ 3,346,158,768

		December 31, 2021	
Members	Subscribed	Installment Receivables	Paid-in
Bolivia	$ 328,125,000	$ 47,440,515	$ 280,684,485
Colombia	656,250,000	94,745,098	561,504,902

Members	Subscribed	December 31, 2021 Installment Receivables	Paid-in
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
Perú	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

The FLAR may refund all or part of its capital contributions to members who are 180 days or more in arrears in the payment of their obligations and who meet certain specific conditions (see Note 4 - Significant accounting policies).

18.1. Reserves - By Resolution No. 221 of April 12, 2022, the Assembly of Representatives of FLAR authorized the use of $1,119,176 of institutional reserves to cover losses obtained in 2021; this amount does not affect the minimum level of reserves established in the constitutive agreement, which requires institutional reserves to be at least 10% of paid-in capital.

As of June 30, 2022, and December 31, 2021, FLAR's institutional reserves are 11.72% and 11.76% of paid-in capital, respectively.

18.2. 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, 2021	New measurements	Changes in fair value	Balances as of June30, 2022
Retirement allowances	$ (87,242)	$ -	$ -	$ (87,242)
Post-employment benefits pensioners	(4,947)	-	-	(4,947)
Defined benefit plan	(92,189)	-	-	(92,189)
Real estate valuation	1,423,169	-	-	1,423,169
Total OCI	$ 1,330,980	$ -	$ -	$ 1,330,980

	Balance as of December 31, 2020	New measurements	Changes in fair value	Balances as of June30, 20212
Retirement allowances	$ (79,731)	$ (7,511)	$ -	$ (87,242)
Postemployment benefits pensioners	(8,250)	3,303	-	(4,947)

	Balance as of December 31, 2020	New measurements	Changes in fair value	Balances as of June30, 20212
Defined benefit plan	(87,981)	(4,208)	-	(92,189)
Real estate valuation	1,401,620	-	21,549	1,423,169
Total OCI	$ 1,313,639	$ (4,208)	$ 21,549	$ 1,330,980

Within the aforementioned items of the OCI, the valuation of real estate will only be reclassified to income in the event of the sale of FLAR's headquarters. On the other hand, the employee benefit plan will be reclassified to income only when the FLAR obligation ceases.

19. INTEREST INCOME

Comprises all accrued interest on financial assets measured at amortized cost. As of June 30, 2022, and 2021, its composition was as follows:

	June 30, 2022	June 30, 2021
Commercial banks deposits	$ 2,829,615	$ 1,246,437
Balance of payments receivables	-	1,106,578
Liquidity loans	2,090,550	-
Loans to central banks	2,090,550	1,106,578
Governments and quasi-Governments	5,810,809	7,010,039
Financials	1,839,460	805,586
Non financials	295,934	274,425
Internally managed investment portfolios	7,946,203	8,090,050
Governments and quasi-Governments	2,047,251	1,706,250
Financials	1,461,535	1,504,703
Non financials	854,197	1,260,010
Externally managed investment portfolios	4,362,983	4,470,963
Interest income	$ 17,229,351	$ 14,914,028

20. NET EXPENSE FROM RETURN ON MARKETABLE INVESTMENTS

Includes all gains and losses from changes in fair value, interest income and exchange differences related to marketable investments. As of June 30, 2022, and 2021, the details are as follows:

	June 30, 2022	June 30, 2021

	June 30, 2022	June 30, 2021
Derivatives	$ 26,021,489	$ $1,611,570
Governments and quasi-Governments	(28,306,902)	(3,988,466)
Financials	3,155,315	377,159
Non financials	4,682,092	(94,265)
Internally managed investment portfolios	5,551,994	(2,094,002)
Special Drawing Rights SDR	4,178	(501,864)
Derivatives	495,479	$2,275,100
Governments and quasi-Governments	(23,733,139)	(3,046,390)
Financials	(5,376,077)	(901,688)
Non financials	(3,135,579)	(1,821,804)
Externally managed investment portfolios	(31,749,316)	(3,494,782)
Derivatives credit operations portfolio	1,922,371	-
Derivatives – Credit Operations portfolio	1,922,371	-
Net investment income expense from marketable securities	$ (24,270,773)	$ (6,090,648)

