

(Free translation from the original issued in Spanish)

**FONDO FINANCIERO PARA EL DESARROLLO DE LA CUENCA DEL
PLATA (FONPLATA)**

Financial statements as at December 31, 2018 and 2017

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US\$ = US dollars



(Free translation from the original issued in Spanish)

Independent auditor's report

February 18, 2019

To the Assembly of Governors
Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA)
Santa Cruz de la Sierra

Opinion

We have audited the financial statements of Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA), which comprise the statement of financial position as of December 31, 2018, the income statement, statement of comprehensive income, statement of cash flow and statement of changes in net equity for the year 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 FONPLATA as of December 31, 2018, and its financial performance and its cash flows for the year then ended 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 FONPLATA in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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 International Financial Reporting Standards (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 FONPLATA'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 FONPLATA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the FONPLATA'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 International Standards on Auditing (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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FONPLATA'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 FONPLATA'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 FONPLATA 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.

PricewaterhouseCoopers S.R.L.

Sergio Fischer
Partner

The signature is a large, stylized, handwritten signature in black ink, written over the printed name and title.



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FONDO FINANCIERO PARA EL DESARROLLO DE LA CUENCA DEL PLATA
STATEMENT OF FINANCIAL POSITION
(All amounts expressed in U.S. dollar thousands)

	As of December 31,	
	2018	2017
ASSETS		
Cash and cash equivalents – Note 6.1	55,421	34,092
Investments		
At fair value with changes in other comprehensive income – Note 6.2	22,881	11,679
At amortized cost – Note 6.3	156,827	137,253
Loan portfolio – Note 6.4	792,580	657,087
Accrued interest and other charges		
On investments – Note 6.3	199	447
On loans – Note 6.4	8,943	5,740
Other assets		
Property and equipment, net – Note 7.1	5,791	5,161
Miscellaneous – Note 7.2	252	143
Total assets	1,042,894	851,602
LIABILITIES AND NET EQUITY		
Liabilities		
Borrowings – Note 6.5	79,000	26,000
Other liabilities	539	912
Special funds – Note 6.6	10,440	8,915
Net equity		
Capital – Note 8.1		
Authorized	3,014,200	3,014,200
Less callable portion	(1,665,000)	(1,665,000)
Paid-in capital	1,349,200	1,349,200
Paid-in capital pending integration	(531,666)	(643,333)
General reserve – Note 8.3	107,871	89,740
Other reserves – Note 8.2	938	37
Retained earnings – Note 8.3	26,572	20,131
Total net equity	952,915	815,775
Total liabilities and net equity	1,042,894	851,602

The accompanying notes are an integral part of these financial statements.

Juan E. Notaro Fraga
EXECUTIVE PRESIDENT

Antonio Mullisaca
PRESIDENT OF THE BOARD OF EXECUTIVE DIRECTORS

Jaqueline Koehnke Ferrufino
CHIEF ACCOUNTANT

Rafael Robles
MANAGER FINANCE AND ADMINISTRATION



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FONDO FINANCIERO PARA EL DESARROLLO DE LA CUENCA DEL PLATA
INCOME STATEMENT

(All amounts expressed in U.S. dollar thousands)

	Years ended as of	
	December 31,	
	2018	2017
INCOME – Note 9		
LOAN PORTFOLIO		
Interest	31,667	21,407
Other loan income	4,490	3,645
	<u>36,157</u>	<u>25,052</u>
Investments		
Interest	4,018	2,246
Other investments income	128	117
	<u>4,146</u>	<u>2,363</u>
Other income	69	89
Income from financial assets	<u>40,372</u>	<u>27,504</u>
EXPENSES		
Borrowing costs	2,645	716
Income from net financial assets	<u>37,727</u>	<u>26,788</u>
Provision for loan impairments	1,218	(142)
Income after the provision for loan impairments	<u>36,509</u>	<u>26,930</u>
Administrative expenses – Note 10	9,937	6,799
Net income	<u>26,572</u>	<u>20,131</u>
STATEMENT OF COMPREHENSIVE INCOME		
Net income	26,572	20,131
Changes in fair value of investments	89	42
Fixed assets revaluation	812	-.-
Comprehensive income	<u>27,473</u>	<u>20,173</u>

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FONDO FINANCIERO PARA EL DESARROLLO DE LA CUENCA DEL PLATA
STATEMENT OF CASH FLOWS
 (All amounts expressed in U.S. dollar thousands)

	As of December 31,	
	2018	2017
Cash Flows from Operating Activities		
Lending		
Cash received from loan principal amortizations	58,960	52,899
Cash received from interest and other loan charges	33,628	24,104
Loan disbursements	<u>(196,364)</u>	<u>(171,112)</u>
Net flows from lending activities	<u>(103,776)</u>	<u>(94,109)</u>
Other operating flows:		
Payment of salaries, administrative expenses and suppliers	(7,671)	(7,076)
(Payment)/collection of receivables and miscellaneous accounts	(109)	237
Payments to suppliers and transfers to special funds	<u>(1,413)</u>	<u>(354)</u>
Net flows from other operating activities	<u>(9,193)</u>	<u>(7,193)</u>
Net cash flows used in operating activities	<u>(112,969)</u>	<u>(101,302)</u>
 Cash Flows from Financing Activities		
Funding of on-lent activities:		
Net proceeds from borrowings	63,000	10,000
Repayment of borrowings and debt service	<u>(12,365)</u>	<u>(539)</u>
Net flows from funding of on-lent activities	<u>50,635</u>	<u>9,461</u>
Collection of paid-in capital subscriptions	<u>111,667</u>	<u>62,584</u>
Net flows from financing activities	<u>162,302</u>	<u>72,045</u>
 Cash flows from investing activities		
Investment income	4,394	2,180
Purchase/ (Proceeds from sale) of investments	(32,324)	31,473
Capital expenditures	<u>(74)</u>	<u>(1,342)</u>
Net flows (used in) /originated from in investment activities	<u>(28,004)</u>	<u>32,311</u>
 Increase in cash and equivalents during the year	21,329	3,054
Cash and equivalents at the beginning of the year	<u>34,092</u>	<u>31,038</u>
Cash and equivalents at the end of the year	<u>55,421</u>	<u>34,092</u>

The accompanying notes are an integral part of these financial statements.

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FONDO FINANCIERO PARA EL DESARROLLO DE LA CUENCA DEL PLATA
STATEMENT OF CHANGES IN NET EQUITY
(All amounts expressed in U.S. dollar thousands)

	Paid-in Capital	General Reserve	Reserve for changes in the value of investments at fair value	Reserve for revaluation of property	Retained Earnings	Total
Balance as of December 31, 2016	643,283	74,979	(5)	--	14,761	733,018
Capital increase – Paid-in portion	62,584	--	--	--	--	62,584
Allocated by the Assembly of Governors to the general reserve	--	14,761	--	--	(14,761)	--
Net income	--	--	--	--	20,131	20,131
Other comprehensive income	--	--	42	--	--	42
Balance as of December 31, 2017	705,867	89,740	37	--	20,131	815,775
Capital increase – Paid-in portion	111,667	--	--	--	--	111,667
Allocated by the Assembly of Governors to:						
General reserve	--	18,131	--	--	(18,131)	--
Fund for the Compensation of the Operating Margin (FOCOM)	--	--	--	--	(1,000)	(1,000)
Technical Cooperation Fund (PCT)	--	--	--	--	(1,000)	(1,000)
Net income	--	--	--	--	26,572	26,572
Other comprehensive income	--	--	89	812	--	901
Balance as of December 31, 2018	817,534	107,871	126	812	26,572	952,915

The accompanying notes are an integral part of these financial statements.

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EXECUTIVE PRESIDENT

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PRESIDENT OF THE BOARD OF EXECUTIVE DIRECTORS

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in U.S. dollar thousands)

NOTE 1 – BACKGROUND

The “Fondo Financiero para el Desarrollo de la Cuenca del Plata”, hereinafter and for all intent and purposes denominated as “FONPLATA”, is an international legal entity of indefinite life, which is governed by the covenants contained in its Charter and on its Regulations as a multilateral development institution. FONPLATA is headquartered in the city of Santa Cruz de la Sierra, Estado Plurinacional de Bolivia and has liaison and project monitoring offices in Asuncion, Republic of Paraguay, since 1989, and in Buenos Aires, República Argentina, since June 2018. These offices were established as part of a strategy to strengthen the working relationship with its member countries.

FONPLATA is formed by the governments of Argentina, Bolivia, Brazil, Paraguay and Uruguay, hereinafter “funding members”, based on the River Plate Basin Treaty, subscribed on April 23, 1969, which gave rise to its consolidation and recognition a legal entity on October 14, 1976, when its Charter was approved and put into force.

FONPLATA was created by its founding members, within a cooperation spirit and solidarity, persuaded that only cooperation and joint action could lead to harmonized, inclusive and sustainable development to foster a better insertion of its member countries within the regional and global economy.

FONPLATA’s funding members maintain a very close relationship among themselves sharing the same ecosystems, such as the hydrographic and energy systems; air, river and road transportation networks and other communication systems.

Among the main functions of FONPLATA, are the granting of loans and guarantees, obtaining external financing with the sovereign guarantee of its Member Countries; the financing of pre-investment studies with the purpose of identifying investment opportunities or projects of interest for the region; the financing and contracting of technical assistance; and to undertake any other functions that are considered conducive to the attainment of its objectives.

On November 9, 2018, reaffirming its support to management and the continuous growth of its portfolio of operations, FONPLATA’s Assembly of Governors approved modifications to the Charter. These modifications pursue the purpose of modernizing and enhancing the institution’s overall capacity and relevance to perform as an effective partner in the development of its member countries and their integration at a regional and global level. The modifications approved encompass: (i) FONPLATA’s transformation from a “fund” into a “development bank”; (ii) a change in its name to be formally recognized as “FONPLATA”; (iii) expansion of its scope of work from an strictly geographic focus based on the countries located in the “La Plata” river basin, to one encompassing the region of its member countries and their integration in the global market; (iv) the expansion of its membership beyond its funding members, recognizing the possibility of incorporating non-funding members that could consist of either countries or institutions, to its capital base; (v) the redenomination of capital as “authorized capital” for an initial amount of \$3,014,200, consisting of 301,420 class “A” shares, to be allocated to funding members only, with a par value of \$10 thousand each, and with a voting right of one vote per share. Furthermore, the modifications approved stipulate that the authorized capital shall also

include shares class “B”, to be allocated to non-funding members. The initial authorized capital consists in its entirety of class “A” shares, consisting of 134,920 shares of paid-in capital for a total amount of \$1,349,200, and 166,500 shares of callable capital for an amount of \$1,665,000.

Class “B” shares would be issued after the authorized capital has been increased and in the number of shares corresponding to the percentage of participation at the time new members are admitted.

Both series shall be issued when the Charter’s modifications are formally ratified by the funding member countries, which is deemed to materialize thirty days after receiving communication from the funding member countries’ confirming their formal ratification.

