



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
as of December 31, 2020**

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

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements, and with the other financial information included in this offering memorandum. Our consolidated financial statements included in this offering memorandum have been prepared in accordance with Honduran Banking GAAP. Our future results may vary substantially from those discussed herein because of various factors that affect our business, including, but not limited to, those discussed under “Forward-Looking Statements” and “Risk Factors” and other factors discussed in this offering memorandum.

Overview

We are one of the largest financial services groups in Honduras and through our subsidiaries, we offer a wide range of corporate and retail banking services, insurance, pension fund management and other financial services to more than 3.3 million clients as of December 31, 2020. We were recognized as a financial group by the CNBS in 2012 and our main subsidiary, Banco Atlántida was founded in 1913. We believe that our businesses benefit from significant synergies from being part of a financial group.

Our businesses are mainly focused on three segments: (i) *banking*, through our subsidiaries Banco Atlántida, one of the largest banks in Honduras based on total assets as of December 31, 2020, according to the CNBS, Banco Atlántida El Salvador and Banco Atlántida Nicaragua, which we created organically as part of our expansion plans in 2019; (ii) *insurance*, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of December 31, 2020, according to the CNBS, and Atlántida Vida, which we acquired through the purchase of Davivienda Vida Seguros, S.A., Seguros de Personas for US\$300,000 in October 13, 2017; and (iii) *pension fund management*, through our subsidiary AFP Atlántida, the largest private pension fund administrator in Honduras based on assets under management as of September 30, 2020, based on data published by our competitors, and our indirect subsidiary, AFP Confia, the largest private pension fund administrator in El Salvador based on assets under management as of December 31, 2020, according to the SSF. We also offer financial leasing, securities brokerage services, outsourcing services, information technology services, investment fund management services, logistics services and bonded warehouse services through our other subsidiaries. For the years ended December 31, 2020 and 2019, our banking segment represented 63.5% and 62.6% of our total revenues, respectively, our insurance segment represented 24.2% and 21.6% of our total revenues, respectively, our pension funds management segment represented 10.4% and 8.7% of our total revenues, respectively, and our others segment represented 2.7% and 7.2% of our total revenues, respectively. We believe that our multi-product and multi-channel business model offers our clients a diverse group of products, thereby enabling us to exploit synergies among our various business segments.

As of December 31, 2020 and 2019, Banco Atlántida had net income of L821,106 thousand and L1,150,124 thousand and an ROAE of 8.0% and 12.3%; Seguros Atlántida had had net income of L291,500 thousand and L303,728 thousand and an ROAE of 21.3% and 22.9% and AFP Atlántida had net income L169,805 thousand and L148,181 thousand and an ROAE of 17.4% and 18.1%, respectively. Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida and these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to the CNBS. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits from clients and other banks, with market shares of 19.5%, 20.2% and 21.3%, respectively, as of December 31, 2020, according to data from the CNBS. Seguros Atlántida is one of the largest insurance companies in terms of gross written premiums, with a market share of 18.0% and 18.2% as of December 31, 2020 and 2019, respectively, according to data from the CNBS. In addition, AFP Atlántida is the largest private pension fund manager in the Honduran market with a 67.1% market share in terms of managed funds, according to data published by our competitors.

We have one of the largest banking distribution networks in Honduras. As of March 31, 2021, we had 2,438 points of service in Honduras, which together with our insurance distribution network and operations in El Salvador and Nicaragua total 2,522 points of service as follows:

- 266 branches (147 agencies, 63 teller windows embedded within corporate client offices, 23 drive thru and 33 branches related to the other lines of business that make up INVATLAN);
- 1,135 ATMs (407 proprietary ATMs and 728 third-party network ATMs); and

- 1,121 non-correspondent banking agents.

As of December 31, 2020 and 2019, Banco Atlántida El Salvador had a net income of L 36,106 thousand and L 31,990 thousand and an ROAE of 2.2% and 2.3%, respectively. We also operate in El Salvador and Nicaragua through our subsidiaries. Our operations in El Salvador include Banco Atlántida El Salvador and AFP Confia. As further explained below, Banco Atlántida El Salvador resulted from our acquisition of Banco Procredit in 2016. Banco Atlántida El Salvador is still a relatively small bank in El Salvador with its total assets, loans and interest receivable, and deposits from clients and other banks, comprising 3.8%, 3.9% and 3.3%, respectively, of the El Salvador banking industry's total assets, loans and interest receivable and deposits from clients and other banks as of December 31, 2020, according to data from the SSF. The Banco Procredit Acquisition allowed us to obtain control of AFP Confia, as further described below, which is a significant player in the pension fund management business in El Salvador. As of December 31, 2020, AFP Confia had a market share of 52.2% in terms of total assets under management and 47.7% in terms of total number of clients, in each case according to data from the SSF. In terms of our operations in Nicaragua, Banco Atlántida Nicaragua is a recently created entity which began operating on November 1, 2019 and as a result, is not yet relevant in the Nicaraguan market.

The table below details our assets and equity in our main businesses as of December 31, 2020 and 2019.

	As of December 31, 2020				As of December 31, 2019			
	Assets		Equity		Assets		Equity	
	(US\$ in Thousands)	%	(US\$ in Thousands)	%	(US\$ in Thousands)	%	(US\$ in Thousands)	%
INVATLAN								
Banking	5,521,888	94.2%	527,136	96.5%	4,633,994	93.6%	484,411	93.7%
Insurance	148,414	2.5%	61,652	11.3%	105,327	2.1%	53,997	10.4%
Pension Fund Management	82,721	1.4%	63,729	11.7%	77,915	1.6%	59,398	11.5%
Others ⁽¹⁾	219,645	3.7%	129,610	23.7%	198,121	4.0%	107,114	20.7%
Holding Company	563,450	9.6%	409,105	75.0%	532,060	10.7%	378,376	73.2%
	6,536,119	111.5%	1,191,233	218.1%	5,547,416	112.0%	1,083,296	209.6%
Intercompany Adjustments.....	(672,755)	(11.5%)	(645,137)	(118.1%)	(596,216)	(12.0%)	(566,403)	(109.6%)
Total Consolidated	5,863,364	100.0%	546,096	100.0%	4,951,200	100.0%	516,893	100.0%

(1) Others consists of the assets and equity of our less significant businesses, which are involved in financial leasing services, securities brokerage services, back office and credit card support services, information technology services, investment fund management services, logistics services and bonded warehouse services.

For the year ended December 31, 2020, we had total consolidated revenues, which consist of the sum of interest income, income from insurance activities, total proceeds from services and total non-operating income (expenses), of L18,006,194 thousand (US\$746,708 thousand) and income before non-controlling interest of L932,253 thousand (US\$38,660 thousand) compared to total consolidated revenues of L16,462,292 thousand (US\$682,683 thousand) and income before non-controlling interest of L1,459,992 thousand (US\$60,545 thousand) for the year ended December 31, 2019. For the year ended December 31, 2019, we had total consolidated revenues of L16,462,292 thousand (US\$682,683 thousand) and income before non-controlling interest of L1,459,991 thousand (US\$60,545 thousand) compared to total consolidated revenues of L13,821,711 thousand (US\$573,180 thousand) and income before non-controlling interest of L1,170,699 thousand (US\$48,548 thousand) for the year ended December 31, 2018. Our principal business activities to date have been the operation of our bank subsidiaries, insurance subsidiaries and our pension fund management subsidiaries, where we provide a variety of financial services to our commercial and retail customers. We believe there are significant opportunities for us to expand these activities and achieve greater synergies and scale in our business activities, both in Honduras and elsewhere in certain areas of Central America where there are underserved markets. We intend to consider acquisitions that will allow us to expand our business geographically and provide a wider range of products and services that can ultimately strengthen our competitive position.