21. NET COMMISSION INCOME

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

Commissions		
Received for credit risk on loans granted	$ -	$ 1,026,748
For fiduciary asset management	394,001	428,723
Commission incomes	394,001	1,455,471
Commission expenses	-	-
Net commission incomes	$ 394,001	$ 1,455,471

22. INTEREST EXPENSE ON DEPOSITS FROM CENTRAL BANKS AND OTHER INSTITUTIONS

The interest expenses on deposits received from central banks and other institutions for the periods ended June 30, 2022, and 2021 are presented below:

Interest on demand deposits received from central banks	$ (95,139)	$ -
Interest on term deposits received from central banks	(6,621,158)	(830,902)
	June 30,	**June 30,**

	2022	2021
Interest on term deposits received from other institutions	(1,930,842)	(470,273)
Total interest expenses	$ (8,647,139)	$ (1,301,175)

23. NET EXPENSE FROM EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

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

Expected recoveries or (losses) due to credit risk on loans granted	$ 25	$ 155,095
Expected recovery or (losses) on investments at amortized cost of internally managed portfolios	(304,838)	(544,006)
Expected recovery or (losses) on investments at amortized cost of externally managed portfolios	698	(1,105)
Net expense from credit loss on financial assets	$ (304,115)	$ (390,016)

24. EMPLOYEE BENEFIT AND OPERATING EXPENSES

The accrued personnel and operating expenses correspond to the budget expenses approved by the Assembly of Representatives and the Board of Directors, and the other operating expenses correspond to the depreciation of fixed assets and the exchange difference on the peso items related to the operating budget. The accumulated balances as of June 30, 2022, and 2021 are presented below:

Salaries	$ (1,120,962)	$ (1,101,341)
Wage bonus	(188,068)	(181,581)
Other employee benefits	(1,040,355)	(1,066,965)
Personnel expenses	(2,349,385)	(2,349,887)
Operating expenses	(1,783,614)	(1,630,396)
Other operating expenses	(38,101)	(140,479)
Personnel and operating expenses	$ (4,171,100)	$ (4,120,762)

25. OTHER INCOME AND EXPENSES

Other income - corresponds to interest generated by savings accounts in Colombian pesos and the 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 trust asset contracts, interest on pension liabilities, loan studies and approval, issuance expenses and others.

As of June 30, 2022, and 2021, other income and expenses are detailed below:

	June 30, 2022	June 30, 2021
Interest earned on peso accounts	$ 23,256	$ 21,932
Other income	23,256	21,932
Custody and portfolio management fees	(739,422)	(732,599)
Expenses under trust asset contracts	(67,597)	(64,184)
Studies and credit approval	(7,600)	(12,000)
Issuance and other expenses	(21,488)	(20,758)
Other expenses	(836,107)	(829,541)
Other income and expenses	$ (812,851)	$ (807,609)

26. FIDUCIARY ASSETS

FLAR acts as a trustee of autonomous assets. The purpose of the trust is to safeguard, monitor and control the risks of 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 under this trust are to monitor 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 patrimony under the trust contract administered by FLAR, which is not part of its financial statements, since it does not own any assets:

Risk management, monitoring and control trust	$ 584,579,694	$ 718,638,002

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, equity prices and exchange rates), credit risk (in the investment portfolio, intermediation, and loans to its member countries) and liquidity risk.

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

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

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

Financial management is responsible for the execution and implementation of the financial decisions approved by the CAP, risk management is responsible for risk control and compliance with the investment policy, operations management oversees operations compliance, and accounting management is responsible for the preparation and presentation of FLAR's financial statements.

27.1. Financial risk management objectives - Risk is managed using a comprehensive balance sheet approach. The investment objectives of FLAR's investment portfolios are to preserve nominal capital over a three-year horizon and to generate a positive net interest margin while assuming moderate credit risk and maintaining ample liquidity (see Note 5 - Main Asset Management Policies).