As of December 31, 2018, and as the date of issuance of these financial statements, the modifications to the Charter approved by the Board of Governors are still pending ratification by the corresponding authorities of FONPLATA’s member countries.

With regards to its operations, FONPLATA is characterized by a keen focus on strategic planning and management by results. The Strategic Institutional Plan 2013 – 2022 (a.k.a. PEI for its Spanish acronym), which was updated for the period 2018 – 2022, and approved by the Assembly of Governors in August 2017, constitutes the main instrument designed to manage, supervise and ensure accountability for the attainment of expected results. Complementing the PEI, FONPLATA prepares the Programs and Budget Document (a.k.a. DPP for its Spanish acronym). The DPP contains the expected results to be attained for the next three-years, as well as the activities required and their related costs, that make the basis for the administrative and capital budgets. Following the recommendation of the Board of Executive Directors, the DPP for the period 2019 – 2021, was approved by the Assembly of Governors on November 30, 2018.

The 2018 financial statements were reviewed by the Audit Committee of the Board of Executive Directors, and the Board of Executive Directors issued its recommendation for the Board of Governors of FONPLATA to approve them.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Below is a summary of the main accounting policies used in the preparation of these financial statements. Except when expressly noted, these accounting policies have been consistently applied during the years presented.

2.1 Basis for presentation

(i) Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretation Committee (IC), applicable to entities that report under IFRS and comply with the standards issued by the International Accounting Standards Board (IASB).

FONPLATA presents its statement of financial position classifying assets and liabilities in accordance to their expected liquidity. Assets and liabilities are shown based on their expected recovery or repayment within the period of 12 months following the date of the interim financial statements (current), and more than 12 months following the date of the interim financial statements (non-current), as per Note 11.

(ii) Historical cost

The financial statements have been prepared based on the historical cost, except for the following components:

- Financial assets at fair value with changes in other comprehensive income.
- Some investments valued at the lower of amortized cost or fair value, in those cases where there are indicators of impairment.
- Property valued at fair value.

(iii) New standards and modifications adopted by FONPLATA

The following chart summarizes new international financial reporting standards (IFRS), as well as certain applicable modifications of existing ones that were applied by FONPLATA starting January 1, 2018. The standards listed below exclude the following new standards or modifications that are not applicable to the activities performed by FONPLATA: IFRS 4 – Insurance contracts in light of the provisions of IFRS 9; IFRS 2 – Share based payments; modifications to IFRS 40 – Investment property; IFRS 17 – Insurance contracts; modifications to IFRS 28 – Investments in associates and joint ventures; modifications to IFRS 19 – Employee benefits curtailment of final terminal payments; and IFRIC 23 – Uncertainty over income tax treatments.

FONPLATA has begun applying for the first time the following standards and modifications on January 1, 2018:

Standard	Nature of Change	Impact	Mandatory adoption date
IFRS 9 – Financial Instruments	IFRS 9 replaces the classification and measurement models required under IFRS 39 – Financial Instruments for a model that contemplates three possible classifications for financial assets: (i) at amortized value; (ii) at fair value with changes in other comprehensive income; and (iii) at fair value with changes in net income. Furthermore, IFRS 9 introduces a new model for the recognition of potential loan impairments.	Following the changes approved by the IASB, FONPLATA does not anticipate major impact resulting from the new rules on the classification, measurement and disposal of financial assets and liabilities. FONPLATA has performed a detailed evaluation of its financial assets carried at fair value and determined compliance with the conditions required for their classification as financial instruments to be carried at fair value, with changes in other comprehensive income, based on the current business model used for	This amendment completes the IASB’s financial instruments project and this Standard is effective for reporting periods beginning on or after 1 January 2018 with early adoption permitted. FONPLATA has implemented the provisions of IFRS 9, effective January 1, 2018.

Standard	Nature of Change	Impact	Mandatory adoption date
		<p>these financial assets. Accordingly, it does not anticipate a change in their accounting and measurement.</p> <p>The new standard also establishes changes in the accounting for hedges, which do not affect FONPLATA since it does not maintain such type of financial instruments.</p> <p>Starting January 1, 2015, FONPLATA adopted the new model for estimating expected impairment losses on its sovereign loan portfolio.</p>	
IFRS 15 –Revenue from contracts with customers	<p>The IASB issued a new standard for the recognition of revenues. This standard replaces IAB 18 covering goods and services contracts and IAS 11, covering construction contracts.</p> <p>The new standard is based on the principle that revenue should be recognized when control over the goods or services has been effectively transferred to the client. The concept of control replaces the concept of risks and benefits.</p> <p>This standard allows for a retroactive adjustment at the time of its adoption.</p>	<p>FONPLATA, has reviewed the accounting for its loan contracts, borrowings, acquisition and maintenance of fixed assets with the purpose of ensuring compliance with the accounting standard established by IFRS 15 and determined that its adoption does not give rise to changes in the valuation, recording, presentation and disclosure in the interim financial statements for the year ended on December 31, 2018, when compared to 2017.</p> <p>Adoption of this standard is not expected to affect the recognition of loan</p>	Adoption of this standard is mandatory for all fiscal years beginning on or after January 1, 2018.

Standard	Nature of Change	Impact	Mandatory adoption date
	Under this modality, entities could recognize a cumulative adjustment affecting retained earnings without restating prior periods, at the time of adopting the new standard. The new rules should be applied on all outstanding contracts at the time of initial adoption.	income or interest expenses incurred in the financing of loan disbursements or the recognition of expenses related to the financing of service contracts, as well as the recognition of expenses by services contracts.	
IFRIC 22 – Foreign currency prepayments	This interpretation refers to foreign currency transactions o part of transactions containing a component denominated in a foreign currency. The interpretation provides guidance in connection with single or multiple payments and receipts. This interpretation pursues the objective of reducing and standardizing the number of alternative treatments currently in use.	FONPLATA, does not foresee any impact on its financial statements since it does not maintain significant transactions in currencies other than the U.S. dollar.	This interpretation is to be applied for fiscal years beginning on January 1, 2018.

(iv) New standards and interpretations not yet adopted

Standard	Nature of Change	Impact	Mandatory adoption date
IFRS 16 - Leasing	For lessors, eliminates the distinction between “financial leases,” that are recorded in the financial statement of financial position, and “operating leases,” for which the recognition of future payments is not required. In its replacement, it establishes a single model, like the one currently used for financial leases.	FONPLATA, has determined that these changes do not purport a significant impact on its financial statements since FONPLATA does not finance capital leases as part of its lending activities, nor it utilizes this modality in connection with leasing its liaison offices. Liaison offices are rented through operating leases which are annually	This revised standard applies to financial statements beginning on or after January 1, 2019.

Standard	Nature of Change	Impact	Mandatory adoption date
		renewed. No changes are foreseen regarding utilizing this modality for leasing liaison offices in the medium term.	

2.2 Segments' disclosure

Based on an analysis of its operations, FONPLATA has determined that it only has a single operating segment, consisting on the financing of the development needs of its member countries.

FONPLATA continuously evaluates its performance and financial position as the basis for making decisions it considers appropriate for the attainment of its strategic objectives.

2.3 Foreign currency translation

(i) Functional and reporting currency

Account balances presented in the financial statements, as well as the underlying transactions that conform them, are measured using the United States dollar, which is the primary currency of the economic environment in which operates ("functional currency").

(ii) Account balances and transactions

Foreign currency transactions are converted to the functional currency using the exchange rate prevailing at the date of each transaction. Exchange gains or losses on foreign currency transactions result from payments realized in currencies other than the United States dollar, related to administrative expenses incurred either at FONPLATA's headquarters or at its office in Asuncion, Paraguay. Exchange gains and losses associated to administrative expenses are presented on a net basis as part of administrative expenses, in the income statement.

Financial assets, such as investments and loans are denominated in United States dollars, and FONPLATA does not have financial liabilities in other currencies. Consequently, there are no exchange differences related to financial assets and liabilities.

Goods and services denominated in currencies other than the functional currency carried at their fair value, are translated into the functional currency at the rates of exchange prevailing on the date on which their fair value is determined. Exchange differences on assets and liabilities measured at fair value are reported together with gains and losses on fair value.

2.4 Revenue recognition

Interest revenues on loans and interest revenues on investments valued at their amortized cost are calculated based on the effective interest rate method. Other loan revenues consisting of administrative commissions and commitment fees, are calculated in accordance with IFRS 15.

FONPLATA recognizes revenues when their amount can be reliably measured and when it is likely that the resulting economic benefits would be received. FONPLATA based its estimates on historical results, considering both, the type of transaction or borrower and the relevant terms of the corresponding signed contracts.

2.5 Leases

Leasing arrangements where the risk and rewards of ownership are not retained by the lessee are classified as operating leases. Payments made on operating leases based on contracts that call for annual renewal, are reported as expenses during the period of the lease using the straight-line method. FONPLATA does not have financial leases.

2.6 Cash and cash equivalents

For presentation purposes in the statement of cash flows, cash and its equivalents include both cash at hand and highly liquid bank deposits and investments, with an original maturity of up to three months, that can be converted into determinable amounts, and which are not subject to significant risks affecting their value.

2.7 Loan portfolio

Loan portfolio is initially recorded at its fair value and subsequently measured at its amortized cost using the effective interest rate method, net of the provision for loan impairment. For additional information on the loan portfolio accounting see Note 6.4.

2.8 Financial assets

(i) Classification

FONPLATA classifies its financial assets in the following categories:

- *Financial assets at amortized cost (loan and investment portfolios)*: are assets generated or purchased with the objective of generating contractual cash flows resulting from principal amortizations and accrued interest. These financial assets are not designated as “financial assets at fair value with changes in income,” and are measured at their amortized cost. The value of these financial assets is adjusted by the provision for estimated losses, which is calculated and recognized as stated in this note.
- *Financial assets at fair value with changes in other comprehensive income*: are assets purchased with the purpose of generating contractual cash flows resulting from principal amortizations and accrued interest, as well as from the sale of the underlying assets. These assets are not designated as “financial assets at fair value with changes in income,” and are measured at their fair value with changes recognized in other comprehensive income.
- FONPLATA does not have financial assets at fair value with changes in income.

Classification of financial assets depends on the purpose at the time of their acquisition. FONPLATA determines the classification of its investments at the time of their purchase and recognition. Investments valued at their amortized cost are reassessed annually to validate the reasonableness of their classification. Note 6 shows more detailed information on each type of financial asset.

(ii) Reclassification

Financial assets other than loans could be reclassified under a different category of “investments at fair value with changes in other comprehensive income,” based on the business model in use to manage them or according to the characteristics of their contractual cash flows.

Reclassifications are made at their fair value at the time of reclassification. The fair value is converted into cost or amortized cost, when applicable. Subsequent reversal of gains and losses on fair value changes accounted for prior to the time of reclassification are not permitted. The effective interest rates of financial assets carried at amortized cost, are determined on the date of reclassification. Adjustments to the effective interest rate because of additional increases to cash flows are made prospectively.

(iii) Recognition and disposal

Normal generation, purchases and sales of financial assets are recognized on the date in which they are transacted, which is the date in which FONPLATA generates them or commits to their purchase or sale. Financial assets are disposed-off upon expiration of the rights to receive a flow of funds or upon transferring their risk of ownership.

