



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
as of December 31, 2017**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are one of the largest financial services group in Honduras and through our subsidiaries, we provide a comprehensive range of corporate and retail banking, insurance and other financial services to over 3.2 million clients as of December 31, 2017. We were acknowledged as a financial holding company by the CNBS in 2012, and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from significant synergies because of being part of one financial group.

Our operations in Honduras include Banco Atlántida and Seguros Atlántida, the largest bank and insurance companies in Honduras in terms of assets, respectively. In addition, Banco Atlántida and Seguros Atlántida rank among the most profitable entities in the Honduran banking and insurance systems, according to the CNBS. Banco Atlántida holds a distinguished position in the local marketplace in terms of total net assets, total net loans and total deposits, with market shares of 18.0%, 18.4% and 20.0%, respectively, as of December 31, 2017, according to the CNBS. Furthermore, Seguros Atlántida ranks second in terms of total gross premiums written, with a market share of 15.0% and 16.9% for the years ended December 31, 2017 and 2016, respectively, according to the CNBS. For the twelve months ended December 31, 2017 and 2016, Banco Atlántida had a ROAE of 11.3% and 12.6%, respectively, compared to the Honduran banking system which had a ROAE of 12.5% and 14.6%, respectively, according to the CNBS. For the twelve months ended December 31, 2017 and 2016, Seguros Atlántida had a ROAE of 34.2% and 28.9%, respectively. As of December 31, 2017, Banco Atlántida had one of the largest banking distribution networks in Honduras, with 1,991 points of service, comprised of 128 branches, 943 ATMs (including 274 proprietary ATMs and 669 third-party network ATMs) and 896 non-correspondent banking agents (third-party points of service).

Effects of changes in interest rates

- Changes in interest rates affect the following areas of our business, among others:
- financial margin;
- volume of loans originated;
- market value of our financial assets; and
- gains or losses from sales of loans and securities.

Increases in short-term interest rates could reduce our financial margin, which comprises most of our revenue. A significant portion of our subsidiaries' assets, including loans, are long-term assets. In contrast, most deposits are short-term. When interest rates increase, Banco Atlántida must pay higher interest on deposits while interest earned on assets does not increase as rapidly, which causes profits to decrease. Interest rate increases could result in adverse changes in our financial margin, reducing our growth rate or even resulting in decreases as compared to prior periods.

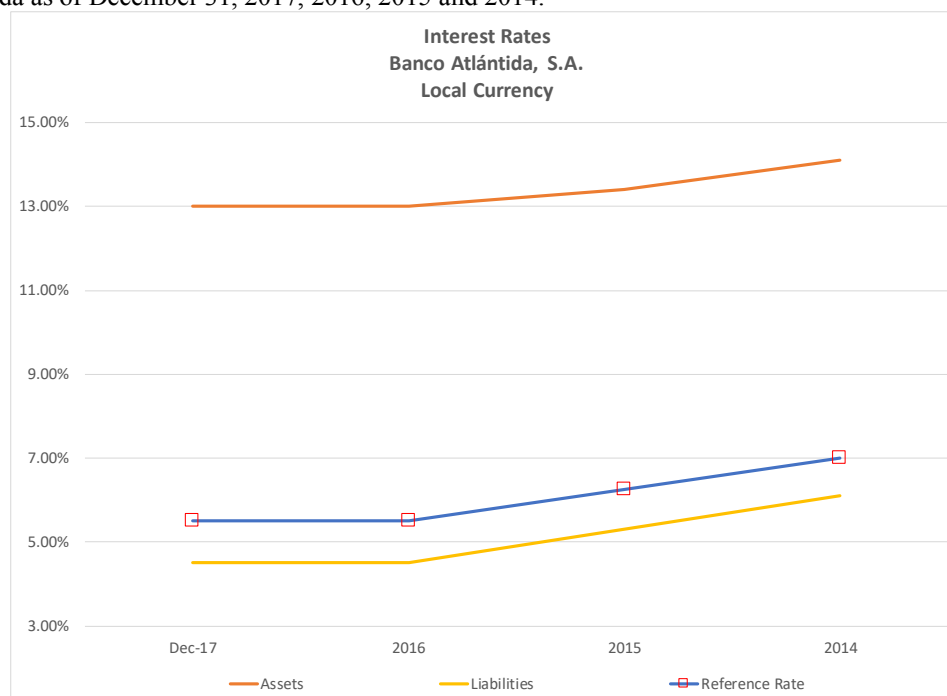
Increases in interest rates may reduce the volume of loans originated by Banco Atlántida. Sustained high interest rates have historically discouraged our clients from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of our assets.

Increases in interest rates may reduce the value of our financial assets. Banco Atlántida holds a substantial portfolio of loans and debt securities that has both fixed and variable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates increase, which may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, could impact our results) as our subsidiaries implement strategies to reduce future interest rate exposure. The market value of an obligation with a variable interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms.

Assets and liabilities have been classified by the domicile of Banco Atlántida as Domestic (operations in Honduras) or Foreign (operations outside Honduras) and by currency denomination (lempiras or US. dollars). Domestic operations include lempira- (local currency of our operations in Honduras) and US. dollar-denominated assets and liabilities. Foreign operations include US. dollar-denominated assets and liabilities. US. dollars have been converted to lempiras using the exchange rate published by the Central Bank at the relevant dates. For more information, see “Exchange Rates.” For purposes of this section, US. dollar-denominated assets and liabilities include: (i) US. dollar Domestic, which includes all transactions conducted in Honduras or on behalf of Honduran residents in US. dollars and (ii) US. dollar Foreign, which includes all transactions performed with entities outside Honduras, such as multilateral and correspondent banks.

Lempira-denominated assets and liabilities in Honduras

The chart below presents the weighted average interest rates on lempira-denominated assets and liabilities of Banco Atlántida as of December 31, 2017, 2016, 2015 and 2014.



The Honduran banking industry generally does not establish its interest rates by reference to a benchmark rate; however, the weighted average interest rates on lempira-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum allowed bid rate that the Honduran Central Bank allows for its treasury notes. This reference rate hasn't been modified since December 20, 2016, where it was decreased to 5.50% from the 6.25% as of December 31, 2015 and 7.00% as of December 31, 2014.