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

27.2. Market risk - Given the nature of FLAR's investments, 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 gap in the price sensitivity of interest earning assets and the price sensitivity of liabilities to a change in market interest rates.

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

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

Duration Gap Components (years)	June 30 2022	December 31, 2021
Asset duration	0.41	0.30

Duration Gap Components (years)	June 30 2022	December 31, 2021
Liabilities duration	0.04	0.06
Liabilities/assets	0.49	0.59
Gap duration	0.38	0.27

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

Given these exposures, if interest rates move in parallel by 10 b.p., the impact on FLAR would be $1.41 million as of June 30, 2022, and $0.86 million as of December 31, 2021.

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

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

	June 30 2022	December 31, 2021
Portfolio duration	0.81	0.74
Benchmark duration	1.27	1.09

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 for the last 18 months and a significance level of 5%.

The VaR of the Aggregate Investment Portfolio is presented below:

VaR ($ millions)	$ 2.1	$ 0.6
VaR (b.p.)	6.1 b.p.	2.2 b.p.

In addition, the interest rate risk in the other portfolios that do not have active management (Trading Portfolio, Liquidity Portfolio and Trading 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 the Intermediation Portfolio, the matching of assets and liabilities is very close (see liquidity risk, below); and in the Liquidity Portfolio, the resources are in demand accounts and other short-term investments.

ii. Foreign exchange risk:

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

Foreign exchange exposures are managed within the parameters of the policies approved by the Board of Directors' Agreement No. 324 of April 30, 2005, and its amendments. According to this, financial instruments eligible for investment of FLAR reserve assets must be denominated in the following currencies: US Dollar (USD), Euro (EUR), Japanese Yen (JPY), Swiss Franc (CHF), British Pound (GBP), Canadian Dollar (CAD), Australian Dollar (AUD), New Zealand Dollar (NZD), Norwegian krone (NOK), Swedish 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 for up to 50% of the portfolio. The sub-portfolios of the Aggregate Investment Portfolio held positions in foreign exchange forwards in the following magnitude:

	Exposures June 30, 2022	**Exposures December 31, 2021**
Foreign exchange forward positions	0.11%	0.12%

The amounts of realized and unrealized gains and losses on foreign currency derivatives as of June 30, 2022, and 2021 are detailed in Note 10 - Derivative Financial Instruments.

- Other portfolios without active management (Trading Portfolio, Liquidity Portfolio, Intermediation Portfolio): In other portfolios, operations will be designed such that the FLAR will not have material exposures to foreign exchange risk against the U.S. dollar.

- Operating expenses in Colombian pesos: To mitigate the effect of the fluctuation of the peso on operating expenses, an estimate is made annually of the expenses that imply exchange exposure to this currency; the equivalent amount is converted into Colombian pesos and invested in deposits (see Note

8 - Investment portfolio). These investments decrease as the operating budget is executed.

As of June 30, 2022, these investments were equivalent to 0.01% of total assets. As of December 31, 2021, there were no investments in Colombian pesos.

27.4. Credit risk - Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or purchase contract, resulting in a financial loss. FLAR is exposed to credit risk in the following situations:

i. Credits 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.

The risk of these operations is mitigated due to the de facto TAP 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 credit risk fees and the offsetting of profits if loans are in arrears.

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

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

One activity that implies FLAR’s assumption of credit risk is that associated with the intermediation activity. Agreement 323 of 2005 and its amendments establish that the ALCO has the power to periodically evaluate and decide the target value of the Intermediation Portfolio, considering the economic and market environment.

During 2022, ALCO determined that the target range of the Intermediation Portfolio's term deposits will be between $3.0 billion and $4.5 billion, allowing a deviation of up to $500 million around this range. During this period, the minimum value of the portfolio's monthly closings was $3,188 million in May, and the maximum was $4,655 million in February.

During 2021, the ALCO determined that the target range of the Intermediation Portfolio's term deposits will be between $3.0 billion and $4.5 billion, allowing a deviation of up to $500 million around this range. During this 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.