When investments carried at fair value are sold, the cumulative fair value adjustments accounted for under “other comprehensive income” is reclassified in the income statement as “gains or losses on investments.”

(iv) Measurement

At the beginning of a transaction, FONPLATA measures financial assets at their fair value plus those transaction costs directly attributable to their acquisition.

Loans and investments maintained at amortized cost are subsequently valued at their amortized cost using the effective interest rate method.

Investments which will be maintained at fair value are subsequently valued at their corresponding fair value. Gains and losses resulting from changes in fair value are recognized in other comprehensive income. At its realization, the accumulated loss or gains in other comprehensive income is reclassified to the operating income.

Interest resulting from financial assets carried either at fair value or at amortized cost and loans, calculated based on the effective interest rate method, is recognized in the income statement as part of operating income.

Note 6.7 includes a detail pertaining the determination of fair value of financial instruments.

(v) Impairment

At the end of each fiscal year, FONPLATA assesses the likelihood of potential impairment affecting either a financial asset or a group of financial assets. The potential impairment on loans is determined based on the credit risk classification of borrowing countries, following a methodology adopted by most multilateral development banks. Note 6.4 has a detailed explanation of this methodology as well as the determination of the provision for loan impairment.

For investments, FONPLATA recognizes the impairment only when there is objective evidence because of the occurrence of one or more events after initial recognition of the investment (loss event) and such event or events, affects future cash flows and those cash flows can be determined reliably.

- a. *Financial assets carried at amortized cost*: The provision for potential losses on sovereign loans is set at a level FONPLATA considers adequate to absorb potential losses related to the loan portfolio at the date of the financial statements. The amount of the impairment loss is measured as the difference between the carrying amount and the value determined in accordance with the individual credit risk rating for long term debt of

each borrowing member country. The individual credit risk rating for each country is determined as the lowest credit risk rating at the date of the financial statements issued by three internationally recognized credit rating agencies. These ratings include a probability of default. In recognition of FONPLATA's preferred creditor status, and considering the privileges and immunities granted by its member countries, which are stated in its Charter, as well as in other specific agreements signed with each member country, the credit risk rating used reflects a lower probability of default – generally equivalent to three levels below its credit rating. Whenever practicable, FONPLATA could measure the impairment based on the fair value, using observable market prices.

The provision for potential loan losses is shown as a deduction of the amount of the loan portfolio.

Should there be a reduction in the amount of potential loan losses in a subsequent period, and such reduction is objectively related to an event occurring after recognition of the impairment (such as an improvement in the credit risk rating of the borrower), the reversal of the impairment losses previously recognized could be included in the income statement.

- b. Financial assets carried at fair value with changes in other comprehensive income: Should there be objective evidence of impairment of financial assets maintained at fair value, cumulative losses measured as the difference between their acquisition cost and their fair value, less any impairment loss, are reclassified from other comprehensive income, which is a component of net equity, and recognized as operating income.

If the fair value of debt instruments subsequently increases, and such increase can be objectively related to an event occurring after the recognition of the impairment loss in the income statement, then the impairment loss is reversed affecting the income statement.

(vi) Revenue recognition

Interest revenues are recognized based on the effective interest rate method. Should there be loans in non-accrual status, they are considered impaired loans. A loan is impaired when the analysis of available information and current events are indicative, to a certain degree of probability, that FONPLATA could not recover the full amount of principal and interest accrued, based on the agreed upon loan covenants. When a loan is impaired, FONPLATA reduces the carrying amount of such loan to its net realizable value, based on the discounted cash flows using the loan's original effective interest rate, and reverts the discounted amount against loan revenues. Interest revenues on impaired loans are recognized using the original effective interest rate.

2.9 Property and equipment

Property is carried at book value, which incorporates revaluations. Increases to the carrying amount of property resulting from revaluations are included in other comprehensive income and reflected as part of the accumulated balance of revaluation reserves within net equity. Subsequent increases to the carrying amount due to revaluations should be recognized affecting income to the extent that revaluation increases had been previously reverted affecting the income statement. Any decreases reverting revaluation increases of the same assets are initially recognized in other comprehensive income to the extent there are revaluation surpluses attributable to those assets. All other decreases are reflected in the income statement.

Equipment are carried at their historical cost less depreciation. The historical cost includes all directly related acquisition expenses.

Subsequent costs are either included as part of the carrying amount of property and equipment or recognized as a separate asset, only when it is probable that there are future economic benefits to be derived from that asset and its cost can be reliably determined. The carrying amount of each component recognized as a separate asset is written-off at the time of its disposal or replacement. Repairs and maintenance expenses are included in the income statement during the period in which they are incurred.

Note 7.1 shows the depreciation methods and useful lives used by FONPLATA. Assets' residual values and useful lives are reassessed and adjusted as appropriate at year end. In those instances, where the carrying amount of assets exceeds their recoverable value, carrying amounts are adjusted to their recoverable value.

Gains and losses on the sale of fixed assets are determined by comparing the carrying amount with the sale price and accounted for in the income statement. In case of sale of revalued assets, it is FONPLATA's policy to transfer the amounts carried in revaluation reserves into retained earnings.

2.10 Financial liabilities

Financial liabilities are initially recognized at their fair value, net of related transaction costs. Subsequently, borrowings are valued at their amortized cost. Any difference between the value initially recognized for the liability and the amount effectively paid, is reflected in the statement of income based on the effective interest rate method. Financial liabilities are removed from the books upon their full repayment, or their contractual expiration or cancellation.

2.11 Other liabilities and commitments

These amounts represent outstanding liabilities for goods and services received by FONPLATA prior to the date of the financial statements. Other liabilities do not include guarantees and are usually paid within 30 days of their initial recognition. These liabilities are initially recognized at their fair value and subsequently measured at amortized cost based on the effective interest rate method.

2.12 Special funds

These amounts represent liabilities equaling to the amount of investments administered on behalf of special funds. These liabilities do not represent guarantees and are usually paid based upon request for funds from the special Funds. These liabilities are initially recognized at their fair value and subsequently measured at amortized cost using the effective interest rate method.

2.13 Other benefits to employees

The amount included under "Other benefits to employees," represent accrued liabilities associated to benefits granted to FONPLATA's staff under a joint savings program "Programa de Ahorro Compartido" or PAC, by its name in Spanish. The PAC was approved by the Board of Executive Directors on August 14, 2018 and entered into effect on November 1, 2018. PAC liabilities are paid to the staff upon termination of their employment. FONPLATA's matching contribution on the amount of an employee's voluntary saving is subject to a withholding percentage based on the years of service required for full vesting under the program. Withheld amounts are deferred and subsequently expensed as employees accumulate the required years of service for full vesting under the PAC. Note 6.6 – c), provides a detailed explanation and breakdown of the PAC liability as of December 31, 2018.

2.14 Capital

On November 9, 2018, following approval of FONPLATA's revised Charter, its authorized capital was denominated in shares of \$10 par value each. The authorized capital consists of paid-in shares and callable shares. Paid-in capital consists of the amount of capital subscriptions paid-in to FONPLATA by its member countries.

2.15 Adoption of IFRS 9

This note explains the overall impact on the measurement and classification of FONPLATA's financial assets and liabilities maintained as of December 31, 2017, when compared to the measurement and classification criteria applied in the preparation of the financial statements as of December 31, 2018, in accordance with the provisions of IFRS 9.

No changes to the criteria used for measuring and classifying financial assets and liabilities were deemed necessary for FONPLATA to adopt the provisions prescribed under IFRS 9, which replaces IFRS 7 and IFRS 39, beyond the mere change of the naming conventions used to designate investments valued at fair value from "Investments available for sale" under IFRS 39, to "Investments at fair value with changes in other comprehensive income" under IFRS 9, and investments valued at amortized cost from "Investments held to maturity" under IFRS 39, to "Investments at amortized cost" under IFRS 9, respectively.

The following chart summarizes the extent of the changes implemented by FONPLATA, effective January 1, 2018, affecting its financial assets and liabilities as of December 31, 2017, in compliance of IFRS 9:

Effects from the adoption of IFRS 9 to FONPLATA's financial assets and liabilities as of December 31, 2017

<u>Measurement and classification as per IFRS 39</u>			<u>Measurement and classification as per IFRS 9</u>		
		<u>\$</u>			<u>\$</u>
<u>Financial assets</u>			<u>Financial assets</u>		
Cash and cash equivalents	At amortized cost	34,092	Cash and cash equivalents	At amortized cost	34,092
Loan portfolio	At amortized cost	662,827	Loan portfolio	At amortized cost	662,827
Investments available for sale	At fair value with changes in other comprehensive income	11,679	Investments at fair value with changes in other comprehensive income	At fair value with changes in other comprehensive income	11,679
Investments held to maturity	At amortized cost	137,700	Investments at amortized cost	At amortized cost	137,700
		<u>846,298</u>			<u>846,298</u>
<u>Financial liabilities</u>			<u>Financial liabilities</u>		
Borrowings	At amortized cost	26,000	Borrowings	At amortized cost	26,000
Other liabilities	At amortized cost	912	Other liabilities	At amortized cost	912
Special funds	At amortized cost	8,915	Special funds	At amortized cost	8,915
		<u>35,827</u>			<u>35,827</u>

NOTE 3 – SIGNIFICANT ESTIMATES AND JUDGEMENTS

The financial statements are prepared in accordance with International Financial Information Standards, which require the Executive President of the Fund to make assumptions and estimates affecting the amounts shown for

assets and liabilities, as well as revenues and expenses during the fiscal year. The estimates and judgements are continuously assessed and are based on legal requirements and other prevailing factors, including the expectation of future events considered reasonable within the current circumstances.

This note provides a general overview of the areas that entail more management judgment or inherent complexity to each estimate, and the items that are more likely to be materially adjusted because actual results could differ from those estimates. Detailed information pertaining each estimate and judgement made are included in Notes 6 and 7, respectively, together with the information regarding the basis used for computing each item affecting the financial statements.

The most relevant estimates affecting the preparation of FONPLATA’s financial statements relate to:

- Impairment of investments carried at amortized cost – Nota 6.3.
- Impairment of the loan portfolio – Nota 6.4.

NOTA 4 – FINANCIAL RISK MANAGEMENT

This note explains FONPLATA’s financial risk exposures and how could they potentially affect the Fund’s future financial performance.

Risk	Source of Exposure	Measurement	Risk Management
Market risk – Exchange risk	Risk that financial assets and liabilities are denominated in currencies other than the U.S. dollar (functional currency)	Cash flow budget.	All loan and investment transactions, as well as the most relevant liabilities shown in the financial statements have been transacted in U.S. dollars.
Market risk – Interest rate risk	Risk of experiencing fluctuations in lending and borrowing rates applicable to FONPLATA’s loans, and debt.	Sensitivity analysis.	FONPLATA has established policies for the determination of interest rates, allowing it to mitigate the potential effects of interest rate fluctuations. Furthermore, FONPLATA has a relatively low degree of financial leverage, which further reduces its exposure to interest rate risk.
Market risk	FONPLATA does not have investments in equity instruments that might be exposed to price risk.	Nil.	FONPLATA does not have investment in equity instruments that might be exposed to market risk.
Credit risk	Cash and its equivalents, available for sale investments, investments held to maturity.	- Aging analysis - Credit risk analysis.	Diversification of bank deposits and applicable limits on loans. Policies and guidelines on available for sale and held to maturity investments.