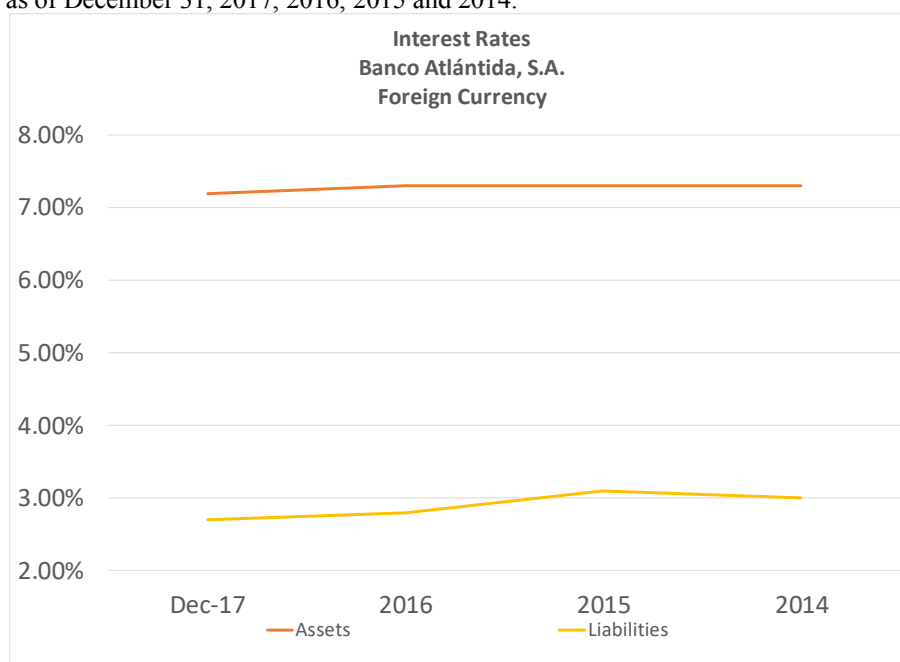
Banco Atlántida's average interest rate on lempira-denominated assets was 13.0% as of December 31, 2017, 13.0% as of December 31, 2016, 13.4% as of December 31, 2015, and 14.1% as of December 31, 2014. Banco Atlántida continues to pursue higher margin products emphasizing on personal loan products, payroll loans and credit cards. At its current interest level, as of December 31, 2017, Banco Atlántida's lempira-denominated assets have grown 13.2% outpacing the 11.5% increase reported by the local banking system during the same period.

Banco Atlántida's average interest rate on lempira-denominated liabilities maintained a downward trend due to its diverse retail deposit base, with no significant concentration in any specific type of deposit, with a rate of 4.5% as of December 31, 2017, 4.5% as of December 31, 2016, 5.3% as of December 31, 2015 and 6.1% as of

December 31, 2014. Market wide, interest rates continue to decrease due to the outstanding liquidity which in turn also affects the yield of investments where surplus funds can be placed. As of December 31, 2017, compared to December 31, 2016, Banco Atlántida's local-denominated deposits have grown 14.1% while the local financial system has done so in 13.4% during the same period.

Foreign currency-denominated assets and liabilities in Honduras

The chart below presents the weighted average rates on foreign currency-denominated assets and liabilities of Banco Atlántida as of December 31, 2017, 2016, 2015 and 2014.



As of December 31, 2017, Banco Atlántida's average interest rate on foreign currency-denominated assets decreased to 7.2% after remaining stable at a rate of 7.3% as of December 31, 2016, 2015, and 2014. Higher capital requirements for loans granted in foreign currency, particularly to non-exporting entities, continues to influence pricing of such transactions and explains why interest rates have remained unchanged. Banco Atlántida's loan portfolio denominated in US Dollars receded 1.6% between December 31, 2017 and December 2016, while the local financial system did so in 5.5% during the same period.

Conversely, Banco Atlántida's average interest rate on foreign-denominated liabilities stood at 2.7% as of December 31, 2017, 0.1pp lower than December 31, 2016. This rate stood at 3.10% and 3.0% as of December 31, 2015 and 2014. Liquidity provided by the increases in USD denominated deposits remains high and explains the decision to recently review our interest pricing structure. Regarding foreign denominated deposits, Banco Atlántida and the local financial system grew at a rate of 6.0% and 10.0%, respectively, between December 31, 2017 and December 31, 2016.

Effect of family remittances

Total family remittances to Honduras from abroad was US\$4,427.9 million for the period ended December 28, 2017 (an increase of 12.8% from the corresponding period in 2016), US\$3,926.7 million for the period ended December 28, 2016 (an increase of 6.5% from the corresponding period in 2015), US\$ 3,688.4 million for the period ended December 28, 2015 (an increase of 7.3% from the corresponding period in 2014) and US\$3,437.1 million for the year period December, 2014 (an increase of 11.1% from the corresponding period in 2013) according to the Central Bank.

The revenue we earned from family remittances consisted of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Through Banco Atlántida, we processed US\$966,7 million in family remittances to Honduras from abroad for the period ended December 2017 (21.8% of the market) compared to US\$775,7 million in family remittances to Honduras from abroad for the period ended December 2016 (19.8% of the market).

Competition

We face intense competition in all our segments, which can materially affect our growth, market share, margins and profitability. For more information, see “Honduras Financial Services Industry.”

Inflation

A rise on inflation rates may impact our performance mainly because all our assets are not adjusted to its effects. In addition, material increases in inflation could result in lower demand for, and affect the pricing of, our services and products. Because much of the costs and expenses of our subsidiaries are fixed, we may not be able to reduce costs in the event of inflation. Increases in inflation could also negatively impact Banco Atlántida’s loan portfolios.

The Honduran economy has been characterized by moderate inflation in recent years. As of December 31, 2017, the inflation rate stood at 4.73% compared to 3.3% as of December 31, 2016, mainly due to the increase in prices of Fuels in the local market, Clothing and Footwear, and Furniture and Items for Home Conservation. At the end of 2016, the inflation rate was 3.3%, compared to 3.2% and 6.1% at the end of 2015 and 2014 respectively, mainly due to lower oil import prices. The primary drivers of inflation were food and non-alcoholic beverages, housing, utilities, gas and other fuels, clothing and transportation. According to the Central Bank, the inflation target for 2017 was reached because it was kept within the 4.0% (± 1 pp) that was agreed with the International Monetary Fund.

Exchange Rates

We are exposed to currency risk any time we hold an open position in a currency other than Lempira. Volatility in Lempira exchange rates in Honduras could result in higher risks associated with such positions.

In addition, any devaluation or depreciation of the Lempira against the US. dollar could have a negative impact on the ability of our subsidiaries’ clients to repay loans and make insurance premium payments, which in turn could have a material adverse effect on our financial condition and results of operations.

In recent years, through a crawling peg regime, the exchange rate of the Lempira against the US. dollar has depreciated at a stable rate. The Lempira exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras’s main commodities and the high demand of foreign currency to pay for imported goods. The exchange rate was L23.5879 per US. \$1.00 on December 29, 2017, compared to L23.4916 per US. \$1.00 on December 29, 2016, as published by the Central Bank.

Demographic trends

As of 2016, Honduras had a population of approximately 8.7 million people, according to the Instituto Nacional de Estadística (INE), which represented an estimated increase of approximately 1.7% compared to 2015. The average annual population growth rate from 2012-2016 was 3.9%, according to the International Monetary Fund (the “IMF”). According to the World Bank, although the poverty rate in Honduras decreased to 60.9% in 2016, from approximately 66.5% in 2012, the unemployment rate increased from 4.0% in 2012 to 7.4% in 2016. GDP per capita in US. dollars increased from US. \$ 2,208 in 2012 to US. \$ 2,465 in 2016, reflecting an increase in purchasing power.