We are actively evaluating a number of business opportunities with respect to banking and insurance

activities, as well as activities that we believe will be complementary to our existing activities, such as pension fund management, asset management, financial leasing and customer service administration.

Key Factors Affecting our Financial Condition and Results of Operations

Effects of COVID-19 Pandemic on our Results of Operations

Our business is dependent upon the willingness and ability of our customers to conduct banking and other financial transactions. The COVID-19 global pandemic has caused severe disruptions in the world economy, which have in turn disrupted the business, activities, and operations of many of our customers, as well as our business and operations. Moreover, since February 2020, the COVID-19 outbreak has caused significant disruption and volatility in financial markets globally, causing equity levels to initially decline sharply, which may continue to worsen in the future. The ongoing COVID-19 pandemic may result in a significant decrease in business activities.

In order to contain the spread of COVID-19 in Honduras, on March 15, 2020, following the discovery of the first case of COVID-19 in Honduras, the Government implemented various protective measures aimed at preserving public health and reducing the negative impact of such measures on the economy. Additionally, the Government implemented social distancing and stay-at-home orders, suspended all non-essential activities, closed schools and universities and shut down the country's borders for all non-Honduran citizens. As a result of these measures, our business operations were disrupted as a significant number of our offices and nine of our branches were required to close for more than six months. These various restrictions were lifted by the government in the fourth quarter 2020 and all of our offices and branches were reopened as of November 2020.

On March 21, 2020, the CNBS issued resolution GES No 175/21-03-2020, through which a temporary financial relief measure was approved, urging financial institutions to grant a deferral on the payment of principal (not interest) financial obligations owed by their debtors, through June 30, 2020. During the period of the deferral, payments of all principal, interest, and fees were suspended. Once the period of the deferral ends, debtors can request refinancing if necessary. Debtors and financial institutions had up to September 30, 2020 to agree on debt refinancing plans. Furthermore, financial system institutions in general were urged to establish updated plans to assure the continuity of their operations. Subsequently, on June 25, 2020, the CNBS issued resolution GES No 278/25-06-2020 allowing supervised institutions (banks, financial companies, private development organizations, insurers) to grant additional grace periods or to permit their debtors to restructure their loans, beginning in July 2020 to debtors whose economic activities have been negatively impacted by the COVID-19 pandemic, which would be determined on a case by case basis by each institution based on each debtor's individual situation. This analysis should consider the debtor's ability to pay and financial condition. If an institution determined that the severity was minor, their payments could be deferred for shorter periods of time. For other debtors whose economic activities have been less impacted by the pandemic, their payments were only deferred through July 31, 2020. Furthermore, on October 19, 2020, the Honduran Government, represented by the Central Bank, the CNBS and BANHPROVI reached an agreement with the Asociacion Hondureña de Instituciones Bancarias (AHIBA) to provide additional financial assistance, including the prolonging of grace periods for payment, to micro, small and medium-sized companies negatively affected by the COVID-19 pandemic.

As a result of adopting these measures we recognize additional interest for the periods for which principal was deferred partially offset by the fact that certain interest for mortgage credits could not be capitalized and therefore recognize interest on such capitalized amounts. In addition, we decided to temporarily restrain consumption credit to avoid delinquency. Finally, the regulator allowed for creditors that had access to these reliefs not to change their risk grading and therefore there was no immediate impact to the credit reserves.

As of December 31, 2020, the percentages of loans in our portfolio that were deferred, restructured or refinanced pursuant to the relief order by the government were as follows:

Corporate and commercial loans	%	Total Outstanding (L in thousands)	Interests	Total
With relief:	35.3%	24,803,251	144,051	24,947,302
With deferral payments.....	12.3%	8,640,245	25,691	8,665,936
Restructured	4.5%	3,160,713	93,533	3,254,246
Refinanced	18.5%	13,002,293	24,827	13,027,120
Without relief:	64.7%	45,402,841	65,673	45,468,514
	100.0%	70,206,092	209,724	70,415,816
Retail loans:				
With relief:	35.9%	5,339,021	1,802	5,340,823
With deferral payments.....	26.1%	3,887,456	769	3,888,225
Restructured	8.1%	1,209,779	965	1,210,744
Refinanced	1.6%	241,786	68	241,854
Without relief:	64.1%	9,540,727	2,316	9,543,043
	100.0%	14,879,748	4,118	14,883,866
Total		85,085,840	213,842	85,299,682

As of March 31, 2020, clients of both our commercial and consumer lending segments, were subject to deferral periods for their payments, including a moratorium that extended through July 31, 2020. Therefore, the clients that were subject to deferrals and were unable to continue paying their outstanding loans in accordance with their terms and were granted the possibility to restructure or refinance their loans. As of June 30, 2020, 49.1% of the loan portfolio was subject to a relief mechanism. As of December 31, 2020, this was reduced to 36.0% and as of March 31, 2021, the outstanding loan portfolio subject to a relief mechanism was at 28.8%.

Effects of Changes in Interest Rates

Changes in interest rates usually affect, among others, the following areas of our business:

- 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 can reduce our financial margin, comprising most of our revenue. A significant portion of our subsidiaries' assets, including loans, are long-term assets. In contrast, most deposits are short-term deposits. When interest rates increase, Banco Atlántida and the other Banking Subsidiaries must pay higher interest on deposits while interests earned on assets do not increase as rapidly. This can cause a decrease in profits. Interest rate increases could result in adverse changes in our financial margin, thus reducing our growth rate or even resulting in decreases as compared to prior periods.

Increases in interest rates may reduce the value of our financial assets. The Company holds a substantial portfolio of loans and debt securities that have both fixed and variable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates increase. This 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 and mitigate 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 U.S. Dollar-denominated assets and liabilities. Foreign operations include U.S. Dollar-denominated assets and liabilities. U.S. 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, U.S. Dollars-denominated assets and liabilities include: (i) Domestic U.S. Dollar, which includes all transactions conducted in Honduras or on behalf of Honduran residents in U.S. Dollar and (ii) Foreign U.S. Dollar, which includes all transactions performed with entities outside Honduras, such as multilateral and correspondent banks.

Assets and Liabilities Rates in *Lempiras*

Given that 85.4% of our consolidated interest income for the year ended December 31, 2020 is derived from Banco Atlántida, the table below sets forth the weighted average interest rates of assets and liabilities on *lempiras* of Banco Atlántida as of December 31, 2020, 2019 and 2018, as published by the Central Bank. The table also shows the reference rate published by the Central Bank.

The assets and liabilities rates in *lempiras* are as follows:

	2018	2019	2020
Assets (loans-BASA)	13.3%	12.5%	12.1%
System Average Assets Rate	14.1%	13.9%	13.7%
Liabilities (deposits-BASA)	4.9%	4.5%	4.6%
Monetary Policy Rate	5.5%	5.5%	3.0%

The Honduran banking industry generally does not set interest rates by reference to a reference rate; however, the weighted average interest rates of the assets (loans) and liabilities (deposits) denominated in *lempiras* of the Honduran banking industry are slightly influenced by the minimum offer rate that the Central Bank allows for its treasury notes. As of December 31, 2020, this rate was 3.0% as a result of two reductions of 0.75 bp, the first on March 24, 2020 and the second on August 3, 2020. Both reductions were the result of measures adopted by the Honduran Government to mitigate the effects of the COVID-19 pandemic on the national economy.

The average interest rate of Banco Atlántida on *lempira*-denominated assets (loans) was 12.1% as of December 31, 2020, compared to 12.5% as of December 31, 2019. For the year ended December 31, 2020, Banco Atlántida's *Lempiras*-denominated loan portfolio grew 4.6% above the 2.1% growth according to the CNBS during the same period.

Banco Atlántida's average interest rate on *lempira*-denominated liabilities (deposits) increased to 4.6% as of December 31, 2020 compared to 4.5% as of December 31, 2019. As of December 31, 2020, compared to December 2019, Banco Atlántida's *lempira*-denominated deposits have grown 26.8%, while the local financial system grew by 21.9% during the same period, according to the CNBS.