Risk	Source of Exposure	Measurement	Risk Management
Liquidity risk	Other liabilities and obligations with special funds.	Cash flow budget.	Availability of funds required to meet obligations and commitments.

FONPLATA manages its risks exposures in accordance with its enterprise-wide risk management policy. This policy encompasses the management of market and interest rate risks, operational and strategic risks. The focus of FONPLATA’s enterprise-wide risk management is to ensure risks will remain within established limits. Those limits are formally established in the institution’s financial policies and reflect its capacity to assume risks as defined by its governance bodies. Within the scope of its enterprise-wide risk management policy, risk management is oriented to avoid those risks that may exceed FONPLATA’s tolerable risk level, and to mitigate all financial, operational and strategic risks in accordance to the limits established for each risk related to its operations.

In line with international best practices for risk management, FONPLATA adopted the risk classification and definitions issued by the Office of the Comptroller of the Currency of the United States (“OCC”) and Basle II.

4.1 Currency risk

All financial assets and approximately 99% of liabilities are denominated in U.S. dollars, which constitutes FONPLATA’s functional currency. Consequently, FONPLATA’s financial statements are not exposed to significant levels of risk resulting from potential changes in exchange rates.

4.2 Interest rate risk

FONPLATA’s lending interest rate consists of a fixed and a variable margin (6 months Libor). In accordance with its income management and financial charges policy, FONPLATA’s fixed margin is reassessed annually for all new loans with the objective of reaching a balance between the accumulation of long-term capital to guarantee the Fund’s sustainability as well as to provide favorable financial conditions to its member countries. FONPLATA applies a net income management model as a tool to manage income in accordance to its medium and long-term planning objectives. The model allows, through managing various parameters and variables, to ensure that financial charges applied would be stable and enough to satisfy all expected goals established in FONPLATA’s financial policies, making in a timely basis all required adjustments to the fixed margin to respond to significant changes in the assumptions and estimates used. This exposure is periodically measured and evaluated, to ensure the management of the interest rate risk.

In compliance with its income management and financial charges policy, FONPLATA annually establishes a fixed margin applicable to new loans to be granted in the upcoming year (Operating Lending Rate or “TOR”). During the years ended December 31, 2018, and 2017, respectively, FONPLATA maintained the TOR that had been approved for 2016.

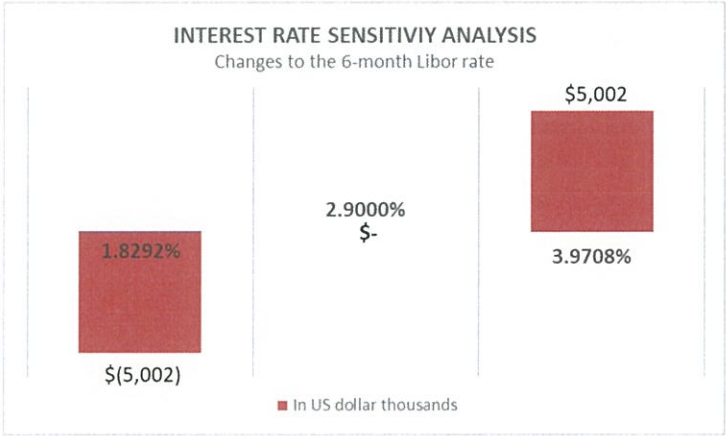
In March 2017, through RDE 1390, FONPLATA’s Board of Executive Directors approved a new line of loans based on the 6-month Libor plus a variable margin. In March 2018, through RDE 1411, FONPLATA’s Board of Executive Directors approved a reduction of the variable lending rate. No loan has been approved under the variable margin modality as of December 31, 2018.

The Executive President was authorized to set lending rates applicable to loan maturities for periods shorter than 15 years, approving operating lending rates as an incentive for member countries to borrow at shorter terms.

FONPLATA’s interest rate risk is limited to the risk associated to the variable component of its lending rate, which is based on the 6 - month Libor. FONPLATA performs sensitivity analysis to determine the variance in income or in net equity associated to changes in the 6 month Libor rate.

Based on its 2019 Administrative and Capital Investment Budget approved by the Assembly of Governors, calculation of the sensitivity analysis was performed using a 6 -month Libor rate of 290 bps with a positive and negative variation of 107 bps.

Accordingly, the analysis yields a maximum and a minimum 6 months Libor rate of 397 bps and of 183 bps, respectively. Should the estimated 107 bps variation materialize, future net income could be increased or reduced by \$5,002, respectively.



4.3 Market risk

Market risk is the risk of losses in the value of financial assets and liabilities because of changes in market conditions. FONPLATA manages market risks affecting mainly its investment and loan portfolios through various measures to ensure risk exposures would remain within established policy limits.

4.4 Credit risk

Credit risk is the risk resulting from non-compliance with contract terms by the borrower. Financial policies establish individual limits of credit by member country, with the objective of reducing excessive risk exposures and to comply with an equitable distribution of the lending capacity. The capital adequacy coefficient relating the amount of loans with the amount of net equity ensures a reasonable coverage against exposure to credit risk, both for the lending portfolio and at the level of each borrowing member country.

Currently, FONPLATA only grants loans with sovereign guarantee and has lending guidelines establishing the actions to be taken in connection with overdue loan balances and non-compliance, which form an integral part of loan covenants included in all loan contracts.

The credit risk associated to the investment of liquid assets is based on internal guidelines governing the investment of liquid assets, which establish the prudential investment limits by each asset class, sector and issuers, to guarantee an adequate diversification and mix of investment sources and maturities. As of December 31, 2018, the average credit risk rating of the investment portfolio was AA-, as required by the investment policy. Compliance

with current policy limits is validated by having attained an average return on investments that exceeds the original assumptions that served the basis of the determination of the expected level of net income for 2018 and 2017, respectively, as part of the annual financial programming and budgeting required by the policy on net income management and financial charges.

4.5 Liquidity risk

Liquidity risk is the risk originated in the inability of the institution to meet its obligations without incurring in unacceptable losses. The institution has a minimum required level of liquidity which is defined by its liquidity policy as the level required to comply meet all obligations, payments and disbursements for a 12-month period. As of December 31, 2018, and 2017, respectively FONPLATA did not have commitments and obligations that would carry liquidity risk either in the short or medium term, and liabilities amount to \$89,979 and \$35,827, respectively, and liquid assets, including cash, amount to \$235,130 and \$183,024, respectively. Liquid assets coverage of gross estimated disbursements was equivalent to 1.4 years as of December 31, 2018, and 1.1 years as of December 31, 2017.

NOTE 5 – MANAGEMENT OF OTHER NON-FINANCIAL RISKS

5.1 Operational risk

Operational risk is defined as the risk of an economic or financial loss resulting from a failure in internal processes or systems, due to either commission or omission. FONPLATA has in place, an organized and updated set of policies, procedures and practices for the administration of its operations that prevent and prepare it for inherent risks associated to its day-to-day operations. FONPLATA has an effective governance and system of internal controls, as well as ethical and reputational standards, with clear norms to ensure compliance with applicable fiduciary, environmental, and legal matters required by both of its policies and those of its member countries.

5.2 Management of strategic risks

Strategic risk – Is the risk derived from the adverse or incorrect application of decisions or the absence of responses to changes affecting development financial institutions' sector. FONPLATA has a Strategic Institutional Plan ("PEI") approved by its Board of Governors, which establishes the strategic objectives to be attained, as well as the indicators required to measure progress over time. Annually, the Board of Governors approve the Budget for the upcoming year, which contains a summary of all achievements attained in the previous fiscal year, as well as the objectives and results to be attained in the next fiscal year. FONPLATA's budget summarizes the medium-term work plan and contains results-based indicators and their related costs, which are all based on the PEI's results matrix. This ensures an adequate alignment between the long-term strategic objectives and results to be attained in the short run to move towards the attainment of those strategic objectives.

The financial statements show the compatibility and consistency between results and the strategic objectives established in institutional mission and vision in terms of the attainment of annual goals for the approval of operations and their related costs.

Non-compliance risk – Is the risk derived from violations of laws, norms, regulations, prescribed practices, and ethics policies or norms. Non-compliance risk could negatively affect the institution's reputation. FONPLATA is a self-regulated supra-national international institution that is governed by its Charter, policies and regulations. FONPLATA has an Administrative Tribunal, an Audit Committee of the Board of Executive Directors, a Legal Counsel, a Compliance Officer, and an Internal Auditor, who oversee compliance with those matters that could otherwise trigger non-compliance risks.

Reputational risk – Is the risk derived from a negative public opinion. This risk affects the capacity of an organization to establish new relationships or to maintain existing ones, directly affecting current and future revenues. This risk could expose the entity to litigation or to a financial loss or jeopardize its competitiveness. Through its Communications Area, the institution periodically monitors this risk, and the Operations Department specifically follows-up on each current financed project under implementation. To date, no evidence exists of this risk to FONPLATA.

NOTE 6 – FINANCIAL ASSETS AND LIABILITIES

This note provides information about FONPLATA’s financial instruments, including:

- A general overview of all financial instruments held by the institution.
- Specific information about each type of financial instrument.
- Accounting policies.
- Information on the determination of fair values of financial instruments, including the professional judgment used, and the uncertainties affecting those estimates.

The institution maintains the following financial assets:

	Note	Financial assets at fair value with changes in OCI \$	Financial assets at amortized cost \$	Total \$
2018				
Cash and cash equivalents	6.1	--	55,421	55,421
Investments carried at fair value with changes in OCI	6.2	22,881	--	22,881
Investments carried at amortized cost (includes interest and other investment income)	6.3	--	157,026	157,026
Loan portfolio (includes interest and other loan income)	6.4	--	801,523	801,523
Total		<u>22,881</u>	<u>1,013,970</u>	<u>1,036,851</u>
2017				
Cash and cash equivalents	6.1	--	34,092	34,092
Investments carried at fair value with changes in OCI	6.2	11,679	--	11,679
Investments carried at amortized cost (includes interest and other investment income)	6.3	--	137,700	137,700
Loan portfolio (includes interest and other loan income)	6.4	--	662,827	662,827
Total		<u>11,679</u>	<u>834,619</u>	<u>846,298</u>

The institution maintains the following financial liabilities:

	<u>Nota</u>	<u>Financial liabilities carried at amortized cost</u> \$
<u>2018</u>		
Other liabilities		539
Borrowings	6.5	79,000
Special funds	6.6	<u>10,440</u>
Total		<u><u>89,979</u></u>
<u>2017</u>		
Other liabilities		912
Borrowings	6.5	26,000
Special funds	6.6	<u>8,915</u>
Total		<u><u>35,827</u></u>

The exposure of the institution to the various risks related to financial instruments is disclosed in Note 4. The maximum exposure to credit risk at year end corresponds to the balances shown for each of the above-mentioned financial assets.