As of 2015, Honduras had a population of approximately 8.4 million people, according to the IMF, which represented an estimated increase of approximately 2.0% compared to 2014. The average annual population growth rate from 2012-2015 was 4%, according to the IMF. According to the World Bank, although the poverty

rate in Honduras increased to 68.7% in 2015, from approximately 67.6% in 2011, the unemployment rate decreased from 4.4% in 2011 to 4.0% in 2015. GDP per capita in US. dollars increased from US. \$2,269.51 in 2011 to US. \$2,406.62 in 2015, reflecting an increase in purchasing power.

As of 2014, Honduras had a population of approximately 8.3 million people, according to the IMF, which represented an estimated increase of approximately 2.1% compared to 2013. The average annual population growth rate from 2012-2014 was 2.0%, according to the IMF. According to the World Bank, the poverty rate in Honduras increased to 62.8% in 2014, from approximately 60.0% in 2010, and the unemployment rate decreased from 4.8% in 2010 to 4.1% in 2014. GDP per capita in US. dollars increased from US. \$2,063.93 in 2010 to US. \$2,360.98 in 2014, reflecting an increase in purchasing power.

We expect these trends to benefit our business, particularly Banco Atlántida's retail and corporate banking segments and Seguros Atlántida's insurance segments.

Bank loans

The growth rates of Banco Atlántida's loan portfolio, specifically for its retail banking segment, can be attributed to a low banking penetration. In terms of banking penetration, the ratio of loans (as published by the CNBS) to GDP (as published by the Central Bank) was 59.3%, as of December 31, 2016.

According to the Central Bank, for the year ended December 28, 2017, the growth rate of bank loans to the private sector was 11.2%, compared to the growth rate of 5.4% as of December 28, 2016. For the year ended December 31, 2015, the growth rate was 10.1%. The main reason for the slowdown has been a decrease in the growth of domestic corporate loans over the corresponding period. Demand for such loans in Honduras has declined, as certain large corporations have decided to access the international markets to obtain loans to meet their funding needs. Despite the decrease in the growth rate, private sector bank loans continued to experience growth rates higher than that of the country's GDP, experiencing a recovery as of December 28, 2017 when compared to December 28, 2016 as stated above.

Results of Operations for the Twelve Months Ended December 31, 2017 Compared to the nine months Ended December 31, 2016

The following table shows the principal components of our consolidated income statement for the Twelve months ended December 31, 2017 and 2016.

	December		Change	
	2017	2016	(L in thousands)	%
	(L in thousands)			
Interest income	7,114,604	6,015,530	1,099,074	18.3%
Interest expense	3,233,053	2,601,534	631,519	24.3%
Financial profit	3,881,551	3,413,996	467,555	13.7%
Loan impairment charges	550,607	569,367	(18,760)	(3.3%)
Financial profit, net of impairment charges	3,330,944	2,844,629	486,316	17.1%
Income from insurance activities	2,856,834	3,318,306	(461,472)	(13.9%)
Expenses from insurance activities	2,360,483	2,878,467	(517,984)	(18.0%)
Profit from insurance activities	496,350	439,839	56,511	12.8%
Services	100,698	88,733	11,965	13.5%
Commissions	1,487,875	998,666	489,209	49.0%
Leases	201,014	235,211	(34,197)	(14.5%)
Other income	447,525	644,523	(196,999)	(30.6%)
Total Proceeds from services	2,237,111	1,967,134	269,977	13.7%
Staff-expenses	1,725,223	1,414,509	310,714	22.0%
General and administrative expenses	2,299,158	1,932,612	366,547	19.0%
Depreciation and amortization	502,916	382,150	120,766	31.6%
Total other expenses	4,527,297	3,729,271	798,026	21.4%
Operating income	1,537,108	1,522,331	14,778	1.0%
Income from dividends	41,661	1,949	39,712	2037.6%
Gain on sale of other and contingent assets	76,430	106,052	(29,622)	(27.9%)
Gain on sale of fixed assets	18,316	9,331	8,985	96.3%
Other income, net	80,596	154,972	(74,015)	(47.5%)
Total non-operating income (expenses) ..	217,364	272,303	(54,940)	(20.2%)
Income before income tax	1,754,472	1,794,634	(40,162)	(2.2%)
Income tax/capital gain/net assets tax	572,733	520,183	52,550	10.1%
Income before minority interest	1,181,707	1,274,451	(92,712)	(7.3%)
Net income attributable to noncontrolling interests	103,032	104,897	(1,864)	(1.8%)
Net Income	1,078,707	1,169,554	(90,848)	(7.8%)

An analysis of the components of our consolidated income statement set forth in the foregoing table follows.

Financial proceeds

The following table presents the components of our interest income for the twelve months ended December 31, 2017 and 2016.

	For the twelve-months ended			
	December 31,		Change	
	2017	2016	(L in thousands)	%
Interest income	(L in thousands)		(L in thousands)	%
Loans	6,170,189	4,879,478	1,290,711	26.5%
Investment securities.....	836,137	1,037,916	(201,779)	(19.4%)
Interest earning deposits.....	108,278	98,136	10,142	10.3%
Total interest income	7,114,604	6,015,530	1,099,074	18.3%

Interest income increased by 18.3% to L7,114,604 thousand for the twelve months ended December 31, 2017 from L6,015,530 thousand for the corresponding period in 2016. This increase in interest income was mainly due to the growth of our loan portfolio, particularly as the banking business has sought higher interest yielding assets through retail segment loans, combined with a decrease in loans in non-accrual status.

Interest on our loan portfolio increased by L1,290,711 thousand, or 26.5%, for the twelve months ended December 31, 2017 as compared to the corresponding period in 2016, mainly due to a higher volume of loans disbursed in local currency whose average balance grew by 18.9% compared to the twelve months ended December 31, 2016, adding L694,563 to our interest income. Interest income of the period also increased with the contribution of the most recent entity acquired, Banco Atlántida El Salvador (a subsidiary of Inversiones Financieras Atlántida, S.A.), which added L 656,682 in interests over an average balance of L 5,822,885 in loans. The average balance of the US Dollar denominated loan portfolio as of December 2017 increased 0.3% compared to December 31, 2016 after higher capital requirements have led to a preference for local denominated loans or to the conversion into local currency denominated loans, particularly in the case of Corporate loans. As a result, income from US Dollar denominated loans decreased L 17,988 during the twelve months ended December 31, 2017 compared to the twelve months ended December 31, 2016. The average yield of our loan portfolio for the twelve months ended on December 31, 2017 increased to 11.3% compared to 11.2% for the twelve months ended December 30, 2016.

Interest on investment securities decreased by L201,779 thousand, or 19.4%, for the twelve months ended December 31, 2017 compared to the corresponding period in 2016, as the banking business continued to demand resources to allow the growth of its higher yielding loan portfolio, causing the average balance of investments to decrease by 10.7% for the twelve months ended December 31, 2017 as compared to the twelve months ended December 31, 2016. Because of the decrease in the balance of investment securities, particularly in local currency, interest income dwindled by L 212,832 thousand as of December 31, 2017 compared to December 31, 2016, while the decline in rates to 7.5% as of December 31, 2017 compared to 8.3% as of December 31, 2016. During the third quarter of 2017, the banking business started to include in its investment portfolio sovereign bonds issued by the Government of Honduras, which in turn offer an average yield of 4.5% adding L 3,870 thousand to interest income as of December 31, 2017 compared to the corresponding period. This has allowed Banco Atlántida, S.A. to procure a higher yield over its US Dollar surplus resources.