Assets and Liabilities - Interest Rates in Foreign Currency

The following table presents the weighted average interest rates of Banco Atlántida's assets and liabilities denominated in foreign currency as of December 31, 2020, 2019 and 2018.

The assets and liabilities rates in U.S. Dollars are as follows:

	2018	2019	2020
System Average Assets Rate	8.1%	8.2%	7.7%
Assets (loans-BASA)	7.4%	7.1%	7.2%
System Average Liabilities Rate	2.1%	2.2%	1.9%
Liabilities (Deposits-BASA)	2.7%	2.6%	2.6%

As of December 31, 2020, Banco Atlántida's average interest rate on assets (loans) denominated in foreign currency was 7.2%, compared to 7.1% as of December 31, 2019. Banco Atlántida's loan portfolio denominated in U.S. Dollars increased 0.6% between December 31, 2019 and December 31, 2020, while the local financial system decreased 0.1% during the same period, according to the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in foreign currency was 2.6% as of December 31, 2020 and 2019. Banco Atlántida's foreign currency-denominated deposits grew at a rate of 11.1% as of December 31, 2020, while deposits for the local financial system as a whole grew at a rate of 12.1% during the same period, according to data from the CNBS.

Effects of Family Remittances

For the year ended December 31, 2020, family remittances that entered Honduras totaled US\$5,729.9 million, which represented an increase of 3.8% with respect to the same period in 2019. The table below sets forth the cumulative amount of family remittances for the periods indicated:

For the year ended December 31,	Amount (US\$ in millions)	Year-on-year Change (%)
2020	5,729.9	3.8%
2019	5,521.3	13.0%
2018	4,887.1	10.4%
2017	4,427.9	12.8%

Source: Central Bank of Honduras

The income received by Banco Atlántida from the handling of family remittances consists mainly of commissions on exchange transactions, commissions on money orders and other related fees. Banco Atlántida processed US\$1,655.8 million in family remittances, representing an increase of 18.9% during the year ended December 31, 2020 (which represented 28.9% of the Honduran market according to the Central Bank) compared to US\$1,392.9 million in family remittances to Honduras from abroad for the year ended December 31, 2019 (25.4% of the market according to the Central Bank).

Competition

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

Inflation

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

The Honduran economy has been characterized by moderate inflation in recent years. As of December 31, 2020, the inflation rate was 4.01%, mainly explained by the decrease in the price of oil and products derived from oil by 0.43% as a consequence of the mobility restrictions imposed due to the COVID-19 pandemic, which caused a significant decrease in the demand for oil and products derived from oil, driving prices down, as well as a decrease in growth of the communications industry by 0.39%. As of December 31, 2019, the inflation rate was 4.08%, compared to 4.22% in December 2018. According to the Central Bank, the inflation target for 2020 was achieved, since it remained within the range of 4.0% (± 1 bp) agreed with the IMF.

Exchange Rates

We are exposed to currency risk any time an open position in a currency other than *lempira* is held. Volatility in *lempira* exchange rates could result in higher risks associated with such positions.

In addition, any devaluation or depreciation of the local currency of the different countries in which we operate compared to the U.S. 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 an adverse effect on our financial condition and results of operations.

In recent years, the exchange rate of the *lempira* compared to the U.S. Dollar has depreciated at a stable rate. The *lempira* exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras' main agricultural commodities and the high demand for foreign currency to pay for imported goods. In 2020, due to the impact of the COVID-19 pandemic, imports of goods have decreased causing the local currency to appreciate with respect to the U.S. Dollar. The exchange rate as of December 31, 2020 was L24.1141 per US\$1.00, compared to L24.6350 per US\$1.00 on December 31, 2019, according to the Central Bank. For more information, see "Exchange Rates."

Demographic trends

During the last four years the behavior of the main demographic variables of the country has been as shown in the following table:

Period	Population (millions)	% Change	GDP (USD)	% Change	Poverty rate	% Change	Unemployment rate	% Change
2020								
2019	9.2	2.2%	2,742	2.8%	N/A	N/A	5.4%	(3.6%)
2018	9.0	1.1%	2,668	2.1%	61.9%	(3.73%)	5.6%	1.8%
2017	8.9	2.3%	2,612	5.0%	64.3%	5.58%	5.5%	(17.9%)
2016	8.7	1.2%	2,488	3.7%	60.9%	(11.40%)	6.7%	9.8%

GDP per capita

We expect these trends to benefit our business, particularly our main business segments of banking, insurance and pension fund management, because as the population increases, unemployment rates decrease and GDP per capita increases, the need for financial services is expected to increase accordingly.

Bank loans

The growth rate of Banco Atlántida's loan portfolio, specifically for its retail banking business, can be attributed to a low banking penetration. In terms of bank penetration, the ratio of loans (as published by the Commission) to GDP (as published by the Central Bank) was 56.0%, as of December 31, 2019 (the latest date for which data is available).

According to the Central Bank, for the year ended December 31, 2020, the growth rate of bank loans in the private sector was 3.9%, compared to a growth rate of 7.3% and 14.3% in 2019 and 2018, respectively. This steep decline was largely a result of the impacts of the COVID-19 pandemic.

Critical Accounting Policies under Honduran Banking GAAP

We prepare our consolidated financial statements in accordance with Honduran Banking GAAP. The notes to our audited financial statements contain a summary of our significant accounting policies. The following discussion describes those areas that require considerable management judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. For more information, see Note 2 to our audited financial statements.

Allowances for Loan and Interest Losses: Financial institutions in Honduras are required to classify loan portfolios based upon their recoverability rate and maintain a reserve for allowance for loan and interest losses according to the corresponding status of the loans. The classification of a loan portfolio is subject to adjustment by the CNBS in the event that such institution's eligibility criteria differ from those established in resolutions No. 209/08-05-2020 and No. 210/08-05-2020 issued by the CNBS. The balance of the allowance represents the amount considered by a bank's management team as sufficient to cover the expected losses to which the entity is exposed to according to the level of the assumed risk and the impairment degree of the credit transactions.

Foreclosed Assets: Financial institutions in Honduras are required to record foreclosed assets resulting from unpaid loans and, after two years, these assets start to amortize 100% of their value in a straight line form on a monthly basis for three additional years until their book value becomes zero, unless the assets are sold. In 2012, the CNBS issued resolution No. 180/06-02-2012 establishing that profits obtained from sale transactions financed with loans granted by the selling bank will be deferred and recognized proportionally as each payment made in respect of the loan is received.

Interest Non-Accrual: Financial institutions in Honduras are required to reverse the interest income of loans past due after 90 days of recording those interests in accounts to maintain control over the interest income suspended by calculating the interest without considering income until such loans become normalized or cancelled.

Additional Requirements of Capital: Financial institutions in Honduras are required to comply at all times with the capital adequacy minimum requirement of 11% established by the CNBS based upon international norms. The CNBS may review, on a bi-annual basis, the risk-weighted average of an institution's assets and, in the event of a deficiency, provide the bank with a reasonable time period to comply.

During 2016 the Honduran banks made the partial transition to IFRS following the guidelines of the CNBS. Under the CNBS' initiative, banks will continue to report their respective allowance for loan and interest losses, foreclosed asset recognition and other severance payment reserves using Honduran Banking GAAP.

Principal line items in our consolidated comprehensive income

Below is a description of certain significant line items from our consolidated comprehensive income.

Interest income: includes interest from loans and advances to customers, interest from investment securities and interest from cash and cash equivalents deposits in other banks.

Interest expense: includes interest paid on deposits, on bonds and financing obtained from other financial institutions.