6.1 Cash and cash equivalents

Cash at banks and deposits with original maturities of up to three months, consist of:

	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Cash at banks	42,826	24,092
Time deposits	<u>12,595</u>	<u>10,000</u>
Total	<u><u>55,421</u></u>	<u><u>34,092</u></u>

(i) Classification of cash equivalents

Time deposits are considered as cash equivalents provided their original maturity is of up to three months from the time of their acquisition. Note 2.6 includes a disclosure of the cash and cash equivalents policy.

6.2. Investments at fair value with changes in other comprehensive income

Investments classified under this category, correspond to holdings of bonds issued by multilateral development institutions, consist of:

	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Bonds issued by Multilateral Development Institutions	<u>22,881</u>	<u>11,679</u>
Total	<u><u>22,881</u></u>	<u><u>11,679</u></u>

The amount recognized in “reserve for changes in the value of investments at fair value” forms part of the determination of the operating income upon disposition of the underlying investment.

As stated in Note 2.15, during 2017, FONPLATA classified these investments as “investments available for sale,” currently denominated as “investments at fair value with changes in other comprehensive income.”

(i) Investments with related parties

At December 31, 2018 and 2017, respectively, FONPLATA did not maintain investments with related parties.

(ii) Classification of investments carried at fair value with changes in other comprehensive income

Investments are designated as financial assets and carried at their respective fair value with changes in other comprehensive income when contractual cash flows are solely from principal and interest and the objective of FONPLATA’s business model for these assets is achieved both by collecting contractual cash flows and selling the underlying asset.

(iii) Impairment

See Note 2.8, for further detail regarding applicable policies for the measurement and presentation of impairment of financial assets.

(iv) Amounts recognized in the statement of Other Comprehensive Income

For the year ended December 31, 2018, FONPLATA recognized net gains in the statement of comprehensive income for the amount of \$89 (2017: \$42, net gain).

(v) Fair value, impairment and exposure to risk

Information regarding the methods and assumptions used in the determination of fair value is disclosed in Note 6.7. There are no investments carried at fair value with changes in other comprehensive income that are either matured or impaired.

All investments carried at fair value with changes in other comprehensive income have been and are denominated in U.S. dollars, which is the functional currency in which the financial statements are expressed.

6.3 Investments at amortized cost

Investments classified under this category correspond to certificates of deposit, investments in bonds and commercial paper, as follows:

	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
<u>Investments in time deposits</u> ⁽¹⁾		
Multilateral development institutions	5,000	17,686
Other financial institutions	<u>2,700</u>	<u>-,-</u>
Subtotal	<u>7,700</u>	<u>17,686</u>

	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
<u>Investments in other values</u> ⁽²⁾		
Sovereign bonds	102,357	78,110
Bonds issued by multilateral development institutions	27,495	18,070
Financial sector bonds	16,444	18,899
Argentine treasury bonds ⁽³⁾	<u>2,831</u>	<u>4,488</u>
Subtotal	<u>149,127</u>	<u>119,567</u>
Principal invested	156,827	137,253
Accrued interest and commissions	<u>199</u>	<u>447</u>
Total	<u>157,026</u>	<u>137,700</u>

(1) Investments correspond to time deposits with original maturities greater than three months.

(2) Investments include sovereign bonds issued by multilateral development institutions and commercial paper issued by other financial institutions with a risk profile falling within FONPLATA's investment risk guidelines.

(3) Corresponds to an investment in Argentinian Treasury Bonds "PAR" and "DISCOUNT", received in exchange for FONPLATA's holdings of bonds "BONTE-04" in 2005.

As stated in Note 2.15, in 2017, FONPLATA classified these investments as "investments held to maturity," which are currently denominated as "investments at amortized cost."

(i) Classification of investments carried at amortized cost

The institution classifies its investments as carried at amortized cost when financial assets are held as part of a business model whose objective can be achieved by collecting contractual cash flows, and the applicable contractual covenants of those financial assets give rise, at the specified maturities, to cash flows corresponding to repayments of principal and interest.

(ii) Impairment and exposure to risk

Argentine's bonds received as part of the Argentine's debt swap program in 2005, in exchange for FONPLATA's holdings of "BONTE – 04" bonds amount to \$2,831 (net of interest receivable in the amount of \$134), and to \$4,354 (net of interest receivable in the amount of \$134) as of December 31, 2018 and 2017, respectively. Bonds received in exchange have maturities ranging from 2033 to 2038. Impairment on these bonds is calculated based on the fair values quoted by Bloomberg for those two issuances. The amount of impairment recognized as of December 31, 2018, \$2,907 (2017: \$ 1,359). The net change in the amount of impairment corresponds to an increase in unrealized losses incurred during the year ended December 31, 2018, and amounts to \$1,548 (2017: net recovery of \$ 473).

All investments carried at amortized cost are denominated in U.S. dollars. Consequently, there is no exposure to the risk of currency exchange. Furthermore, there is no material exposure to the risk of changes in fair value of the investments due to: their overall quality (i.e. credit risk of the issuer), ii) their scheduled maturity, which by in large is lower than 12 months, and iii) their return, which is based on a variable rate.

6.4 Loan portfolio

Composition of the balance of loan portfolio outstanding, by member country, is as follows:

<u>Country</u>	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Argentina	166,815	114,395
Bolivia	234,256	169,188
Brazil	62,592	73,437
Paraguay	136,616	121,579
Uruguay	<u>199,092</u>	<u>183,368</u>
	<i>Subtotal gross loan portfolio</i>	661,967
Less: Unaccrued management fee	<u>(2,688)</u>	<u>(1,995)</u>
	<i>Subtotal loan portfolio</i>	659,972
Less: Provision for potential impairment on loans	<u>(4,103)</u>	<u>(2,885)</u>
	<i>Net loan portfolio</i>	<u>657,087</u>

Accrued loan interest receivable amounts to \$8,943 and to \$ 5,740, as of December 31, 2018 and 2017, respectively. Interest rate risk is explained in Note 4.

Based on their scheduled maturities, the gross loan portfolio is classified as follows:

<u>Maturity</u>	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Up to one year	75,998	58,505
Greater than one and up to two years	71,437	71,866
Greater than two and up to three years	66,083	61,719
Greater than three and up to four years	73,730	48,798
Greater than four and up to five years	72,742	50,502
Greater than five years	<u>439,381</u>	<u>370,577</u>
	<i>Total gross loan portfolio</i>	<u>661,967</u>

(i) Loan portfolio classification

The loan portfolio consists of amounts to be received on sovereign guaranteed loans granted to member countries. The financings conforming the loan portfolio, based on their nature and relevant terms, do not constitute derivative instruments. Collections or principal repayments are based on fixed or determinable amounts, and they do not quote on an active market. As explained in Note 11, the amount of principal repayments to be received within 12 months following year end, is classified as current, with the remaining balance classified as non-current. Notes 2.7 and 2.8, describe accounting policies used in connection with the accounting of the loan portfolio and the recognition of its impairment, respectively.

(ii) Fair value of the loan portfolio

The book value of the loan portfolio is believed to approximate its fair value. This assessment considers that future cash flows from loans approximate their stated book value.

(iii) Impairment and exposure to risk

The provision for potential impairment on loans is maintained at a level considered adequate by FONPLATA to absorb potential losses related to the loan portfolio as of the date of the financial statements.

The accrual of interest on loans is discontinued for loans balances that have been overdue for more than 180 days. The amount of loan interest accrued receivable on loans declared on non-accrual status is recognized at the time of collection until such date when those loans are in accrual status. Accrual status requires the borrower to pay in-full, the amount of principal and interest or commissions in arrears, as well as the assurance that the borrowing member country has resolved the financial difficulties that caused it to fall behind on meeting its obligations on a timely basis.

FONPLATA did not have nor it currently has loans balances in non-accrual status. Nonetheless, and consistent with its enterprise-wide risk management policy, FONPLATA accounts for a provision to reflect the potential impairment on its loan portfolio.

Moreover, FONPLATA maintains policies on risk exposures to avoid concentrating its lending on one country only, which could be affected by market conditions or other circumstances. In this regard, FONPLATA uses certain measurements or indicators, such as: net equity and total loan portfolio. FONPLATA reviews the status of its loan portfolio, on a quarterly basis, to identify potential impairments affecting its collectability, in full or in part. Information about the overall credit quality of the loan portfolio, its exposure to credit risk, currency exchange and interest risk is disclosed Note 4.

6.5 Borrowings

The outstanding balance of borrowings contracted by FONPLATA to finance disbursements on its approved loans to its member countries is as follows:

	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Inter-American Development Bank ⁽³⁾	28,000	--
Time deposits with Central Banks ⁽²⁾	30,000	10,000
Corporacion Andina de Fomento ⁽¹⁾	16,000	16,000
French Development Agency ⁽⁴⁾	5,000	--
Total	<u>79,000</u>	<u>26,000</u>

In March 2018, FONPLATA’s Board of Executive Directors updated its financial policies through RDE 1409. Among the changes introduced, are: the methodology to compute the available lending capacity using a multiple of three times the value of Net Equity and the methodology to compute the level of indebtedness based on the sum of liquid assets plus two times the value of Net Equity.

FONPLATA has designed its borrowing and financial programming strategies with the objective of diversifying its funding sources and obtaining the best average cost possible based on its credit risk rating and its preferred creditor status.

(1) As part of the framework contract signed with “Corporacion Andina de Fomento – CAF” on November 14, 2016, FONPLATA has at its disposal an uncommitted line of credit for up to \$75,000. On December 19, 2016, FONPLATA received \$16,000 and allocated them to the financing loan disbursements. The applicable terms for this financing are based on the 6-month Libor rate plus a margin. This loan calls for a 5-year maturity, with a 2-year grace period. Loan principal is repayable in 6 semiannual equal and consecutive installments including interest, beginning June 19, 2019, and ending December 16, 2021.

- (2) FONPLATA entered into an agreement with the Central Banks of its member countries to accept deposits in the form of medium-term certificates denominated in United States dollars. In February 2017, FONPLATA materialized the first operation of this kind with the Central Bank of Bolivia, in the amount of \$10,000. On May 15, 2018, FONPLATA accepted a \$30,000 deposit, in the form of a letter of credit maturing in 3 years.
- (3) On December 1, 2017, FONPLATA subscribed a financing agreement in the amount of \$100,000 with the Inter-American Development Bank (IDB). This borrowing is based on the 3-month Libor rate and provides for a 5-year disbursement period, a 5 ½ grace period and a 25-year repayment period. The terms of this borrowing agreement, which entered into force upon its signature, provides for the recognition of eligible project expenditures for an amount of up to \$20,000, covering project expenditures incurred from June 15 and November 15, 2017. Furthermore, with the purpose of optimizing cash flows under this line of credit, both parties agreed that FONPLATA could make disbursements on eligible loans and that the IDB would reimburse FONPLATA those amounts under the modality of reimbursement of expenditures. Hence, monies drawn-down from the IDB under this line of credit can be used by FONPLATA as it sees fit. During the first half of 2018, FONPLATA has received \$28,000 under this line of credit (2017: \$0).