Interest income from cash and cash equivalents increased by L 10,142 thousand, or 10.3%, for the twelve months ended December 30, 2017 as compared to the corresponding period in 2016. This increase in interest income from cash and cash equivalents was mainly due to the incorporation of Banco Atlántida El Salvador after its acquisition through Inversiones Financieras Atlántida, S.A., which allowed interest income over foreign deposits to increase by L 17,000 thousand as of December 31, 2017, compared to the corresponding period in 2016. The average interest rates experienced a decrease to 1.3% as of December 31, 2017 compared to 1.8% as of December 31, 2016 causing interest income to decrease L 2,771 as of December 31, 2017 compared to the same period in 2016.

Interest expense

The following table presents the components of our interest expense for the twelve months ended December 31, 2017 and 2016.

	For the twelve-months ended			
	December 31,			
	2017	2016	Change	
	(L in thousands)		(L in thousands)	%
Interest expense				
Deposits from customers	2,401,068	1,947,459	453,609	23.3%
Loans obtained from banks	557,796	474,776	83,020	17.5%
Financial obligations	274,189	179,299	94,890	52.9%
Total Interest expense	3,233,053	2,601,534	631,519	24.3%

Interest expense increased by L631,519 thousand to L3,233,053 thousand for the twelve months ended December 31, 2017 from L2,601,534 thousand for the corresponding period in 2016, primarily due to an increase in interest paid on Deposits from customers.

Interest expense from deposits from customers increased by L 453,609 thousand, or 23.3%, for the twelve months ended December 31, 2017 as compared to the corresponding period in 2016. This increase is attributed to a higher volume of term deposits accounts whose average balance comprised a larger share of client deposits given that they grew to L25,417,353 thousand as of December 31, 2017 compared to L23,005,176 thousand as of December 31, 2016, or 31.5%. This trend meant a shift compared to December 31, 2017, when cost was driven by growth of savings deposit accounts. This figure includes L 3,112,210 thousand in term deposits incorporated from the acquisition of Banco Atlántida El Salvador through Inversiones Financieras Atlántida, S.A. Consequently, interest expense increased L343,738 thousand for the twelve months ended December 31, 2017, compared to the corresponding period in 2016. Savings deposits also continued to drive growth just as their average balance increased to L28,229,692 thousand as of December 31, 2017 from L23,005,176 thousand as of the corresponding period the year before; thus, adding L117,253 in interest expense. This increase was partially offset by a decrease in the average cost of our demand deposits of L7,382 thousand during the twelve months ended on December 31, 2017 compared to the twelve months period ended December 31, 2016, which in turn resulted primarily from a decrease in the average balance of certain corporate and institutional client accounts.

Interest expense from loans obtained from banks increased by L 83,020 thousand, or 17.5%, for the twelve months ended December 31, 2017 as compared to the corresponding period in 2016 after incorporating the expense belonging to Banco Atlántida El Salvador due to its acquisition by Inversiones Financieras Atlántida, S.A. for L 105,856 thousand. Otherwise, interest expense from loans obtained from banks would have decreased considering that Invatlan, the holding company, cancelled USD 33,000 thousand in US Dollar denominated loans, with the proceeds of a USD 150,000 thousand bond issue performed on July 18, 2017. Because of the decrease in the average volume of loans from banks as of December 31, 2017 compared to December 31, 2016, interest expense declined by L12,397 thousand

Interest expense from financial obligations increased by L94,890 thousand, or 52.9%, for the twelve months ended December 31, 2017, as compared to the corresponding period in 2016, primarily due to an increase in the average balance on these obligations by L 1,339,481 thousand, or 25%, after Invatlan, the holding company, placed a USD 150,000 thousand bond issue in the international markets with the purpose of using these proceeds for the repayment of debt, fund planned acquisition and general corporate purposes. Conditions include a 5-year tenor with a bullet payment at maturity, while interest rate is fixed, 8.25%, paid semi-annually in arrears.

Net interest margin for the twelve months ended December 31, 2017 was L3,881,551 thousand as compared to L3,413,996 thousand for the corresponding period in 2016, an increase of L 467,555 thousand, of which, L 268,608 thousand proceeded from local currency, while L198,947 thousand proceeded from US Dollars. The yield spread decreased to 5.2% as of December 31, 2017 compared to 5.36% as of December 31, 2016 as a result of an increase in interest expense at a higher pace than that of interest income or 24.3% versus 18.3%.

Allowance for loan and interest losses

The following table presents our loan impairment charges, NPL ratio, our coverage ratio and our loan and Provision for loan losses (PLL) for the twelve months ended December 31, 2017 and 2016.

	For the twelve-months ended December 31,		Change	
	2017	2016		
	(L in thousands)	(L in thousands)	(L in thousands)	%
Loan impairment charges	550,607	569,367	(18,760)	(3.3%)
NPL ratio	3.0%	3.3%	-	-
Coverage ratio	113.8%	128.5%	-	-
Allowance for loan and interest losses	1,982,270	1,966,059	16,211	0.8%

Loan impairment charges decreased by 3.3% to L550,697 thousand for the twelve months ended December 31, 2017 from L569,367 thousand for the corresponding period in 2016. NPL ratio decreased to 3.0% as of December 31, 2017 from 3.3% as of December 31, 2016. Coverage ratio remained above 100% settling at 113.8% as of December 31, 2017 compared to 128.5% as of December 31, 2016.

As of December 31, 2017, loan impairment charges attributable to retail banking products amounted to L206,182 thousand, or a decrease of L 87,712 thousand compared to the expense registered during the year ended December 31, 2016 of 293,894 thousand. Retail loans continue to demand higher loan impairment charges compared to the rest of the loan portfolio in par with Banco Atlántida's strategy in recent years to diversify its loan portfolio by offering its retail clients a host of retail products (such as personal non-secured loans, payroll loans, mortgages and credit cards) that provide higher interest yields; thus, the increase in loan impairment charges has been proportional to the increase in portfolio. Charge-off's from this business segment amounted to L 240,501 thousand as of December 31, 2017 in contrast to L 181,057 thousand as of December 31, 2016 whereas the NPL ratio climbed to 5.7% at the year end of 2017 compared to 5.1% the year before. This behavior relates to non-secured personal loans and payroll loans that have deteriorated as the loan holder cites over indebtedness or unemployment. Consequently, the Bank has adjusted its credit policies adjusting the minimum credit scoring required and has reviewed payroll contracts to insure proper recovery of the installment plan or the full amount of the loan when necessary.