Loan impairment charges: represents the provisions we set aside in respect of our loan portfolio in order to ensure we always maintain a coverage ratio of 110% over our NPL as required by the CNBS. For more information regarding "credit risk," see Note 7 to our audited financial statements, included elsewhere in this offering memorandum.

Proceeds from services: includes (a) services mostly related to our bonding warehouse business, (b) commissions which comprise revenues from our banking (such as gains on foreign exchange transactions, credit and debit card related fees, remittances fees, loan commissions and administration of public and private collection services) and pension fund subsidiaries, (c) leases and (d) other income (credit card processing revenues attributed to Banco Atlántida, as well as other income stemming from our pension fund management business and our bonding warehouse unit).

Profit from insurance activities: includes results of premiums earned, minus the acquisition and renewal costs, minus expenses for insurance claims. Premiums earned include premiums on life, group life and property and casualty plans, direct insurance and reinsurance. Acquisition and renewal cost includes insurance agents' commissions, as well as satellite localization services, extraordinary commissions for supervisors and agents, bonuses, fees, inspection and risk costs, vehicle assistance and reinsurance. Expenses for insurance claims include claims for life insurance, group plans, and property and casualty.

Other expenses: includes staff expenses, administrative expenses and depreciation and amortization expenses. Personnel costs include wages and salaries, bonuses, personnel outsourcing contracts, severance payments, medical assistance, employer dues, and travel expenses. Administrative expenses include security, marketing, communications, facilities maintenance and repair, deposit insurance contribution, leases, external counseling, utilities, insurance premiums, office supplies, non-income taxes and dues. Amortization and depreciation include amortization of fixed assets, facilities, installations while amortization includes that of software applications and foreclosed assets.

Non-operating income (expense): includes income from dividends, sale of foreclosed assets, recoveries, and gain on selling of fixed assets. It also includes non-operating and non-recurrent income and expenses.

Income tax: subsidiaries based in Honduras declare the highest rate among three tax regimes in order to determine their applicable income tax. We were subject to the payment of income tax equal to a 1% rate over total assets. The remaining Honduran entities paid income taxes at the rate of 25% on adjusted income. Lastly, entities whose income exceeds L1,000,000 are required to pay 5% of the net taxable income.

Results of Operations for the Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

The following table shows the principal components of our consolidated statement of comprehensive income for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Interest income	9,898,690	8,889,164	1,009,526	11.4%
Interest expense	4,876,556	4,260,350	616,206	14.5%
Financial profit	5,022,134	4,628,814	393,320	8.5%
Loan impairment charges	1,134,326	661,229	473,097	71.5%
Financial profit, net of impairment charges	3,887,808	3,967,585	(79,777)	(2.0)%
Income from insurance activities	4,269,892	3,454,168	815,274	23.6%
Expenses from insurance activities	3,744,627	2,970,330	774,297	26.1%
Profit from insurance activities	525,265	483,838	40,977	8.5%
Services	89,523	137,598	(48,075)	(34.9)%
Commissions	3,127,715	2,702,381	425,334	15.7%
Leases	8,203	195,363	(187,160)	(95.8)%
Other income	535,301	558,404	(23,103)	(4.1)%
Total Proceeds from services	3,760,742	3,593,746	166,996	(4.6)%
Staff expenses	2,316,401	2,270,935	45,466	2.0%
General and administrative expenses	3,722,400	3,443,662	278,738	8.1%
Depreciation and amortization	701,264	601,821	99,443	16.5%
Total other expenses	6,740,065	6,316,418	423,647	6.7%
Operating income	1,433,750	1,728,751	(295,001)	(17.1)%
Income from dividends	2,806	34,470	(31,664)	(91.9)%
Gain on assets available for sale	74,842	151,372	(76,530)	(50.6)%
Gain on sale of fixed assets	22,405	14,817	7,588	51.2)%
Other income and interest tax, net	(23,183)	324,555	(347,738)	(107.1)%
Total non-operating income (expenses)	76,870	525,214	(448,344)	(85.4)%
Income before income tax and non-controlling interest	1,510,620	2,253,965	(743,345)	(33.0)%
Income tax and deferred income tax	578,368	793,974	(215,606)	(27.2)%
Income before non-controlling interest	932,252	1,459,991	(527,739)	(36.1)%
Net income attributable to noncontrolling interests	141,672	173,342	(31,670)	(18.3)%
Net Income	790,580	1,286,649	(496,069)	(38.6)%

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

Interest Income

The following table presents the components of our interest income for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Interest Income				
Loans	8,662,068	7,961,547	700,521	8.8%
Leasing	233,723	—	233,723	100.0%
Investment Securities	967,977	806,091	161,886	20.1%
Interest earning deposits	34,922	121,526	(86,604)	(71.3)%
Total, interest income	9,898,690	8,889,164	1,009,526	11.4%

Interest income increased by 11.4%, or L1,009,526 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, mainly due to an increase in interest income on loans of 8.8% as further explained below.

Interest income on loans increased by 8.8%, or L700,521 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, which is a result of an increase of L780,053 thousand due to higher volume of loans in local and foreign currency, with average balance increases by 13.1% in terms of our local currency loans and 11.7% in terms of our foreign currency loans. This increase was partially offset by a decrease in interest rates which led to a L80,063 thousand decrease in interest income.

Interest income on leasing increased by 100%, or L233,723 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, due to a change in accounting treatment that began in 2020, pursuant to which Leasing Atlántida began recognizing all contracts as financial leases, as agreed upon with the CNBS. As a result, beginning in 2020, interest income on leasing is now presented as part of our interest income.

Interest income on investment securities increased by 20.1%, or L161,886 thousand, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, of which L170,954 thousand was due to higher volume of investment securities in local and foreign currency, with average balance increases of 10.7% in local currency investment securities and 55.9% in foreign currency investment securities. This increase was partially offset by a decrease in interest rates which led to a decrease in income of L9,070 thousand.

Interest income on interest earning deposits decreased by 71.3%, or L86,604 thousand, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, primarily due to a decrease in average interest rates that led to a decrease in income of L89,856 thousand, resulting from the effects of the COVID-19 pandemic on market interest rates. This decrease was partially offset by a 22.4% increase in the average balance of such deposits which led to an increase in income of L3,254 thousand.

Interest Expense

The following table presents the components of our interest expense for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Interest Expense				
Deposits from customers	3,750,526	3,007,117	743,409	24.7%
Loans obtained from banks	577,500	764,101	(186,601)	(24.4)%
Bond and notes guaranteed	548,530	489,132	59,398	12.1%
Total interest expense	4,876,556	4,260,350	616,206	14.5%

Interest expense increased by 14.5%, or L616,206 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily as a result of a 24.7% increase in interest expense on deposits and 24.4% decrease in interest expense on loans payable, as further explained below.

Interest expense on deposits increased by 24.7%, or L743,409 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to an increase in the volume of our term deposits (L420,095 thousand), savings accounts (L230,079 thousand) and checking accounts (L35,558 thousand), as well as an increase in the rates we paid on our deposits, which lead to an interest expense increase of L57,677 thousand.

Interest expense on loans obtained from banks decreased by 24.4%, L186,601 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily as a result of the decrease in market rates that was a part of the measures adopted by the governments in the countries in which we operate in response to the COVID-19 pandemic, which led to a decrease in expense of L184,152 thousand. This decrease was partially offset by an increase in loans from financial institutions as a part of our strategic decision to match funds with long-term loans in foreign currency, which led to a corresponding increase in interest expense of L2,449 thousand.

Interest expense on bonds and notes guaranteed increased by 12.1%, or L59,398 thousand, mainly due to an (i) increase in interest paid on our outstanding guaranteed notes in local currency of L10,189 thousand, which was primarily due to a new local bond issuance by Banco Atlántida in the aggregate amount of L500,000 thousand in September 2020, (ii) increase in interest paid on our outstanding bonds of L29,902 thousand, which was primarily due to an increase in the average balance of bonds outstanding in foreign currency and (iii) an increase of L19,308 thousand mainly due to an increase in the average rate on bonds in foreign currency.