The following chart provides a detail account of the eligible loans under the line of credit agreed with the IDB, the total amount to be financed for each eligible loan, the amount disbursed to date and their respective undisbursed balance:

Loan	At December 31, 2018			
	IDB			To be financed by FONPLATA
	Eligible financing amount	Disbursed	Undisbursed	
\$	\$	\$	\$	
ARG-26/2016 Modernización	750	750	--	6,750
ARG-28/2016 Compl. Fronterizos	10,000	2,000	8,000	10,000
ARG-31/2016 BICE 1ª Etapa	8,000	8,000	--	12,000
ARG-32/2016 Aristóbulo del Valle	1,021	--	1,021	31,979
ARG-35/2017 Infraestructura para la Int	11,500	--	11,500	10,700
BRA-16/2014 Corumba	10,000	3,490	6,510	30,000
PAR-20/2015 Integración	13,760	13,760	--	56,240
PAR-25/2018 Rutas Jesuíticas	12,000	--	12,000	--
Total	<u>67,031</u>	<u>28,000</u>	<u>39,031</u>	<u>157,669</u>

- (4) On December 13, 2017, FONPLATA entered into a contract with the French Development Agency to borrow up to \$20,000 with a 15-year maturity at the 6-month Libor rate plus a margin. On October 20, 2018, FONPLATA drew-down \$5,000 against this line of credit and used them to finance disbursements on its loan BOL – 28/2016 “Cosechando”, with an approved amount of \$10,000.

Furthermore, on July 6, 2018, FONPLATA signed a credit line with the European Investment Bank (EIB), in the amount of \$60,000. No disbursements towards this financing have been drawn-down as of the date of issuance of these interim financial statements.

Borrowings outstanding classified based on their scheduled maturities are as follows:

<u>Maturities</u>	At December 31,	
	<u>2018</u>	<u>2017</u>
	\$	\$
Up to one year	5,333	10,000
More than one and up to two years	5,333	5,333
More than two and up to three years	35,334	5,333
More than three and up to four years	227	5,334
More than four and up to five years	1,855	-.-
More than five years	30,918	-.-
Total	<u>79,000</u>	<u>26,000</u>

(i) Fair value of borrowings

It is estimated that the book value of borrowings approximates its fair value since future cash flows to be paid are very similar to the recorded amount for the borrowing.

(ii) Risk exposure

Notes 4 and 5 provides information regarding the risk exposure associated to borrowings.

6.6 Special funds

The balance maintained with special funds by FONPLATA as of December 31, 2018 and 2017, respectively, includes the following:

	At December 31,	
	<u>2018</u>	<u>2017</u>
	\$	\$
<u>FOCOM:</u>		
Investments managed by FONPLATA	5,681	5,232
Return on investments due to FOCOM	73	44
Cash at bank	181	103
<i>Subtotal FOCOM</i>	<u>5,935</u>	<u>5,379</u>
<u>PCT:</u>		
Investments managed by FONPLATA	3,141	2,641
Return on investments due to PCT	40	23
Cash at bank	273	179
<i>Subtotal PCT</i>	<u>3,454</u>	<u>2,843</u>
<u>PAC</u>		
Investments managed by FONPLATA	87	-.-
Accrued benefits, net	876	411
Cash at banks	88	282
<i>Subtotal PAC</i>	<u>1,051</u>	<u>693</u>
<i>Total Special Funds</i>	<u>10,440</u>	<u>8,915</u>

FONPLATA's Board of Governors can create special funds for specific purposes. Special funds are considered as separate and independent legal entities from FONPLATA, which are directly controlled by the member countries through the Board of Governors. Consequently, the balances held under those funds do not need to be consolidated by FONPLATA.

Special funds are funded through distribution of retained earnings maintained in the general reserve. In 2014, the Board of Governors created and funded the following special funds:

- a. "Fund for the Compensation of the Operating Margin (FOCOM)": This fund pursues the objective of helping to reduce the financial cost incurred by Bolivia, Paraguay y Uruguay on their loans with FONPLATA, through the payment of a portion of the interest to be paid semiannually by these borrowing member countries. The payment of the part of the interest accrued on loans by FOCOM on behalf of the borrowers is contingent and determined annually. In May 2014, the Board of Governors assigned as a contribution to this fund, the amount of \$5,510, from retained earnings as of December 31, 2013. On August 28, 2018, the Assembly of Governors approved the allocation of retained earnings as of December 31, 2017, including a contribution of \$1,000 to the FOCOM.
- b. "Technical Cooperation Program (PCT)": This fund was created through the restructuring and transfer of resources from the "Fondo para Desarrollo de Proyecto de Integración Regional" (FONDEPRO), to the PCT. The PCT pursues the purpose of fostering regional development and integration, through financing studies, technical knowledge exchange programs, and other initiatives that form an integral part of FONPLATA's strategic focus. On August 28, 2018, the Assembly of Governors approved the allocation of retained earnings as of December 31, 2017, including a contribution of \$1,000 to the PCT.
- c. "Joint Savings Program (PAC)": As stated in Note 2.13, "Other benefits to employees" on August 14, 2018, the Board of Executive Directors approved the PAC, which became effective, on November 1, 2018, and has a validity of eight years counted from the first day of employment of a participant. The PAC preserves the severance payment Benefit, upon termination of employment, and improves it by adding a supplemental contribution based on one-to-one matching of the voluntary amount of savings to be contributed by participating employees.

Participant's contributions are optional and those employees who opt-out would only receive the severance payment benefit, upon termination of employment. Participant's voluntary savings contributions are limited to either a maximum of one month of salary for year of service (8.33%) or to a minimum of one-half month of salary for year of service (4.17%).

Participant's election of the percentage of voluntary savings contributions is performed annually prior to the beginning of each fiscal year. The PAC has a validity of eight years, counted since the date of employment of each participant. Furthermore, and as an incentive to foster personnel retention, the PAC provides for a vesting period of four years. Upon termination of employment, participants are entitled to withdraw from the PAC the totality of their severance payment benefit; their voluntary savings contributions plus accumulated investment earnings, and the accumulated matching contributions made by FONPLATA on participant's voluntary savings contributions plus accumulated investment earnings.

During the vesting period, FONPLATA applies a withholding percentage reducing the amount available for withdrawal upon termination, for those participants who have less than four years of service. The withholding only applies to the amount of matching contributions to be made by FONPLATA and to the investment income accrued on them. Applicable withholding percentages are: 75% during the first year; 50% during the second year; 25% during the third year; and 0% at the end of the fourth year, when the participant employee reaches full eligibility to withdraw the totality of funds accumulated in his/her PAC account upon termination of employment.

The following table provides a break-down of funds accumulated and total available PAC funds as of December 31, 2018, as well as the amount of severance payment available as of December 31, 2017:

	Severance payment contributions	Participants' voluntary savings contributions	FONPLATA's matching contributions on voluntary saving	Accumulated total	Total amount available for termination as of December 31, 2018	Deferred amount
	\$	\$	\$	\$	\$	\$
<u>Balance as of December 31, 2017</u>	819	--	--	819	819	--
Severance payment contributions	307	--	--	307	307	--
Participants' voluntary savings contributions	--	36	--	36	36	--
Additional participant's saving contributions	--	15	--	15	15	--
Matching contribution on voluntary savings	--	--	36	36	26	10
Withdrawals	(60)	--	--	(60)	(60)	--
Total accumulated benefits	1,066	51	36	1,153	1,143	10
Loans to FONPLATA's personnel	(102)	--	--	(102)	(102)	--
Balance owed to the PAC	964	51	36	1,051	1,041	10

Special funds' assets and liabilities are managed by FONPLATA independently from the management of its own affairs and their liquid funds are invested in accordance with FONPLATA's investment policies and all applicable guidelines. Accrued investment income attributable to each fund is calculated pro-rata based on the proportion that the amount of liquid assets of each fund bears relative to the total portfolio of liquid assets invested by FONPLATA, multiplied by the aggregate investment return accrued during the year. Investments managed by FONPLATA on behalf of special funds, as well as the related returns, is accounted for through accounts maintained with each special fund.

6.7 Recognition and measurement of fair value

This note includes information about judgments and estimates used in the determination of fair values of financial instruments in the financial statements.

Determination of fair values attributable to investment assets is made by obtaining values in accordance with the three levels described in the accounting standards. An explanation for each of these three levels follows:

	Note	Level 1 \$	Level 2 \$	Level 3 \$
<u>2018</u>				
Investments carried at market value with effect in OCI	6.2	<u>22,881</u>	<u>--</u>	<u>--</u>
<u>2017</u>				
Investments carried at market value with effect in OCI	6.2	<u>11,679</u>	<u>--</u>	<u>--</u>

During the fiscal year FONPLATA did not have holdings of financial instruments requiring valuation at fair value in accordance with the fair value measurement methodologies prescribed under either level 2 or 3. Should changes in the methodology of obtaining applicable fair values for financial investment instruments exist, it is FONPLATA's policy to recognize the effect from such changes.

- Level 1: Fair value of financial instruments transacted in an active market (such as investments carried at fair value), are based on prevailing quoted market prices at year end. The market price used for financial assets held by the institution is the quoted market price. These instruments are included under level 1.
- Level 2: Fair value of financial instruments not quoting in an active market is determined through valuation techniques, using as much as possible reliable and observable market information. If all information required

to determine the applicable fair value for a financial instrument is observable information, then such instrument is classified under level 2. The institution does not have financial instruments classified under this category.

- Level 3: If the information considered either significant or relevant for the determination of fair values cannot be obtained by reference to market sources, then the financial instrument is classified under level 3. The institution does not have financial instruments classified under this category.

NOTE 7 – NON-FINANCIAL ASSETS AND LIABILITIES

This note provides information about non-financial assets and liabilities of the institution, including:

- Specific information of each type of non-financial asset and liability.
- Accounting policies used.
- Information about the determination of fair values attributable to those assets and liabilities, including professional judgments used and the uncertainties of the estimates applied.