As of June 30, 2022, investments in the Intermediation Portfolio that match deposits received on time amounted to $3,348 million. As of December 31, 2021, investments in the Intermediary Portfolio that match term deposits received amounted to $4,480 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 the fundamentals and conditions of the global fixed income market, determining the countries, markets, and sectors in which there is value and reasonable security in investment opportunities.

Based on the selection of global markets and sectors, a comprehensive credit evaluation methodology is followed to select issuers who meet the criteria of credit quality, probability of default, implicit rating and fundamental analysis, consistent with the entity'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 up to 1% for nonfinancial issuers and 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.

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).

The composition by sector and rating (using the S&P scale) of FLAR's investments as of June 30, 2022, and December 31, 2021, respectively, are presented below.

Composition by sector and credit quality as of June 30, 2022 (Amounts in millions of USD)

	Medium-term ratings			Short-term ratings			Sub-portfolio of credit operations		
Sector	AAA	AA	A	A-1	A-2	Not rated	Balance of Payment Support Credit	Total by asset class	% Total by asset class
Liquidity Credit	-	-	-	-	-	-	308.8	308.8	3.9%
Cash	-	-	-	11.1	-	-	-	11.0	0.1%
Money Market	-	-	-	2,852.2	2,220.6	-	-	5,072.9	64.5%
Multilaterals and quasi- governments	2.8	7.7	12.3	585.9	132.0	-	-	740.7	9.4%
US Treasury Bonds	-	751.6	-	-	-	-	-	751.6	9.6%
TIPS	-	101.4	-	-	-	-	-	101.4	1.3%
US Treasury Bills	-	-	-	115.7	-	-	-	115.7	1.5%
US Agencies	-	-	-	-	-	-	-	-	0.0%
MBS	117.9	32.4	-	-	-	-	-	150.3	1.9%
TBA	-	139.4	-	-	-	-	-	139.4	1.8%
ABS	28.8	-	-	-	-	-	-	28.8	0.4%
SDR	-	-	-	-	-	-	-	-	0.0%
Corporates	3.9	44.1	199.5	78.5	24.8	-	-	350.8	4.5%
ETF	-	-	-	-	-	4.7	-	4.7	0.1%
Accounts receivable and deposits receivable	-	-	-	79.1	-	-	-	79.1	1.0%

Sector	Medium-term ratings			Short-term ratings		Not rated	Sub-portfolio of credit operations	Total by asset class	% Total by asset class
	AAA	AA	A	A-1	A-2		Balance of Payment Support Credit		
Futures margin accounts	-	-	1.0	-	-	-	-	1.0	0.0%
Forwards with positive valuation	-	-	0.2	-	-	-	-	0.2	0.0%
Swaps with positive valuation	-	-	2.4	-	-	-	-	2.4	0.0%
Total by rating	153.3	1,076.6	213.1	3,722.6	2,377.5	4.7	308.8	7,858.8	100.0%
% Total by rating	2.0%	13.7%	2.7%	47.4%	30.2%	0.1%	3.9%	100.0%	

Source: Risk Management Direction

Includes the effect of provisions for expected losses. Does not include cash in Colombian pesos for $1.1 million. Considering property and equipment - net, other assets of 2.0 and 0.6 million, respectively, result in a total asset value of $7,862.5 million.

Composition by sector and credit quality as of December 31, 2021 (Amounts in millions of USD)

Sector	Medium-term ratings			Short-term ratings		Not rated	Sub-portfolio of credit operations	Total by asset class	% Total by asset class
	AAA	AA	A	A-1	A-2		Balance of Payment Support Credit		
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 and quasi- governments	827.0	30.7	28.1	954.6	419.9	-	-	2,260.3	28.2%
US Treasury Bonds	-	727.4	-	-	-	-	-	727.4	9.1%
TIPS	-	136.1	-	-	-	-	-	136.1	1.7%
US Treasury Bills	-	-	-	115.4	-	-	-	115.4	1.4%
US Agencies	-	-	-	-	-	-	-	-	0.0%