Loan impairment charges

The following table presents the loan impairment charges, NPL ratio, the coverage ratio and provision for loan losses for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Loan impairment charges	1,134,326	661,229	473,097	71.5%
NPL ratio ⁽¹⁾	2.4%	2.1%	—	—
Coverage ratio ⁽²⁾	133.3%	125.4%	—	—
Provision for loan losses	2,774,028	2,171,713	602,315	27.7%

(1) NPL ratio is calculated by dividing non-performing loans (including refinanced non-performing loans) by our total portfolio of loans.

(2) Coverage ratio is calculated by dividing provision for loan losses by non-performing loans (including refinanced non-performing loans).

Loan impairment charges increased by 71.5%, or L473,097 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, with our delinquency rate increasing to 2.4% as of December 31, 2020 as compared to 2.3% as of December 31, 2019 and our coverage ratio increasing to 133.3% as of December 31,

2020 as compared to 125.4%.

During the year ended December 31, 2020, loan impairment charges attributable to the retail banking portfolio increased by 38.3%, or L120,635 thousand, as compared to the year ended December 31, 2019, primarily due to charges we took anticipating greater risk for some of our retail clients as a result of financial difficulties stemming from the COVID 19 pandemic.

During the year ended December 31, 2020, loan impairment charges attributable to the SME banking portfolio decreased by 64.0%, or L152,653 thousand, as compared to the year ended December 31, 2019, primarily due to a decrease in new loans in our SME banking portfolio during the period, while amortization rates remained stable.

During the year ended December 31, 2020, loan impairment charges attributable to the corporate portfolio increased by 541.9%, or L471,288 thousand, as compared to the year ended December 31, 2019, of which L440,990 thousand was due to our analysis of Banco Atlántida's corporate portfolio that led us to take an impairment charge in order to protect us against an eventual deterioration of our loan portfolio as a result of the negative impact the COVID-19 pandemic is having on many of our corporate clients, relief measures adopted by the governments of the countries where we operate in response to the COVID-19 pandemic and the recent damages caused by tropical storms ETA and IOTA to some of our corporate clients' businesses.

Provision for loan losses increased by L602,315 thousand to L2,774,028 thousand for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This increase was mainly due to the increases in loan impairment charges in our retail and corporate portfolios, as described above, as well as a decrease in write-offs of loans by a L514,277 thousand and a L14,690 thousand release of reserves.

Proceeds from Services

The following table presents the components of proceeds from services for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Services.....	89,523	137,598	(48,075)	(34.9)%
Commissions.....	3,127,715	2,702,381	425,334	15.7%
Leases	8,203	195,363	(187,159)	(95.8)%
Other income ⁽¹⁾	535,301	558,404	(23,103)	(4.1)%
Total proceeds from services.....	3,760,742	3,593,746	166,996	4.6%

(1) Other income consists of gains on purchase/sale of foreign currency, change in value of assets and liabilities held for sale, fees for account management, gain on sale of financial assets and other income (diverse).

Proceeds from services increased by 4.6%, or L166,996 thousand, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, mainly due to a 15.7% increase in our commission income of L425,334 thousand and a 95.8% decrease in our leases income, as further explained below.

The decrease in service income of 34.9%, or L48,075 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, was primarily due to a decrease in services provided as a result of the COVID-19 pandemic.

The increase in commission income of 15.7%, or L425,334 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, was primarily due to our integration of AFP Confía into our consolidated results for the full year as opposed to only eight month in 2019 (leading to an increase in commission income of L434,102 thousand), partially offset by small decreases in AFP Atlántida's and Banco Atlántida's commission income.

The decrease in lease income of 95.8%, or L187,159 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, was primarily due to the fact that starting in 2020, Leasing Atlántida began recognizing all contracts as financial leases, as agreed upon with the CNBS. As a result, beginning in 2020, interest income on leasing is now presented as part of our interest income.

The decrease in other income of 4.1%, or L23,103 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, was primarily due to a decrease in income on account management of L74,262 thousand, primarily as a result of a decrease in client transactions, which in turn was due to the impact of the COVID-19 pandemic, an increase in income on the purchase and sale of foreign currency of L38,340 thousand and an increase in income for valuation of assets/liabilities held for sale of L14,151 thousand.

Profit from insurance activities

The following table presents the components of profit from insurance activities for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Income from insurance activities	4,269,892	3,454,168	815,724	23.6%
Expenses from insurance activities	3,744,627	2,970,330	774,297	26.1%
Profit from insurance activities	525,265	483,838	41,427	8.6%

Profit from insurance activities increased by 8.6%, or L41,427 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to the income and expense movements discussed below.

Income from insurance activities increased by 23.6%, or L815,724 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, mainly due to recovered settlement expenses of L660,695 thousand as a consequence of claims for damages caused by tropical storms ETA and IOTA, an increase in commission for premiums ceded to foreign reinsurers of L25,397 thousand, and an increase of L236,379 thousand due to the integration of Atlántida Vida into our consolidated results once it began operations in 2020, partially offset by a L41,233 thousand decrease in premiums issued, a L36,075 thousand decrease in variation on reserves and a L24,054 thousand decrease in salvages and recoveries.

Expenses for insurance activities increased by 26.1%, or L774,297 thousand, for the year ended December 31, 2020, as compared to year ended December 31, 2019, mainly due to an increase of L610,801 thousand in expenses for claims as a result of damages caused by the tropical storms ETA and IOTA, an increase in expenses of L206,923 thousand due to the integration of Atlántida Vida into our consolidated results once it began operations in 2020, a L75,887 thousand increase in premiums ceded to mitigate additional risk, a L97,127 thousand increase in reserves for current and expected risk, a L24,178 thousand increase in expense for impairment of premiums receivable, and a L257,085 thousand decrease in returns and cancellations of premiums.

Other expenses

The following table presents the components of other expenses for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Staff expenses	2,316,401	2,270,935	45,466	2.0%
General and administrative expenses	3,722,400	3,443,662	278,738	8.0%
Depreciation and amortization	701,264	601,821	99,443	16.5%
Total, other expenses	6,740,065	6,316,418	423,647	6.7%

Other expenses increased by 6.7%, or L423,647 thousand, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, mainly due to an increase of 8.0% in general and administrative expenses and an increase of 16.5% in depreciation and amortization, as further explained below.

Staff expenses increased by 2.0%, or L45,466 thousand, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, mainly due to the integration of AFP Confia's staff expenses into our consolidated results for the full year, as opposed to eight months in 2019 (leading to an increase of L81,680 thousand) and, to a lesser extent, an increase of L8,871 thousand in Banco Atlántida's staff expenses, which in turn primarily reflects the increase in cost of insurance, particularly those related to medical services. This increase is partially offset by a decrease in travel expenses of L34,920 thousand and a decrease in other staff expenses (training, labor benefits, transportation, among other) of L28,435 thousand, as a consequence of a decrease in our activities due to the COVID-19 pandemic.

General and administrative expenses increased by 8.0%, or L278,738 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, mainly due to the integration of AFP Confia's general and administrative expenses into our consolidated results for the full year, as opposed to eight months in 2019 (leading to an increase of L297,425 thousand), an increase of L5,380 thousand in Banco Atlántida Nicaragua's general and administrative expenses as a consequence of Banco Atlántida Nicaragua only starting operations at the end of 2019, and, to a lesser extent, an increase in other administrative expenses of Banco Atlántida of L46,563 thousand, partially offset by a decrease in board and directors expenses of L14,130 thousand and a decrease in professional fees expenses of L42,458 thousand.

Depreciation and amortization increased by 16.5%, or L99,443 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, mainly due to a higher capitalization of software and applications, the acquisition of vehicles, computer equipment and amortization of improvements to the leased properties of Banco Atlántida, as well as the integration of the depreciation and amortization expenses of Banco Atlántida Nicaragua into our consolidated results for a full year in 2020, leading to an increase of L14,866 thousand.