7.1 Property and equipment, net

The composition of property and equipment includes the following:

	<u>Property</u> ₡	<u>Equipment and Furniture</u> ₡	<u>Art</u> ₡	<u>Vehicles</u> ₡	<u>Total</u> ₡
<u>Book value</u>					
Balance as of December 31, 2016	2,100	1,344	8	49	3,501
Additions	1,813	161	37	--	2,011
Write-offs	--	(6)	--	--	(6)
Assets in transit	--	194	--	--	194
Balance as of December 31, 2017	3,913	1,693	45	49	5,700
Additions	101	164			270
Revaluation of buildings	812	--	--	--	812
Write-offs	--	(2)	--	--	(2)
Write-offs of assets in transit	--	(194)	--	--	(194)
Balance as of December 31, 2018	4,826	1,661	50	49	6,586
<u>Cumulative depreciation</u>					
Balance as of December 31, 2016	--	285	--	25	310
Depreciation	82	147	--	5	234
Write-offs	--	(5)	--	--	(5)
Balance as of December 31, 2017	82	427	--	30	539
Depreciation	99	154	--	5	258
Write-offs	--	(2)	--	--	(2)
Balance as of December 31, 2018	181	579	--	35	795
<u>Net book value as of December 31, 2018</u>	4,645	1,082	50	14	5,791
<u>Net book value as of December 31, 2017</u>	3,831	1,266	45	19	5,161

On November 13, 2018, FONPLATA's Board of Executive Directors approved the Administration's accountability report detailing the use of funds approved in 2013 for the acquisition, equipment and furnishing of the FONPLATA's headquarter offices, in the city of Santa Cruz de la Sierra, Estado Plurinacional de Bolivia. On

November 30, 2018, and acting upon the recommendation of the Board of Executive Directors, the Assembly of Governors approved the Administration’s accountability report, which includes an authorization to complete pending retrofitting and furnishing tasks in the amount of \$137, as well as the use of remaining capital budget surplus of \$31,9, to supplement the investment approved for investments in information technology for 2019, in the amount of \$617,2.

The net book value of offices, parking and storage spaces conforming FONPLATA’s headquarters as of December 31, 2018, was increased in the amount of \$812, in accordance with its fair value based on an independent appraisal as of that date. This revaluation resulted into the recognition of a revaluation reserve in other comprehensive income. The amount of the revaluation reserve will be adjusted based on changes in the subsequent revaluation of property.

(ii) Depreciation methods, revaluation and useful lives

Property is recognized at its fair value based on periodic independent appraisals net of depreciation. Other assets included under this caption are carried at their historical cost net of cumulative depreciation.

Depreciation is calculated using the straight-line method either on the historical cost or on the revalued amount and based on the estimated useful live the asset. Applicable useful lives for the assets, are as follows:

Asset	Useful Live
Property:	
Land	Not amortized
Buildings	The lesser of 40 years or the value of the assessment
Furniture and equipment:	
Improvements on leased property	Over lease contract
Furniture and equipment	8 to 10 years
Computer equipment and software	4 years
Vehicles	5 years
Art	Not amortized

Note 2.9 contains additional information on accounting policies applicable to property and equipment.

(iii) Net book value that would have been recognized had property been valued at cost

Had the value of property been determined at historical cost, the carrying amount of property would have been as follows:

	<u>At December 31,</u>	
	2018	2017
	\$	\$
Cost	4,014	3,913
Accumulated depreciation	<u>(181)</u>	<u>(82)</u>
Total	<u>3,833</u>	<u>3,831</u>

7.2 – Miscellaneous

This caption includes small balances owed to FONPLATA, resulting from advances to suppliers, expenses paid in advance, deferred expenses, guarantee deposit for the liaisons offices located in Asunción, Paraguay. As of December 31, 2018, the total amount of miscellaneous receivables amounts to \$252 (2017 - \$143).

NOTE 8 – NET EQUITY

8.1. Capital

On January 28, 2016, FONPLATA's 14th Extraordinary Governors' Assembly approved a new capital increase in the amount of \$1,375,000, raising the authorized from \$1,639,200 to \$3,014,200. As of December 31, 2018, all member countries had fully subscribed their callable capital commitments.

The new capital increase became effective in 2017 with the subscription by all member countries of their respective installments of paid-in capital in the amount of \$550,000 and their commitment of the totality of their respective portion of callable capital in the amount of \$825,000. Paid-in capital subscriptions would be made effective in eight annual installments commencing in 2018 and through 2024. Upon completion of the integration process paid-in capital would amount to \$1,349,200. Callable capital in the amount of \$1,665,000, was subscribed and committed in its totality as of December 31, 2017. Payment of subscribed and committed callable capital will proceed when required and based on FONPLATA's Governors' approval should FONPLATA be unable to comply with its financial obligations and commitments using its own resources.

Composition of FONPLATA's capital by member country as of December 31, 2018 and 2017, is as follows:

At December 31, 2018:

<u>Member Countryⁱ</u>	<u>Subscribed Capital</u>		<u>Authorized Capital</u>		<u>Total</u>	<u>%</u>
	<u>Paid-in</u>	<u>Callable</u>	<u>Paid-in</u>	<u>Callable</u>		
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
• Argentina	449,744	555,014	449,744	555,014	1,004,758	33.3%
• Bolivia	149,904	184,991	149,904	184,991	334,895	11.1%
• Brazil	449,744	555,014	449,744	555,014	1,004,758	33.3%
• Paraguay	149,904	184,991	149,904	184,991	334,895	11.1%
• Uruguay	<u>149,904</u>	<u>184,990</u>	<u>149,904</u>	<u>184,990</u>	<u>334,894</u>	<u>11.1%</u>
	<u>1,349,200</u>	<u>1,665,000</u>	<u>1,349,200</u>	<u>1,665,000</u>	<u>3,014,200</u>	<u>100.0%</u>

At December 31, 2017:

<u>Member Countryⁱ</u>	<u>Subscribed Capital</u>		<u>Authorized Capital</u>		<u>Total</u>	<u>%</u>
	<u>Paid-in</u>	<u>Callable</u>	<u>Paid-in</u>	<u>Callable</u>		
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
• Argentina	449,744	555,014	449,744	555,014	1,004,758	33.3%
• Bolivia	149,904	184,991	149,904	184,991	334,895	11.1%
• Brazil	449,744	555,014	449,744	555,014	1,004,758	33.3%
• Paraguay	149,904	184,991	149,904	184,991	334,895	11.1%
• Uruguay	<u>149,904</u>	<u>184,990</u>	<u>149,904</u>	<u>184,990</u>	<u>334,894</u>	<u>11.1%</u>
	<u>1,349,200</u>	<u>1,665,000</u>	<u>1,349,200</u>	<u>1,665,000</u>	<u>3,014,200</u>	<u>100.0%</u>

The following table provides detailed information on the amount of paid-in capital subscribed and pending subscription, including the new capital increase, as well as the amount of callable capital subscribed, committed and pending commitment as of December 31, 2018, and 2017, respectively:

At December 31, 2018:

<u>Member Country</u>	<u>Subscribed Paid-in Capital</u>		<u>Total</u> ⁱ
	<u>Paid-in</u> ⁱ	<u>Receivable</u> ⁱ	
	\$	\$	\$
• Argentina	275,576	174,168	449,744
• Bolivia	91,849	58,055	149,904
• Brazil	266,410	183,334	449,744
• Paraguay	91,849	58,055	149,904
• Uruguay	91,849	58,055	149,904
Total	<u>817,533</u>	<u>531,667</u>	<u>1,349,200</u>

At December 31, 2017:

<u>Member Country</u>	<u>Subscribed Paid-in Capital</u>		<u>Total</u> ⁱ
	<u>Paid-in</u> ⁱ	<u>Receivable</u> ⁱ	
	\$	\$	\$
Argentina	243,077	206,667	449,744
Bolivia	81,015	68,889	149,904
Brazil	219,744	230,000	449,744
Paraguay	81,015	68,889	149,904
Uruguay	81,015	68,889	149,904
Total	<u>705,866</u>	<u>643,334</u>	<u>1,349,200</u>

At December 31, 2018:

<u>Member Country</u>	<u>Subscribed Callable Capital</u>		<u>Total</u> ⁱ
	<u>Committed</u> ⁱ	<u>Uncommitted</u> ⁱ	
	\$	\$	\$
Argentina	555,014	--	555,014
Bolivia	184,991	--	184,991
Brazil	555,014	--	555,014
Paraguay	184,991	--	184,991
Uruguay	184,990	--	184,990
Total	<u>1,665,000</u>	<u>--</u>	<u>1,665,000</u>

At December 31, 2017:

<u>Member Country</u>	<u>Subscribed Callable Capital</u>		<u>Total</u> ⁱ
	<u>Committed</u> ⁱ	<u>Uncommitted</u> ⁱ	
	\$	\$	\$
Argentina	501,678	53,336	555,014
Bolivia	167,216	17,775	184,991
Brazil	555,014	--	555,014
Paraguay	184,991	--	184,991
Uruguay	184,990	--	184,990
Total	<u>1,593,889</u>	<u>71,111</u>	<u>1,665,000</u>

ⁱ Subtotals may differ from totals due to rounding into thousands.

8.2. Other reserves

Other reserves as of December 31, 2018, amount to \$938, and consist of: i) Reserves on investments at fair value with changes in other comprehensive income in the amount of \$126, and ii) Reserves resulting from the revaluation of property in the amount of \$812 ((2017: \$37 resulting from reserves on investments at fair value with changes in other comprehensive income).

8.3. Retained earnings and general reserve

Retained earnings as of December 31, 2018, amount to \$26,572, and correspond in its entirety to net income for the year (2017 –\$20,131).

FONPLATA's policies provide that Unappropriated Retained Earnings are to be used to finance the preservation of the value of its equity over time and to also finance the Fund for the Compensation of the Operating Return (FOCOM), and the Technical Cooperation Program (PCT). Accordingly, on August 29, 2018, the Assembly of Governors, in its 17th meeting, acted upon the recommendation of the Board of Executive Directors and approved the allocation of unappropriated retained earnings as of December 31, 2017, as follows: to the general reserve, the amount of \$18,131; to the FOCOM, the amount of \$1,000; and to the PCT, the amount of \$1,000.