The corporate banking segment contributed with L172,978 thousand in loan impairment charges, or an increase of 7.3% compared to the year-end result of L 161,247 thousand in 2016 in loan impairment charges, just second to retail products in terms of loan impairment charges for the year 2017. The segment's NPL ratio has improved to 1.7% as of December 31, 2017 compared to 1.8% as of December 31, 2016, while charge-off's followed the same trend, decreasing to L 296,859 thousand from L 362,373 thousand during the same period. This is the result of a strategy where the Bank has decreased its exposure to certain business segments that have been sensitive to economic woes, such as real estate and tourism. During 2017 the Bank rolled-out a strategy aimed at strengthening its relationship with current clients and participate in project finance in sectors of national interest such as renewable energy and infrastructure (ports, roads and airports) seeking portfolio growth in sectors that show more stability in regard to surrounding economic conditions.

The SME banking segment contributed with L165,686 thousand in loan impairment charges, a 45.1% increase from the loan impairment charge recorded in the year ended December 31, 2016. This result is attributed to the incorporation of Banco Atlántida El Salvador, S.A. which was acquired by our subsidiary in that country, Inversiones Financieras Atlántida, S.A. Otherwise, loan impairment charges would have decreased by 0.2% compared to the charge recorded in the year ended December 31, 2016. The credit quality of this portfolio also experimented and improvement as its NPL ratio settled at 4.3% compared as of December 31, 2017 compared to 9.1% as of December 31, 2016. Charge-off's increased to L192,746 thousand as of December 31, 2017 compared to L 167,303 thousand registered in 2016 also attributed to the incorporation of Banco Atlántida El Salvador, S.A. by Inversiones Financieras Atlántida, S.A. During 2017 the Group consolidated its decision to align the strategies of its corporate and SME business segments, allowing products and services to be shared, while focusing in top tier SME clients' needs and requests to increase business volume. The growth

of the SME business segment allowed it to reach 16.7% of the total loan portfolio as of December 31, 2017, compared to 9.5% as of December 31, 2016.

Due the incorporation of Banco Atlántida El Salvador, S.A. by Inversiones Financieras Atlántida, S.A. the presence of microfinance loan in the portfolio has increased to L 344,516 thousand as of December 31, 2017 from L 2,153 thousand as of December 31, 2016. These loans account for 0.6% of the total portfolio as of December 31, 2017.

The balance of our NPL increased by 13.9% to L1,742,170 thousand for the year ended December 31, 2017 from L1,530,088 thousand for the corresponding period in 2016 mainly due to (1) the incorporation of Banco Atlántida El Salvador, S.A. acquired by Inversiones Financieras Atlántida, S.A. contributing with L68,284 thousand in additional NPL balance as of December 31, 2017, (2) a noticeable increase coming from AFP Atlántida which added L 106,753 thousand to the NPL portfolio and (3) the performance of the retail segment and particularly that of non-secured personal loans and payroll loans. The necessary remedial actions have set in place, reviewing in first place credit policy and risk profile for new loan applications, while stepping up loan recovery activities to insure payment and return this portfolio to productive status. The NPL ratio has decreased to 3.0% as of December 31, 2017 from 3.3% as of December 31, 2016 since the growth of rate of the loan portfolio surpassed that of the non-performing loan portfolio, 22.7% versus 13.9%.

Allowance for loan and interest losses increased by 0.8% to L1,982,270 thousand for the year ended December 31, 2017 from L1,966,059 thousand for the corresponding period in 2016. This change is attributed to a moderate tally in charge-off's (a 2.7% increase, or L 19,372 thousand, of December 31, 2017 compared to the same period the year before) and the support of the year's starting balance of loan loss reserve which summoned fewer needs to record additional loan impairment charges (L. 18,760 thousand less as of December 31, 2017 compared to the same period the year before). The decrease in our allowance for loan and interest losses combined with the increase in our NPL balance described above, resulted in a decrease in our NPL coverage ratio to 113.8% for the year ended December 31, 2017 from 128.5% for the corresponding period in 2016.

Proceeds from services

The following table presents the components of our fee and commission income for the twelve months ended December 31, 2017 and 2016.

	For the twelve-months ended December 31,		Change	
	2017	2016		
	(L in thousands)		(L in thousands)	%
Services.....	100,698	88,733	11,965	13.5%
Commissions	1,487,875	998,666	489,209	49.0%
Leases.....	201,014	235,211	(34,197)	(14.5%)
Other income ⁽¹⁾	447,525	644,523	(196,999)	(30.6%)
Total proceeds from services	2,237,111	1,967,134	269,977	13.7%

(1) Other income includes income from the pension fund administration business and the bonding warehouse unit. As of January 1, 2017, the credit card processing revenues attributed to Banco Atlántida which were previously recorded under the line item "other income" have been reclassified to the line item "commissions."

Proceeds from services increased by 13.7% to L2,237,111 thousand for the twelve months ended December 31, 2017 from L1,967,134 thousand for the corresponding period in 2016, primarily due to a 13.5% increase in services and 49.0% increase in commissions. This increase was partially offset by a decrease in other income of 30.6% and leases by 14.5%.

The increase in commissions of L489,209 thousand, or 49.0%, for the twelve months ended December 31, 2017 from L998,666 thousand for the corresponding period in 2016 was primarily due to Banco Atlántida's income

from credit and debit card fees which grew L288,861 thousand, during the third quarter of 2017 compared to the same period of 2016 primarily as a result of a reclassification of L 225,510 thousand in credit card processing revenues that until December 31, 2016 were recorded under the line item “other income.” Foreign exchange transactions continue to lead commission growth for the bank, posting a 25.1% increase as of December 31, 2017, or L 46,787 thousand, compared to the same period during the preceding year. Meanwhile, income from remittance payments increased by L19,396 thousand to L151,743 thousand as of December 31, 2017 considering a higher inflow to the country by 12.8% between December 28, 2017 and December 31, 2016 according to figures publicly available from the Central Bank. Complementarily, Other de income increased by L 48,373 thousand as of December 31, 2017 compared to the results as of December 31, 2016 and are principally attributed to income related to the Bank’s participation in Syndicated loans generating commitment and arrangement fees. The following items of Banco Atlántida’s commission income all experienced increases during the twelve months ended December 2017 compared to the twelve months ended December 31, 2016, including an increase of L10,463 thousand in public and private collection services; an increase of L9,976 thousand in corresponding banking and an increase of L3,069 thousand in trust administration. By contrast, commissions from loans decreased by L 58,593 thousand as disbursement fees originated during 2017 have been deferred during the duration of the loans as per request of the local regulator to all banks. AFP Atlántida also stands out as it’s commission income from its main activity grows 17.7%, or L27,049 thousand to L180,081 thousand as of December 31, 2017 from L153,081 thousand as of December 31, 2016. It must also be pointed out that with the incorporation of Banco Atlántida El Salvador, S.A. by Inversiones Financieras Atlántida, S.A.; commission income raises by L 73,104 thousand as of December 31, 2017 compared to the same period in 2016.

Fees from services increased by L 11,965 thousand, or 13.5%, during the twelve months ended December 31, 2017 due to additional income from the bond warehouse company, COALSA.