Non-operating income (expenses)

The following table presents the components of the non-operating income (expenses) for the years ended December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Income from dividends	2,806	34,470	(31,664)	(91.9)%
Gain on sale of assets held for sale	74,842	151,372	(76,530)	(50.6)%
Gain on sale of fixed assets	22,405	14,817	7,588	51.2%
Other income (expenses) and interest tax, net	(23,183)	324,555	(347,738)	(107.1)%
Total non-operating income (expenses)	76,870	525,214	(448,344)	(85.4)%

Non-operating income decreased by 85.4%, or L448,344 thousand, during the year ended December 30, 2020, as compared to the year ended December 31, 2019, mainly due to a decrease in income from dividends of L31,664 thousand, a decrease of L76,530 thousand in gain on sale of assets held for sale and a decrease of L347,738 thousand

in other income net, as explained below.

Income from dividends decreased by 91.9%, or L31,664 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, mainly due to a decrease of L31,664 thousand in dividends received from CIA given our incorporation of AFP Confia in 2019 and which we consolidated into our results for the full year in 2020 as opposed to eight months in 2019.

Gain on sale of assets held for sale decreased by 50.6%, or L76,530 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to a decrease in our sale of assets held for sale as a result of government measures adopted in response to the COVID-19 pandemic, which closed down many of the government organs that processed such sales of assets.

Gain on sale of fixed assets increased by 51.2%, or L7,588 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, mainly due to a higher execution rate on the purchase option of leasing contracts by our leasing clients.

Other income and interest tax, net decreased by 107.1%, or L347,738 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, mainly due to the following: (i) a decrease in earnings due to exchange rate fluctuations (L147,354 thousand); (ii) a decrease in income from recoveries of assets written off (L37,272 thousand); (iii) an increase in income from fluctuation in the value of financial assets held for sale (L73,938 thousand); (iv) a decrease in other income (L47,809 thousand) due to the cancellation of loans to directors; (v) an increase in the expense of financial assets and liabilities held for sale (L66,711 thousand); (vi) an increase in losses due to theft, robbery and fraud (L4,470 thousand); (vii) a decrease in other financial income (L47,315 thousand) and (viii) an increase in other expenses (L69,416 thousand).

Income before tax and noncontrolling interest

Income before tax decreased by 33.0% to 1,510,620 thousand for the year ended December 31, 2020 from L2,253,965 thousand for the corresponding period in 2019 as a result of the factors discussed above.

Income Tax

Income tax expense decreased by 27.2%, or L215,606 thousand, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, as a result of the decrease in our income before taxes. Our effective income tax rate was 36.9% at December 31, 2020 as compared to 34.6% at December 31, 2019.

Net income

As a result of the foregoing, our net income decreased by 38.6% to L790,580 thousand for the year ended December 31, 2020 from L1,286,649 thousand for the year ended December 31, 2019. Average shareholders' equity increased by 9.1% to L13,467,615 thousand for the year ended December 31, 2020, from L12,514,057 thousand for the year ended December 31, 2019. Our ROAE was 5.9% for the year ended December 31, 2020, as compared to 10.3% for the year ended December 31, 2019.

Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

The following table shows the principal components of the consolidated statement of comprehensive income for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Interest income.....	8,889,164	7,703,183	1,185,981	15.4%
Interest expense.....	4,260,350	3,538,920	721,430	20.4%
Financial profit	4,628,814	4,164,263	464,551	11.2%
Loan impairment charges.....	661,229	766,378	(105,149)	(13.7%)
Financial profit, net of impairment charges.....	3,967,585	3,397,885	569,700	16.8%
Income from insurance activities	3,454,168	3,274,465	179,703	5.5%
Expenses from insurance activities	2,970,330	2,853,900	116,430	4.1%
Profit from insurance activities	483,838	420,565	63,273	15.0%
Services	137,598	154,486	(16,888)	(10.9%)
Commissions.....	2,702,381	1,453,102	1,249,279	86.0%
Leases.....	195,363	163,986	31,377	19.1%
Other income.....	558,404	457,546	100,858	22.0%
Total Proceeds from services	3,593,746	2,229,120	1,364,626	61.2%
Staff-expenses	2,270,935	1,876,432	394,503	21.0%
General and administrative expenses	3,443,662	2,415,652	1,028,010	42.6%
Depreciation and amortization	601,821	647,808	(45,987)	(7.1%)
Total other expenses	6,316,418	4,939,892	1,376,526	27.9%
Operating income	1,728,751	1,107,678	621,073	56.1%
Income from dividends	34,470	191,729	(157,259)	(82.0%)
Gain on sale of assets held for sale	151,372	77,052	74,320	96.5%
Gain on sale of fixed assets	14,817	40,825	(26,008)	(63.7%)
Other income and interest tax, net.....	324,555	305,337	19,218	6.3%
Total non-operating income (expenses)	525,214	614,943	(89,729)	(14.6%)
Income before income tax	2,253,965	1,722,621	531,344	30.8%
Income tax and deferred income tax	793,974	551,922	242,052	43.9%
Income before minority interest	1,459,991	1,170,699	289,292	24.7%
Net income attributable to noncontrolling interests	173,342	105,698	105,698	64.0%
Net Income	1,286,649	1,065,001	221,648	20.8%

An analysis of the components of our consolidated comprehensive income set forth in the foregoing table follows:

Interest Income

The following table presents the components of our interest income for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Interest Income				
Loans	7,961,547	6,682,726	1,278,821	19.1%
Investment Securities	806,091	873,714	(67,623)	(7.7%)
Interest earning deposits.....	121,526	146,743	(25,217)	(17.2%)
Total, interest income	8,889,164	7,703,183	1,185,981	(15.4%)

Interest income increased by 15.4%, or L1,185,981 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly due to an increase in interest income on loans of 19.1% as further explained below.

Interest income on loans increased by 19.1%, or L1,278,821 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, of which L1,225,042 thousand was due to higher volume of loans in local and foreign currency, whose average balances grew by 1.8% in terms of our local currency loans and 13.3% in terms of our foreign currency loans, as well an increase in interest rates which led to an increase in income of L53,780 thousand.

Interest income on investment securities decreased by 7.7%, or L67,523 thousand, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, primarily due to a decrease in the volume of our investment securities in local currency of 19.2%, which led to a decrease in income of L171,517 thousand, partially offset by an increase in the volume of our investment securities in foreign currency of 18.9%, which led to an increase in income of L58,869 thousand, and an increase in average interest rates, which led to an increase in income of L49,295 thousand.

Interest income on interest earning deposits decreased by 17.2%, or L25,217 thousand, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, primarily due to a 9.2% decrease in the average balance of such deposits, which led to a decrease in income of L623 thousand, as well as a decrease in the average interest rate charged on such deposits, which led to a decrease in income of L24,594 thousand.

Interest Expense

The following table presents the components of the interest expense for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Interest expense				
Deposits from customers.....	3,007,117	2,441,353	565,764	23.2%
Loans obtained from banks	764,101	289,635	474,466	162.8%
Bond and notes guaranteed	489,132	807,932	(318,800)	65.2%
Total interest expense	4,260,350	3,538,920	721,430	20.4%

Interest expenses increased by 20.4%, or L721,430 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily as a result of the 23.2% increase in interest expense on deposits and 16.8% increase in interest expense on loans payable, as further explained below.

Interest expense on deposits increased by 23.2%, or L565,764 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily due to an increase in the volume of our term deposits (L5,350,352 thousand) and savings accounts (L2,627,506 thousand), as well as an increase in the average rates we paid on our term deposits, which lead to an interest expense increase of L82,588 thousand.