The amount of the General Reserve at December 31, 2018 and 2017, respectively is as follows:

	<u>General Reserve</u> \$
Balance as of December 31, 2017	<u>89,740</u>
Allocation approved by the Assembly of Governors 2018:	
Net income	<u>18,131</u>
Balance as of December 31, 2018	<u><u>107,871</u></u>

NOTE 9 - REVENUES

The composition of net income is as follows:

	At December 31,	
	2018	2017
	\$	\$
Loan income:		
Interest	31,667	21,407
Commitment fee	3,013	2,263
Administrative fee	1,477	1,109
Other	-	273
Subtotal	<u><u>36,157</u></u>	<u><u>25,052</u></u>

	At December 31,	
	2018	2017
	\$	\$
Investment income:		
Interest	4,018	2,246
Other	128	117
Sub total	<u>4,146</u>	<u>2,363</u>
Other income	<u>69</u>	<u>89</u>
Total Income	<u><u>40,372</u></u>	<u><u>27,504</u></u>

NOTA 10 – ADMINISTRATIVE EXPENSES

Since 2013, FONPLATA has adopted a result-based budgeting system, including performance indicators allowing the measurement of results attained and their related cost. The system matches governance, operating and financial goals with the activities required to reach them and the resources required. During the years ended as of December 31, 2018 and 2017, respectively, FONPLATA reached a percentage of execution of its administrative budget equivalent to 83% and 95%, respectively. The break-down of administrative expenditures by functional activity is as follows:

	At December 31,	
	2018	2017
	\$	\$
<u>Classification of expenses</u>		
Personnel expenses	5,687	4,720
Business travel expenses	700	507
Professional services	526	454
Credit risk rating	63	129
External auditors	55	57
Administrative expenses	1,019	1,051
Financial expenses	<u>129</u>	<u>134</u>
<i>Total administrative budget</i>	<u>8,179</u>	<u>7,052</u>
Depreciation	258	234
Unrealized losses/(gains) due to changes in provision of Argentine bonds	1,548	(473)
Exchange differences	(50)	(15)
Loss on fixed-assets withdrawals	<u>2</u>	<u>1</u>
<i>Total administrative expenses</i>	<u><u>9,937</u></u>	<u><u>6,799</u></u>

NOTE 11 – SCHEDULED MATURITY OF ASSETS AND LIABILITIES

The following tables provide an analysis of the expected time elapsed to maturity of assets and liabilities as of December 31, 2018, and 2017, respectively, based on their respective recovery or settlement date:

	<u>Current</u> <u>(Up to 1</u> <u>year)</u> \$	<u>Non-Current</u> <u>(More than 1</u> <u>year)</u> \$	<u>Total</u> \$
<u>As of December 31, 2018</u>			
<u>ASSETS</u>			
Cash and cash equivalents	55,421	--	55,421
Investments			
At fair value	22,881	--	22,881
At amortized cost	153,996	2,831	156,827
Loan portfolio			
Outstanding loans	75,998	716,582	792,580
Interest and other accrued charges			
On investments	199	--	199
Interest and commissions on loans	8,943	--	8,943
Other assets			
Property and equipment, net	--	5,791	5,791
Miscellaneous	218	34	252
Total assets	<u>317,656</u>	<u>725,238</u>	<u>1,042,894</u>
<u>LIABILITIES</u>			
Borrowings	5,333	73,667	79,000
Other liabilities	539	--	539
Special funds	2,071	8,369	10,440
Total liabilities	<u>7,943</u>	<u>82,036</u>	<u>89,979</u>
<u>At December 31, 2017</u>			
<u>ASSETS</u>			
Cash and cash equivalents	34,092	--	34,092
Investments			
At fair value	11,679	--	11,679
At amortized cost	132,765	4,488	137,253
Loan portfolio			
Outstanding loans	58,505	598,582	657,087
Interest and other accrued charges			
On investments	447	--	447
Interest and commissions on loans	5,740	--	5,740
Other assets			
Property and equipment, net	--	5,161	5,161
Miscellaneous	110	33	143
Total assets	<u>243,338</u>	<u>608,264</u>	<u>851,602</u>
<u>LIABILITIES</u>			
Borrowings	10,000	16,000	26,000
Other liabilities	912	--	912
Special funds	8,222	693	8,915
Total liabilities	<u>19,134</u>	<u>16,693</u>	<u>35,827</u>

NOTE 12 – IMMUNITIES, EXEMPTIONS AND PRIVILEGES

As stated in the Fund’s “Agreement of Immunities, Exemptions and Privileges of the Fund for the development of the River Plate Basin Territory,” an international legal instrument duly ratified by its five Member Countries, FONPLATA can hold resources on any currency, paper, shares, equities and bonds, and can freely transfer them from one country to the other and from one place to the other within the territory of any country and convert them into other currencies

Furthermore, the Agreement establishes that FONPLATA and its assets are exempt, within the territory of its Member Countries, of any direct taxes and custom duties with respect either imported or exported goods for official use. The Agreement also indicates that in principle, the Fund would not claim the exemption of consumption, sales taxes and other indirect taxes. However, Member Countries commit, to the extent possible, to apply all administrative provisions that might be available to exempt or reimburse FONPLATA for such taxes, in connection with official purchases involving large amounts when such taxes are included in the price paid.

Complementary, both the Agreement on Immunities, Exemptions and Privileges as well as the Treaties signed by the Fund with the Bolivian State and with the Republic of Paraguay, establish that FONPLATA’s properties, goods and assets are exempt from all taxes, contributions and charges, at the national, departmental, municipal or of any other type.

NOTE 13 – SEGMENT INFORMATION

(a) Segment description

Based on an analysis of its operations, FONPLATA determined that it only has an operational segment. This determination recognizes that FONPLATA does not manage its operations allocating resources among operations measuring the contribution of those individual operations to the Fund’s net income. FONPLATA does not distinguish between the nature of loans or the services rendered, their preparation process or the method followed in the preparation of loans and services rendered to its member countries. All operations are performed at FONPLATA’s headquarters and the Fund does undertake operational activities at other geographical locations. FONPLATA’s operations consist of granting financing to the countries conforming the River Plate Basin, which are considered as segments for purposes of this disclosure: Argentina, Bolivia, Brazil, Paraguay and Uruguay.

(b) Assets by segment

Composition of the loan portfolio by country is as follows:

	<u>Gross</u> <u>portfolio</u>	<u>Unaccrued</u> <u>commissions</u>	<u>Impairment</u>	<u>Loan portfolio</u>	<u>Interest and</u> <u>commissions</u> <u>receivable</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
As of December 31, 2018:						
Argentina	166,815	(955)	(1,853)	164,007	1,915	165,922
Bolivia	234,256	(772)	(1,165)	232,319	3,174	235,493
Brazil	62,592	(195)	(311)	62,086	798	62,884
Paraguay	136,616	(664)	(429)	135,523	1,500	137,023
Uruguay	199,092	(102)	(345)	198,645	1,556	200,201
Total	<u>799,371</u>	<u>(2,688)</u>	<u>(4,103)</u>	<u>792,580</u>	<u>8,943</u>	<u>801,523</u>

	<u>Gross portfolio</u>	<u>Unaccrued commissions</u>	<u>Impairment</u>	<u>Loan portfolio</u>	<u>Interest and commissions receivable</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
As of December 31, 2017:						
Argentina	114,395	(722)	(1,140)	112,533	1,489	114,022
Bolivia	169,188	(4)	(772)	168,412	1,822	170,233
Brazil	73,437	(259)	(335)	72,843	730	73,573
Paraguay	121,579	(546)	(348)	120,685	813	121,498
Uruguay	183,368	(464)	(290)	182,614	886	183,501
Total	<u>661,967</u>	<u>(1,995)</u>	<u>(2,885)</u>	<u>657,087</u>	<u>5,740</u>	<u>662,827</u>

Composition of the gross loan portfolio by country and its distribution by industry segment is as follows:

	<u>Communication, transportation, energy and logistics infrastructure</u>	<u>Infrastructure for productive development</u>	<u>Infrastructure for socio-economic development</u>	<u>Total</u>
	\$	\$	\$	\$
As of December 31, 2018:				
Argentina	51,267	66,005	49,543	166,815
Bolivia	186,001	--	48,254	234,255
Brazil	23,835	--	38,757	62,592
Paraguay	126,048	10,568	--	136,616
Uruguay	190,082	--	9,011	199,093
Total	<u>577,233</u>	<u>76,573</u>	<u>145,565</u>	<u>799,371</u>
As of December 31, 2017:				
Argentina	38,637	30,284	45,474	114,395
Bolivia	155,788	--	13,400	169,188
Brazil	26,685	--	46,752	73,437
Paraguay	115,483	6,096	--	121,579
Uruguay	180,155	--	3,213	183,368
Total	<u>516,748</u>	<u>36,380</u>	<u>108,839</u>	<u>661,967</u>

Undisbursed loan balances on loans under execution and its break-down by country are as follows:

	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Argentina	264,843	256,286
Bolivia	107,832	180,451
Brazil	136,334	35,373
Paraguay	169,099	64,414
Uruguay	22,690	45,435
Total	<u>700,798</u>	<u>581,959</u>

Furthermore, loans approved by FONPLATA but not yet effectively disbursing due to either their respective contracts no having been signed or ratified by the member country's Legislative Power, are as follows:

	<u>At December 31,</u>	
	<u>2018</u>	<u>2017</u>
	\$	\$
Argentina	98,064	67,200
Bolivia	65,000	10,000
Brazil	51,950	141,950
Paraguay	82,000	128,518
Uruguay	110,535	-.-
<i>Total</i>	<u>407,549</u>	<u>347,668</u>

The average return on loans is as follows:

	<u>Years ended on December 31,</u>			
	<u>2018</u>		<u>2017</u>	
	<u>Average balance</u>	<u>Average return</u>	<u>Average balance</u>	<u>Average return</u>
	\$	%	\$	%
Loan portfolio	730,669	4.95%	602,861	4.16%

(c) Segment revenues

Interest and other revenues by segment are as follows:

	<u>Loan revenues</u>	<u>Other operating revenues</u>	<u>Total</u>
	\$	\$	\$
As of December 31, 2018:			
Argentina	6,095	1,772	7,867
Bolivia	8,588	1,060	9,648
Brazil	3,364	240	3,604
Paraguay	5,391	898	6,289
Uruguay	8,229	520	8,749
<i>Total</i>	<u>31,667</u>	<u>4,490</u>	<u>36,157</u>
As of December 31, 2017:			
Argentina	3,591	1,146	4,737
Bolivia	5,511	917	6,428
Brazil	3,184	173	3,357
Paraguay	3,491	766	4,257
Uruguay	5,630	643	6,273
<i>Total</i>	<u>21,407</u>	<u>3,645</u>	<u>25,052</u>

NOTE 14 – RELATED PARTIES

As indicated in Notes 1 and 6.4, FONPLATA only grants financings to its five borrowing member countries, who are also the owners and shareholders of the Fund. All lending operations are entered in full compliance with the policies and guidelines approved by the Board of Governors, the Board of Executive Directors or the Executive President, as required. Consequently, FONPLATA does not have transactions with its member countries in other terms than those established in its policies and guidelines.

The balances and transactions maintained with related entities as of December 31, 2018, and 2017, respectively, correspond to the balances maintained with the FOCOM; PCT; and the PAC, as explained in further detail in notes 2.12, 2.13 and 6.6, respectively.

NOTE 15 – CONTINGENCIES

No contingencies have been identified, that could materially affect FONPLATA's financial statements as of December 31, 2018 and as of December 31, 2017, respectively.

NOTE 16 – SUBSEQUENT EVENTS

On January 21, 2019, SIX Exchange Regulation Ltd (the Swiss capital markets regulator), granted FONPLATA with a one year provisional approval to issue bonds in the Swiss capital market. FONPLATA's final approval as issuer in the Swiss capital markets requires approval of the regulator's board of directors. On February 11, 2019, FONPLATA successfully formalized the indicative terms and conditions applicable to the issuance with its underwriter's, Credit Suisse & UBS, for the issuance of fixed-interest bonds denominated in Swiss Francs in the amount of CHF 150 million, with a tenor of 5 years an annual coupon of 0.578%.

As of December 31, 2018, and through February 18, 2019, no subsequent events have materialized that may materially affect FONPLATA's financial statements.

Juan E. Notaro Fraga
EXECUTIVE PRESIDENT

Antonio Mullisaca
PRESIDENT OF THE BOARD OF EXECUTIVE DIRECTORS

Jaqueline Koehnke Ferrufino
CHIEF ACCOUNTANT

Rafael Robles
MANAGER FINANCE AND ADMINISTRATION