The decrease in proceeds from leases of L34,197 thousand, or 14.5%, for the twelve months ended December 31, 2017 from L 235,211 thousand for the corresponding period in 2016 was primarily due to a lower renewal rate of expiring operating lease contracts administered by ACRESA, the leasing company. Until December 31, 2014 leases were recorded as operating leases (even if they were financial in nature), but due to the adoption of a new regulatory framework as of January 1, 2015, their accounting would be that of a financial lease. Eventually, their income will continue to decrease just as the outstanding contracts as of December 31, 2014 continue to expire. This decrease is offset by a decrease in depreciation expenses related to leases given the decrease in their volume for the reasons described above.

The decrease in other income of L196,999 thousand, or 30.6%, for the twelve months ended December 31, 2017 from L644,523 thousand for the corresponding period in 2016 stemmed from a reclassification of L225,510 thousand in credit card processing revenues that until December 31, 2016 were recorded under this line item. Conversely, banking business loan recoveries (loans that had been previously written-off) increased L74,570 thousand as of December 31, 2017 compared to December 31, 2016. Other items grew as well, including profit from financial assets and liabilities at fair value as it increased L 21,576 thousand during the twelve months ended on December 31, 2017 to 24,802 thousand from L. 3,225 thousand during the twelve months ended on December 31, 2016 mainly due to the performance of the stocks held in companies related to the financial sector. Account handling fees increased by L 12,142 thousand for the year ended December 31, 2017.

Income from insurance activities

The following table presents the components of our net premium income for the twelve months ended December 31, 2017 and 2016.

	For the twelve-months ended			
	December 31,			
	2017	2016	Change	
	(L in thousands)		(L in thousands)	%
Income from insurance activities	2,856,834	3,318,306	(461,472)	(13.9%)
Expenses from insurance activities	2,360,483	2,878,467	(517,984)	(18.0%)
Profit from insurance activities	496,350	439,839	56,511	12.8%

Profit from insurance activities increased by 12.8% to L496,350 thousand for the twelve months ended December 31, 2017 from L439,839 thousand for the corresponding period in 2016. This increase was mainly due to an 18.0% decrease in total expenses from insurance activities, which was partially offset by a decrease in income from insurance activities of 13.9% during the twelve months ended December 31, 2017 compared to the corresponding period in 2016.

Income from insurance activities decreased by 13.9% to L2,856,834 thousand for the twelve months ended December 31, 2017 from L3,318,306 thousand for the corresponding period in 2016, mainly due to a L539,229 thousand, or 76.7%, decrease in the amount of income recognized from restitution of claim reserves. Meanwhile, expenses from ongoing risk reserve requirements have followed the same downward trend during the same period doing so at a higher rate, 82.2%, and is one the reasons for which the profit from insurance activities has performed better as of December 31, 2017 compared to December 31, 2016. Meanwhile, as counterbalance, income from recovered claims of foreign insurance reinsurers increased by 34.3%, or L61,086 thousand during the twelve months ended December 31, 2017 compared to the same period during 2016. Insurance premiums increased by 0.2%, or L5,191 thousand, to L2,193,086 thousand during the twelve months ended December 31, 2017 compared to the same period during 2016.

Expenses for insurance activities decreased by 18.0% to L2,360,483 thousand for the twelve months ended December 31, 2017 from L2,878,467 thousand for the corresponding period in 2016. This was primarily due to lower reserve requirements for ongoing risks which decreased L638,433 thousand, or 82.2%, for the twelve months ended December 31, 2017, as compared to the corresponding period in 2016. After a downward trend during most part of the year, during the last quarter of 2017, claim expenses increased as a consequence of the events that followed the local elections. Hence, the insurance company withstood an increase in claim expenses of L92,331 thousand, or 14.4% for the twelve months ended December 31, 2017, as compared to the corresponding period in 2016. Expenses from premiums cancelled and reinstated also increase, doing so by L29,562 thousand, or 5.1% for the twelve months ended December 31, 2017, as compared to the corresponding period in 2016 due primarily to modifications to the terms and conditions of insurance policies which allow for an amendment of the outstanding insurance policy rather than its cancellation and re-entry as a new one following a change request. This change in procedure causes a decrease of such cancellation expenses.

Other expenses

The following table presents the components of our operating and administrative expenses for the twelve months ended December 31, 2017 and 2016

	For the twelve-months ended			
	December 31,			
	2017	2016	Change	
	(L in thousands)		(L in thousands)	%
Other expenses:				
Staff-expenses.....	1,725,223	1,414,509	310,714	22.0%
General and administrative expenses	2,299,158	1,932,612	366,547	19.0%
Depreciation & amortizations.....	502,916	382,150	120,766	31.6%
Total other expenses	4,527,297	3,729,271	798,026	21.4%

Other expenses increased by 21.4% to L4,527,297 thousand for the twelve months ended December 31, 2017 from L 3,729,271 thousand for the corresponding period in 2016. The increase in other expenses was primarily due to (1) the increase in staff expenses 22.0%, (2) a 19.0% increase in general and administrative expenses and (3) a 31.6% increase in depreciation and amortization expenses.

The increase in general and administrative expenses of L 366,547 thousand, or 19.0%, for the twelve months ended December 31, 2017 as compared to the corresponding period in 2016 was primarily due to the following: (1) the incorporation of the general and administrative expense of Banco Atlántida El Salvador acquired through Inversiones Financieras Atlántida, S.A. for a total of L 194,957 thousand for the year ended December 31, 2017; (2) an increase of L 30,410 thousand in the general and administrative expense of the insurance company, (3) an increase of L 12,056 thousand in the general and administrative expense of AFP Atlántida related to higher investment in marketing, (4) an increase of L 21,776 thousand in the general and administrative expense of Invatlan, the holding company, attributed to external counsel costs associated with the acquisition of Banco Atlántida El Salvador, S.A., including rebranding expenses and other organizational costs; an increase of L8,632 thousand registered in the general administrative expense of Coalsa, (4) and a L 96,902 thousand increase in the general and administrative expense of Banco Atlántida, S.A. as of December 31, 2017 compared to the year ended on December 31, 2016. Banco Atlántida, S.A. reported (i) a L66,642 thousand, or 40.2% increase in marketing expenses related to Banco Atlántida's update of its corporate logo; (ii) a L17,990 thousand increase in maintenance and repairs, primarily related to changes at Banco Atlántida's branches as part of the corporate logo update; (iii) a L20,192 thousand increase in third party fees related to payments performed to the network of non-banking correspondents Agentes Bancarios Atlántida), and (iv) a L13,429 thousand increase in information system services as the bank continues to roll-out its digital banking strategy. In terms of savings, the bank has reduced its credit card loyalty program expense by L13,429 thousand as of December 31, 2017 with regards to the corresponding period in 2016 after its least profitable credit card branding contract expired on the first half of 2016 and a similar expense did not occur in 2017.