Interest expense on loans obtained from banks increased by 162.8%, or L474,466 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily as a result of our strategic decision to increase loans from financial institutions to match funds with long-term loans in local and foreign currency, which led to a corresponding increase of L164,558 thousand in interest expense, and a L298,559 thousand increase due to a reclassification of bond interest expense. This increase was partially offset by a decrease in average interest rates, which led to a decrease in interest expense of L8,412 thousand.

Interest expense on bonds and notes guaranteed decreased by 65.2%, or L318,800 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily due to an increase of 5.7% in our bonds and guaranteed notes volume, which led to an increase of L37,332 thousand, partially offset by a decrease in average interest rates which led to a decrease in expenses of L54,615 thousand. Additionally, this expense decreased by L298,559 thousand due to an adjustment from a reclassification of bond interest expense in 2018.

Loan Impairment Charges

The following table presents the loan impairment charges, NPL ratio, the coverage ratio and provision for loan losses for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Loan impairment charges.....	661,229	766,378	(105,149)	(13.7%)
NPL ratio.....	2.3%	2.9%	—	—
Coverage ratio.....	125.4%	118.2%	—	—
Provision for loan losses.....	2,171,713	2,029,273	142,440	7.0%

Loan impairment charges decreased by 13.7%, or L105,149 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, with our delinquency rate decreasing to 2.1% as of December 31, 2019 as compared to 2.9% as of December 31, 2018 and our coverage ratio increasing to 125.4% as of December 31, 2019 as compared to 118.2% as of December 31, 2018.

During the year ended December 31, 2019, loan impairment charges attributable to the retail banking portfolio decreased by 32.5%, or L155,638 thousand, as compared to the year ended December 31, 2018, primarily due to a strategy that adjusted our loan origination policies per client risk, a broader risk analysis of existing and potential clients and intensive loan recovery efforts.

During the year ended December 31, 2019, loan impairment charges attributable to the SME banking portfolio increased by 37.0%, or L64,456 thousand, as compared to the year ended December 31, 2018, primarily due to an increase in judicial recovery processes that ended in 2019 and an increase in the default rate of clients in certain sectors, such as the agribusiness sector.

During the year ended December 31, 2019, loan impairment charges attributable to the corporate portfolio decreased by 14.5%, or L14,452 thousand, as compared to the year ended December 31, 2018, primarily due to a broader risk analysis of existing and potential clients and intensive loan recovery efforts.

Provision for loan losses increased by 7.0% to L2,171,713 thousand for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This increase was mainly due to the L661,229 thousand in impairment charges we registered, a decrease in write-offs of loans of L405,884 thousand and a release of reserves of L113,926 thousand.

Proceeds from Services

The following table presents the components of proceeds from services for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Services.....	137,598	154,486	(16,888)	(10.9%)
Commissions.....	2,702,381	1,453,102	1,249,279	86.0%
Leases.....	193,363	163,986	31,377	19.1%
Other income ⁽¹⁾	558,404	457,546	100,858	22.0%
Total proceeds from services.....	3,593,746	2,229,120	1,364,626	61.2%

(1) Other income consists of gains on purchase/sale of foreign currency, change in value of assets and liabilities held for sale, fees for account management, gain on sale of financial assets and other income (diverse).

Proceeds from services increased by 61.2%, or L1,364,626 thousand, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, mainly due to the 86.0% increase in our commission income and the 22.0% increase in our other income, as further explained below.

The decrease in service revenue of 10.9%, or L16,888 thousand, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, was primarily due to a decrease of L23,768 thousand in the revenues of COALSA on warehouse lines, which in turn was due to an accounting change that resulted in warehouse service income being reclassified as operative lease income as required by regulations of the CNBS. This decrease was partially offset by an increase in COALSA's other services income of L5,917 thousand.

The increase in commission income of 86.0%, or L1,249,279 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, was primarily due to our integration of AFP Confia into our consolidated results (leading to an increase of L1,071,742 thousand) and, to a lesser extent, increases in the commission income of AFP Atlántida and Banco Atlántida.

The increase in lease income of 19.1%, or L31,377 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, was primarily due to an increase in lease income of L23,122 thousand as a result of a change in accounting treatment of Leasing Atlántida's lease income and an increase of L2,311 thousand primarily due to the increase in the subscription of new leasing contracts by Banco Atlántida.

The increase in other income of 22.0%, or L100,858 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, was primarily due to the increase in other diverse services income of L67,947 thousand, an increase in account management charges of L15,800 thousand, an increase on sale of foreign currency of L5,199 thousand and an increase in amortized cost of L8,883 thousand.

Profit from insurance activities

The following table presents the components of profit from insurance activities for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Income from insurance activities	3,454,168	3,274,465	179,703	5.5%
Expenses from insurance activities	2,970,330	2,853,900	116,430	4.1%
Profit from insurance activities	483,838	420,565	62,273	15.0%

Profit from insurance activities increased by 15.0%, or L62,273 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily due to the income and

expense movements discussed below.

Income from insurance activities increased by 5.5%, or L179,703 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly due to an increase in gross premiums of L118,098 thousand, which in turn primarily reflects the growth of our client portfolio, particularly in the fields of damages and health insurance, and an increase in income from the release of technical reserves in the amount of L85,121 thousand, which in turn was primarily due to the release of reserves for claims received.

Expenses for insurance activities increased by 4.1%, or L116,521 thousand, for the year ended December 31, 2019, as compared to year ended December 31, 2018, mainly due to an increase of L213,868 thousand in returns and cancellations of premiums, decreases of L69,630 thousand in premiums ceded to foreign reinsurers, an increase of L51,083 thousand in the establishment of technical reserves and an increase of L14,875 thousand in claims and settlement expenses.

Other expenses

The following table presents the components of other expenses for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Other expenses				
Staff expenses	2,270,935	1,876,432	394,503	21.0%
General and administrative expenses	3,443,662	2,415,652	1,028,010	42.6%
Depreciation and amortization	601,821	647,808	(45,987)	(7.1%)
Total, other expenses.....	6,316,418	4,939,892	1,376,526	27.9%

Other expenses increased by 27.9%, or L1,376,526 thousand, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, mainly due to an increase of 21.0% in staff expenses and an increase of 42.6% in general and administrative expenses, as further explained below.

Staff expenses increased by 21.0%, or L394,503 thousand, for the year ended December 31, 2019 as compared to the year ended December 31, 2018, mainly due to the integration of AFP Confia's staff expenses into our consolidated results (leading to an increase of L206,073 thousand) and, to a lesser extent, an increase of L103,471 thousand in Banco Atlántida's staff expenses, which in turn primarily reflect an increase in salary, travel expenses and other staff expenses, a L13,046 thousand increase resulting from the merger of Banco Atlántida Nicaragua and a L38,557 increase in staff expenses from the growth of Banco Atlántida El Salvador.

General and administrative expenses increased by 42.6%, or L1,028,010 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly due to the integration of AFP Confia's general and administrative expenses into our consolidated results (leading to an increase of L647,071 thousand) and, to a lesser extent, an increase of L25,534 thousand in Banco Atlántida Nicaragua's general and administrative expenses, which in turn primarily reflect our integration of such entity's results into our consolidated results as of November 2019, as well as a L277,814 thousand increase in general and administrative expenses from services to third parties.

Depreciation and amortization decreased by 7.1%, or L45,987 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly due to a decrease of L199,418 thousand in amortization of programs, applications and licenses, partially offset by an increase of L19,262 in the amortization of intangibles, which in turn was primarily due to the integration of AFP Confia's intangibles into our consolidated results, as well an increase of L134,373 thousand in the amortization of buildings, furniture, office equipment and usufruct construction.