Sector	Medium-term ratings			Short-term ratings		Not rated	Sub-portfolio of credit operations	Total by asset class	% Total by asset class
	AAA	AA	A	A-1	A-2		Balance of Payment Support Credit		
MBS	103.6	36.1	-	-	-	-	-	139.7	1.7%
TBA	-	124.2	-	-	-	-	-	124.2	1.6%
ABS	24.9	-	-	-	-	-	-	24.9	0.3%
SDR	-	-	-	-	-	-	-	(0.0)	0.0%
Corporates	4.2	68.1	196.7	97.3	36.8	-	-	403.1	5.0%
ETF	-	-	-	-	-	2.0	-	2.0	0.0%
Accounts receivable and deposits receivable	-	-	-	189.1	-	-	-	189.1	2.4%
Futures 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 Direction

Includes the effect of provisions for expected losses. Does not include cash in Colombian pesos for $0.3 million. Considering property and equipment - net, other assets of 2.1 and 1 million, respectively, result in a total asset value of $8,012.9 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 the credit demands of member countries in a timely manner, with low settlement costs of the securities that make up the portfolios and to have the necessary liquidity to meet their obligations.

Investment guidelines favor investments in assets with very low credit risk, high liquidity, and low transaction costs (see Note 5 - Main asset management policies).

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 the Aggregate Investment Portfolio, which invest in investment grade instruments, which are highly liquid. As of June 30, 2022, and December 31, 2021, FLAR had no long-term debt.

For the liquid asset requirement, the value of the Aggregate Investment Portfolio and Liquidity Portfolio versus paid-in capital as of June 30, 2022, was 101.75%, and as of December 31, 2021, was 98.29%.

Currently, FLAR has the resources to meet the credit demands of its member countries in a timely manner and with low liquidation costs for the securities that make up the portfolios. Financial liabilities are matched with assets of similar term characteristics. Although the assets are liquid and can be sold before their maturity date, for disclosure purposes, a detail of the contractual maturities of financial assets and liabilities is presented:

Maturities by tranche and type of asset and liability as of June 30, 2022
(Amounts in millions of USD)
Financial assets

Maturity	Less than one month	One to three months	Three to six months	Six to 12 months	Between one and two years	More than two years	Total
Cash	11.1	0.0	0.0	0.0	0.0	0.0	11.1
Financial instruments and term deposits	3,538.6	1,748.0	771.7	686.2	228.2	483.3	7,456.0
Credits to central banks	0.0	0.0	308.8	0.0	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	79.1	0.0	0.0	0.0	0.0	0.0	79.1
Derivative financial assets	1.0	0.2	2.4	0.0	0.0	0.0	3.6
Total	3,629.9	1,748.2	1,082.9	686.2	228.2	483.3	7,858.7

Source: Risk Management Direction

Includes the effect of provisions for expected losses. Does not include cash and deposits in Colombian pesos for $1.1 million. Considering Property and Equipment - net, other assets, commissions receivable, the total value of assets is $7,863.2 million.

Financial liabilities

Maturity	Less than one month	Three to six months	Three to six months	Six to 12 months	Between one and two years	More than two years	Total
Financial liabilities (term-deposits)	2,851.7	640.8	19.1	0.0	0.0	0.0	3,511.5
Accounts payable on purchases of financial instruments	626.4	0.0	0.0	0.0	0.0	0.0	626.4
Derivative financial liabilities	2.0	0.1	0.0	0.0	0.0	0.0	2.1
Total	3,480.1	640.9	19.1	0.0	0.0	0.0	4,140.1

Source: Risk Management Direction

It does not include other liabilities and commissions received for loans granted in the amount of $0.7 million.

Below is a detail of the contractual maturities of financial assets and liabilities as of December 31, 2021:

Maturities by tranche and type of assets and liabilities as of December 31, 2021 (Amounts in millions of USD)
Financial assets

Maturity	Less than one month	One to three months	Three to six months	Six to 12 months	Between one and 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 term deposits	3,740.4	1,806.7	539.9	631.6	141.7	633.6	7,494.0
Credits to central banks	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 Management Direction

Includes the effect of provisions for expected losses. Does not include cash and deposits in Colombian pesos for $0.3 million. Considering Property and Equipment, net, other assets, and commissions receivable, 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	Between one and two years	More than two years	Total
Financial liabilities (term-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
Derivative financial liabilities	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 Management Direction

It does not include other liabilities and commissions received for loans granted in the amount of $0.7 million.