The increase in staff expenses of L 310,714 thousand, or 22.0%, for the twelve months ended December 31, 2017 as compared to the corresponding period in 2016 was primarily due to the incorporation of the expense belonging to Banco Atlántida El Salvador, S.A. through Inversiones Financieras Atlántida, S.A. which contributed with an additional expense of L157,632 thousand as of December 31, 2017. Invatlan and its subsidiaries also registered an increase in the number of full-time employees which reached 4,106 (including Banco Atlántida El Salvador, S.A.) as of December 31, 2017 compared to 3,152 as of December 31, 2016. Banco Atlántida's wages and salaries increased by L30,147 thousand, or 5.3%, during the twelve months ended December 31, 2017 compared to the twelve months ended December 31, 2016 and outsourcing contracts increased by L29,784 thousand, or 16.2%, primarily due to additional resources required for Banco Atlántida's credit card business and its loan collection activities given the recent growth in its business. Related fringe benefits such as employer dues and vacation bonus increased by L17,116 thousand and L2,956 thousand, respectively. Additionally, other items such as travel expenses and training increased by L19,475 thousand and L3,671 thousand, respectively during the twelve months ended December 31, 2017 as compared to the corresponding period in 2016. Banco Atlántida, S.A. also recognized a uniform expense for L14,951 thousand. Three other entities also registered an increase in their staff expenses during the same period of comparison, these being Infatlan, Arrendamientos y Créditos Atlántida and AFP Atlántida with a change of L10,230 thousand, L9,024 thousand and L9,870 thousand, respectively.

The increase in depreciation and amortization expenses of L120,766 thousand, or 31.6%, for the twelve months ended December 31, 2017 as compared to the corresponding period in 2016 was primarily due to (1) the incorporation of Banco Atlántida El Salvador, S.A. L 65,929 thousand, as well as to (2) an increase of L82,419 thousand in the amortization expense of Banco Atlántida, S.A. linked to intangible assets, mostly software developments. IT hardware also contributed with a L 11,501 thousand increase, followed by an increase in the amortization expense of assets available for sale of L8,745 thousand for the year ended December 31, 2017. Conversely, Acrea observed a decrease of L54,822 thousand in the depreciation and amortization expense just as it continued to retire assets as lease contracts reached their maturity.

Our cost-to-income ratio for the nine months ended December 31, 2017 was 68.4%, compared to 64.1% for the corresponding period in 2016 mainly because of operating expense growing at a higher rate than operating income, or 21.4% compared to 13.6%.

Non-operating income (expenses)

The following table presents the components of our Non-operating income (expenses) for the twelve months ended December 30, 2017 and 2016.

	For the twelve-months ended December 31,		Change	
	2017	2016	(L in thousands)	%
	(L in thousands)			
Income from dividends	41,661	1,949	39,712	2037.6%
Gain on sale of foreclosed assets	76,430	106,052	(29,622)	(27.9%)
Gain on sale of fixed assets	18,316	9,331	8,985	96.3%
Other income, net.....	80,956	154,972	(74,015)	(47.8%)
Total.....	217,364	272,303	(54,940)	(20.2%)

Non-operating income decreased by L59,940 thousand from L272,303 thousand during the twelve months ended December 31, 2016 to L217,364 thousand during the twelve months ended December 31, 2017.

The incorporation of Inversiones Financieras Atlántida, S.A. and Subsidiary (Banco Atlántida El Salvador, S.A.) added L142,637 to other non-operating income (expenses), mainly as a result of the business combination (acquisition of 99.8194622% of the outstanding shares of Banco Atlántida El Salvador, S.A.) that provided for an additional income of L140,873 thousand (US\$ 5,998 converted at an exchange rate of L23.4868 HNL/USD) from intangible assets recognized as of December 31, 2017. This non-recurring income was offset by a L45,280 thousand (US\$ 1,928 converted at an exchange rate of L23.4868 HNL/USD) cumulative loss belonging to Banco Atlántida El Salvador, S.A. which was also recognized following its acquisition by Inversiones Financieras Atlántida, S.A. Additionally, after acquiring 49% of the outstanding shares of Corporación de Inversiones Atlántida, S.A. during 2017; Invatlan, the holding company, was entitled to L39,712 in dividends as of December 31, 2017. These gains were rounded off by an increase of L 8,985 thousand from the sale of fixed assets as of December 31, 2017 compared to the corresponding period in 2016 and by a L 12,958 thousand decrease in extraordinary expenses from Seguros Atlántida, S.A. during the same period. The net positive outcome of these transactions was offset by (1) a decrease at the Invatlan holding company level given that it had L60,700 thousand of non-recurring restitutions of investment provisions occurring during the first quarter of 2016, (2) Banco Atlántida El Salvador, S.A. loss of L 16,352 thousand from the sale of foreclosed assets, (3) a decrease in Acres's profit from the disposal of assets available for sale equal to L15,091 thousand, (4) a L32,763 increase in non-operating expense primarily attributed to losses related to credit card frauds, (5) a L 44,783 thousand decrease in interests recovered from refinanced loans that were registered as other income during the twelve months ended December 31, 2016 but has now been reclassified to interest income during 2017, and (6) a L84,955 thousand decrease in proceeds from recoveries of loans that had been charged-off.

Income before tax

Income before tax decreased by 2.2% to L1,754,472 thousand for the twelve months ended December 31, 2017 from L1,794,634 thousand for the corresponding period in 2016.

Income tax

Income tax expense increased to L52,550 thousand, or 10.1%, for the twelve months ended December 31, 2017 from L520,183 thousand for the corresponding period in 2016, or an effective tax rate of 32.6% as of December 31, 2017 compared to an effective tax rate of 29.0% as of December 31, 2016. During the first quarter

of 2016, Invatlan recorded a non-recurring adjustment of L60,700 thousand as non-operating income from restitutions of investment provisions which constituted a non-taxable item. Not considering this non-recurring adjustment, the effective tax rate would have reached 30.0% as of December 31, 2016. Additionally, the increase in the effective tax rate as of December 31, 2017 compared to December 30, 2016, can be explained by 50bps due to the net asset tax that Invatlan has been eligible to pay after increasing its total assets because of the resources provided by the bond issue of US 150 million. Complementarily, deferred income tax increased L 20,038 thousand principally due to the non-operating income recognized from the business combination of the acquired subsidiary Banco Atlántida El Salvador, S.A. through Inversiones Financieras Atlántida, S.A. as they are subject to a 10% capital gains tax in El Salvador, as well as in Honduras. Finally, income tax rate in El Salvador is 30% compared to 25% applicable in Honduras.

Net Income

Net income decreased by 7.8% to L1,078,707 thousand for the twelve months ended December 31, 2017 from L 1,169,554 thousand for the corresponding period in 2016. Conversely, average shareholders' equity increased by 20.7% to L 10,095,859 thousand as of December 31, 2017, from L 8,360,983 thousand for the corresponding period in 2016, thus ROAE decreased to 10.7% for the twelve months ended December 31, 2017, as compared to 14% for the corresponding period in 2016.

Net income decreased by 7.8% and average total assets increased by 24.3% to L 88,878,553 thousand for the twelve months ended December 31, 2017 from L 71,503,471 thousand for the corresponding period in 2016, and consequently, ROAA as of December 31, 2017 settled at 1.2%, compared to 1.6% as of December 31, 2016.

Liquidity and Funding

The following discussion of liquidity and funding is on a consolidated basis. Banco Atlántida represents our primary source of funds, and its liquidity comes from client deposits, loans from banks and financial institutions and debt securities.