As of June 30, 2022, and December 31, 2021, liabilities are appropriately matched by assets with similar maturities, which would allow FLAR to meet its obligations without having to liquidate investments. These assets far exceed FLAR's liabilities. Additionally, it should be noted that a high proportion of FLAR's assets mature in less than one year.

The previous section presented the composition of instruments by credit rating. As of June 2022, 68.5% of FLAR's reserve assets were in high credit quality instruments that are significantly liquid.

27.6. Risk-adjusted capital - Due to its nature as an international organization, FLAR is not subject to regulatory capital compliance, as is the case for private financial institutions globally. According to the capital adequacy ratings made by the rating agencies, FLAR has a level of financial strength and capital adequacy considered 'very strong' by Standard and Poor's (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 continued strengthening of FLAR's capital, backed by paid-in capital and reserve contributions from member countries, the high credit quality of the assets, and a level of zero leverage, given that as of June 30,2022, there are no debt issues outstanding.

One way of looking at capital adequacy is through the risk-adjusted-capital ratio (RAC) indicator. To measure this indicator, internally developed risk-adjusted capital ratio methodology is used, which is based on the weightings of the S&P methodology and other assumptions made by risk management direction.

As of June 30, 2022, this indicator was 60%, compared to 52% at December 31, 2021.

28. RELATED PARTIES

The financial statements disclose the activities and operations of FLAR with its related parties, which by their nature and in accordance with its Constitutive Agreement are carried out mainly with its members.

For disclosure purposes, the main transactions with member countries and associated banks are listed below:

- Receipt of contributions to paid-in capital and institutional reserves (see Note 18 - Equity).
- Granting of loans under the established credit lines (see Note 12 - Loans to Central Banks).
- Commissions received for loans granted.
- Receipt of demand and term deposits (see Note 15 - Deposits received from Central Banks and Other Institutions).

As of June 30, 2022, FLAR has not received any loan, guarantee or similar from any of its members.

The values of related party transactions as of June 30, 2022, are listed below.

Statement of Financial Position

June 30,2022	Members
Assets	
Loans to central banks	$ 308,760,648
Liabilities	
Demand deposits	126,237,454
Term deposits	1,329,312,070
Commissions received on loans granted	677,600

December 31, 2021	Members
Assets	
Loans to central banks	$ 308,772,173
Liabilities	
Demand deposits	55,195,157

December 31, 2021	Members
Term deposits	2,649,374,285
Commissions received on loans granted	677,600

Income statement

June 30, 2022	Members	Key management personnel
Profits		
Interest income on loans granted	2,090,550	
Interest on demand deposits	95,139	
Interest on term deposits	4,659,831	
Key Management Personnel Compensation		855,318

June 30, 2021	Members	Key management personnel
Profits		
Interest income on loans granted	1,106,578	
Interest on demand deposits	-	
Interest on term deposits	762,312	
Key Management Personnel Compensation		868,418

29. EVENTS AFTER REPORTING PERIODS

FLAR management has evaluated subsequent events occurring from June 30, 2022, through September 14, 2022, 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.

On August 11, 2022, the Board of Directors approved the balance of payments loan request presented by the Republic of Costa Rica in the amount of USD1,100,000,000, which was disbursed on August 19, 2021. The term of the loan is three years with a first-year grace period for principal payments, and the agreed rate is quarterly payments equivalent to the SOFR rate + 201 BPs.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements of the Latin American Reserve Fund (FLAR) for the period ended June 30, 2022, were reviewed by the Assets and Liabilities Committee ALCO on August 30, 2022, and then presented to the Board of Directors at its CIV meeting on October 3, 2022, for approval and publication.