The following table sets forth our primary sources of funding on a consolidated basis as of December 31, 2017 and as of December 31, 2016.

	As of December 31, 2017	As of December 31, 2016	Change	
	(L in thousands)	(L in thousands)	(L in thousands)	
Demand deposits.....	9,616,886	8,289,943	1,326,943	16.0%
Term deposits	25,192,246	20,232,437	4,959,809	24.5%
Savings deposits	29,965,714	24,668,921	5,296,793	21.5%
Other	496,591	461,998	34,593	7.5%
Total deposits	65,271,437	53,653,299	11,618,138	21.7%
Loans and borrowings from banks.....	7,489,236	7,023,455	465,781	6.6%
Corporate bonds and secured notes.....	4,349,241	1,001,296	3,347,945	334.4%
	77,109,914	61,678,050	15,431,864	25.0%

Banco Atlántida's primary sources of funds have traditionally consisted of deposits, loans and borrowings from banks, as well as debt securities issued and subordinated debt.

Total deposits increased by 21.7% to L65,271,437 thousand as of December 31, 2017 as compared to L53,653,299 thousand as of December 31, 2016 primarily due to Banco Atlántida's commercial strategy to promote growth of demand deposits over term deposits considering their stability and low cost of funds. Deposits included retail and corporate deposits, generated mainly through our distribution network, and our relationships with commercial clients.

Loans and borrowings from banks were L7,489,236 thousand as of December 31, 2017, compared to L7,023,455 thousand as of December 31, 2016, representing an increase of 6.6% primarily due to Banco Atlántida's financial strategy which used existing liquidity to fund loan disbursement needs rather than financing. Nonetheless, the banking business, particularly its corporate segment, continues to use readily available credit facilities to fund infrastructure and energy credits. Loans and borrowings from banks included short-term trade finance, lines of credit and long-term loans from international financial institutions and multilateral organizations. Banco Atlántida has lines of credit with 17 worldwide financial institutions with which it has had longstanding correspondent relationships. Some of its main lines of credit are held with the IFC, IADB, Proparco, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AGAs. As of December 31, 2017, we had (i) an aggregate amount of US.\$ 298,035 thousand (L 7,030,024 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US.\$ 249,228 thousand (L5,878,759 thousand) was available to draw upon, and (ii) an aggregate amount of US.\$50,000 thousand (L1,179,395 thousand) in a loan we obtained from Proparco on December 31, 2015 which matures on October 15, 2025 and bears interest at a rate of 6.19%, payable semiannually, of which US.\$25,000 thousand (L589,698 thousand) was outstanding as of December 31, 2017.

Debt securities issued were L4,349,241 thousand as of December 31, 2017, compared to L1,001,296 thousand as of December 31, 2016, representing an increase of 334.4%, primarily due to an issue of US\$150 million in Senior Secured Notes in the form of a 144A / RegS by Inversiones Atlántida, S.A., with the purpose of using these proceeds for the repayment of debt, fund planned acquisition and general corporate purposes. Conditions include a 5-year tenor with a bullet payment at maturity, while interest rate is fixed, 8.25%, paid semi-annually in arrears.

Through our asset and liability management policy, we seek to ensure that sufficient liquidity is available to honor withdrawals of deposits, repay other liabilities at maturity, extend loans or other forms of credit to clients, pay liabilities derived from the insurance policies we issue, and meet working capital needs. The minimum amount of liquidity that our main subsidiaries are required to maintain depends on the reserve requirements established by the Central Bank, as well as the technical and mathematical statutory reserves required by our insurance operations. We meet these requirements by maintaining a proper balance between maturity profile and diversity of our sources of funding.

We expect that deposits, loans and borrowings from banks and debt securities issued, will be sufficient to meet our liquidity requirements over the next 12 months.

Regulatory capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, pursuant to Honduran capitalization requirements, Banco Atlántida is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 10% or above. As of December 31, 2017, Banco Atlántida's capital ratio was 12.3% compared to 12.4% as of December 31, 2016; 13.4% as of December 31, 2015; and 13.6% as of December 31, 2014.

The following table sets forth Banco Atlántida's capital on an unconsolidated basis as compared to the minimum capital requirements as of the dates indicated.

	As of December 31,			
	2017	2016	2015	2014
	(L in thousands, except percentages)			
Total Tier 1	6,488,863	5,686,163	5,386,163	4,993,927
Total Tier 2	1,018,734	987,762	794,972	770,437
Total regulatory capital	7,507,597	6,673,925	6,181,135	5,764,364
Total risk-weighted assets	61,083,980	53,877,580	46,307,367	42,375,602
Regulatory capital as a percentage of risk-weighted assets.....	12.3	12.4	13.4	13.6

Commitments and contractual obligations

We enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes our commitments and contractual obligations as of December 31, 2017.

(L in millions, except percentages)	Less than 30 days	31 to 90 days	91 to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits and obligations from customers.....	9,376,076	13,065,741	11,418,841	17,599,788	13,810,686	65,271,437
Loans and borrowings from banks..	158,680	247,688	1,055,418	3,036,110	2,991,340	7,489,236
Debt securities issued.....			1,003,742	3,345,499		4,349,241
Total.....	9,535,060	13,313,428	13,478,001	23,981,397	16,802,026	77,109,913
% of Total.....	12.4%	17.3%	17.5%	31.1%	21.8%	100.0%

Capital expenditures

Our consolidated capital expenditures increase to L168,841 thousand for the twelve months ended December 31, 2017 compared to L 310,059 thousand for the twelve months ended December 31, 2016 primarily since throughout the first quarter of 2016 our subsidiaries made significant investments in information technology and in expanding their distribution fleet.

Off-Balance sheet arrangements

In the normal course of business, Invatlan party to a number of off-balance sheet activities that have credit, market and operational risk and are not reflected in our financial statements. These activities include commitments to extend credit not otherwise accounted for, such as contingent loans, such as guarantees, letters of credit and loans under contract pending disbursement, including credit lines and syndicated loans. The company provides our clients with services related to the issuance and confirmation of commercial and stand-by letters of credit and to the issuance of guarantees. Letters of credit operations totaled L as of December 31, 2017, L499,900 thousand as of December 31, 2016 and L421,163 thousand as of December 31, 2015. Issuance of guarantees totaled L3,795,240 as of December 31, 2017, L3,003,855 thousand as of December 31, 2016 and L2,084,047 thousand as of December 31, 2015. Loans under contract pending disbursement totaled L3,480,957 as of December 30, 2017, L2,977,175 thousand as of December 31, 2016 and L2,377,992 thousand as of December 31, 2015

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, the need for specific covenant is generally determined, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the client's creditworthiness. Commitment letters and oral assurances may also be required. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or by another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and valuation. Additional collateral is required when appropriate as determined by the credit committee of our subsidiaries.

Qualitative and Quantitative Disclosure about Market Risks

The Group is exposed to risks in the ordinary course of business, particularly credit risk, liquidity risk, exchange rate risk and interest rate risk. For a discussion on how the exposure to these risks is regularly assessed and managed, see note 4 to the audited consolidated financial statements contained elsewhere in this offering memorandum.