Non-operating income (expenses)

The following table presents the components of the non-operating income (expenses) for the years ended December 31, 2019 and 2018:

	December 31,		Change	
	2019	2018		%
	(L in thousands, except percentages)			
Income from dividends	34,470	191,729	(157,259)	(82.0%)
Gain on sale of assets held for sale	151,372	77,052	74,320	96.5%
Gain on sale of fixed assets	14,817	40,825	(26,008)	(63.7%)
Other income and interest tax, net.....	324,555	305,337	19,218	6.3%
Total	525,214	614,943	(89,729)	(14.6%)

Non-operating income decreased by 14.6%, or L89,729 thousand, during the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly due to a decrease in income from dividends of L157,259 thousand, partially offset by an increase in gain on sale of assets held for sale of L74,320 thousand, as explained below.

Income from dividends decreased by 82.0%, or L157,259 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly due to a decrease of L153,362 thousand in dividends received from CIA given that CIA's main subsidiary, AFP Confia, became our direct subsidiary as we increased our ownership interest in AFP Confia to 74.99% during 2019.

Gain on sale of assets held for sale increased by 96.5%, or L74,320 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily as a result of increased selling activity as well as the sale of certain of our assets with significant value, such as real estate in Honduras.

Gain on sale of fixed assets decreased by 63.7%, or L26,008 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly because in 2018 Banco Atlántida recorded a profit of L28,750 thousand from the sale of an aircraft.

Other income and interest tax, net increased by 6.3%, or L19,218 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, mainly due to the following: (i) a decrease in earnings due to exchange rate fluctuations (L24,275 thousand); (ii) a decrease in income from recoveries of assets written off (L15,689 thousand); (iii) an increase in income from fluctuation in the value of financial assets held for trading (L56,424 thousand), (iv) an increase in net assets tax expenses (L4,257 thousand), among others.

Income before tax and non-controlling interest

Income before tax increased by 30.8% to L2,253,965 thousand for the year ended December 31, 2019 from L1,722,621 thousand for the year ended December 31, 2018.

Income Tax

Income tax expense increased by 44.9%, or L241,442 thousand, for the year ended December 31, 2019, as compared to the year ended December 31, 2018, as a result of the increase in our income before taxes. Our effective income tax rate was 34.6% at December 31, 2019 as compared to 31.2% at December 31, 2018.

Net income

As a result of the foregoing, our net income increased by 20.8% to L1,286,649 thousand for the year ended December 31, 2019 from L1,065,001 thousand for the year ended December 31, 2018. Average shareholders' equity increased by 7.0% to L12,514,057 thousand for the year ended December 31, 2019, from L11,695,894 thousand for the year ended December 31, 2018. Our ROAE was 10.3% for the year ended December 31, 2019, as compared to 9.1% for the year ended December 31, 2018. Our ROAA for the year ended December 31, 2019 was 1.1%, which was flat compared to 1.1% for the year ended December 31, 2018.

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.

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.

The following table sets forth our primary sources of funding on a consolidated basis as of December 31, 2020 and 2019:

	December 31,		Change	
	2020	2019		%
	(L in thousands, except percentages)			
Demand deposits.....	16,887,212	13,475,526	3,411,686	25.3%
Saving deposits	46,779,158	36,228,942	10,550,216	29.1%
Term deposits.....	39,735,678	34,009,918	5,725,760	16.8%
Others.....	133,424	669,483	(536,059)	(80.1)%
Total deposits from clients and other banks	103,535,472	84,383,869	19,151,603	22.7%
Financial obligations	10,363,087	9,842,323	520,764	5.3%
Bonds and guaranteed notes.....	7,329,106	6,778,077	551,029	8.1%
Total	121,227,665	101,004,269	20,223,396	20.0%

Deposits for clients and other banks increased by 22.7% to L103,535,472 thousand as of December 31, 2020, as compared to L84,383,869 thousand as of December 31, 2019, primarily as a result of the uncertainties caused by the COVID-19 pandemic, which has caused clients to increase their savings deposits in Banco Atlántida due to its perceived financial strength.

Financial obligations were L10,363,087 thousand as of December 31, 2020, compared to L9,842,323 thousand as of December 31, 2019, representing an increase of 5.3%, primarily due to an increase in 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 global financial institutions with which it has had longstanding correspondent relationships. Some of its main providers of credit facilities include IFC, PROPARCO, CABEL, Global Climate Partnership Fund, Banco Central de Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AG. As of December 31, 2020, we had an aggregate amount of US\$381,261 thousand (L9,193,778 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US\$264,582 thousand (L6,380,157 thousand) was available to draw upon.

Debt securities issued were L7,329,106 thousand as of December 31, 2020, compared to L6,778,077 thousand as of December 31, 2019, representing an increase of 8.1%, which was primarily the result of a new issuance by Banco Atlántida of local currency bonds in an aggregate principal amount of L500,000,000, as well as an increase of L181,186 thousand as a result of a new issuance of bonds by Banco Atlántida El Salvador. Debt securities issued consisted of corporate bond issuances in the local market with a fixed maturity date and variable interest payments. See Note 19 to our audited financial statements.

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. For more information, see "Regulation and Supervision—General Regulation Applicable to Honduran and Salvadoran Insurance Companies—Significant Insurance Company Regulations of Honduras—Reserves." 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, in combination with the proceeds from this offering, 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 11.0% or above. As of December 31, 2020 and 2019, Banco Atlántida's capital adequacy ratio was 12.8% and 12.1%, respectively.

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:

	December 31,		
	2020	2019	2018
	(L in thousands)		
Total, Tier 1.....	8,680,524	7,988,863	7,488,863
Total, Tier 2.....	1,958,843	1,894,418	1,361,627
Total, Regulatory Capital	10,639,367	9,883,281	8,850,490
Total, Risk weighted assets	83,072,295	81,437,715	71,545,025
Regulatory Capital as percentage of risk weighted assets	12.8%	12.1%	12.4%

In addition, pursuant to Salvadoran capitalization requirements, Banco Atlántida El Salvador (formerly Banco Procredit) is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 12.0%. As of December 31, 2020 and 2019, Banco Atlántida El Salvador's capital adequacy ratio was 12.9% and 13.3%, respectively.

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

	December 31,		
	2020	2019	2018
	(L in thousands)		
Total, Tier 1.....	65,946	55,848	45,695
Total, Tier 2.....	3,980	3,567	2,485
Total, Regulatory Capital	69,926	59,415	48,180
Total, Risk weighted assets	540,912	445,121	360,756
Regulatory Capital as percentage of risk weighted assets	12.9%	13.3%	13.3%

Under Nicaraguan capitalization requirements, Banco Atlántida Nicaragua is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 10.0%. As of December 31, 2020 and 2019, Banco Atlántida Nicaragua's capital adequacy ratio was 54.8% and 144.6%, respectively.

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

	December 31,	
	2020	2019
	(L in thousands)	
Total, Tier 1.....	300,414	291,573
Total, Tier 2.....	(44,949)	(24,957)
Total, Regulatory Capital	255,465	266,616
Total, Risk weighted assets	466,193	184,332
Regulatory Capital as percentage of risk weighted assets	54.8%	144.6%

Commitments and contractual obligations

On July 28, 2017, we issued US\$150,000,000 of our Existing Notes in the international capital markets. As mentioned in “Use of Proceeds,” we are issuing the notes offered hereby as part of a plan to refinance such Existing Notes due to the favorable market conditions. We intend on the date the notes are issued, to direct the initial purchaser to deposit with the Trustee for the Existing Notes from the net proceeds from the sale of the notes offered hereby an amount equal to the entire outstanding US\$150,000,000 of the Existing Notes plus accrued and unpaid interest thereon to (but excluding) the redemption date for the Existing Notes, which is expected to take place on July 28, 2021 to be held in trust by the Trustee for the benefit of the holders of the Existing Notes pursuant to the covenant defeasance provisions set forth in the Existing Indenture.

As a result of doing so, consistent with the terms of the Existing Indenture, we shall be relieved from (i) certain covenants under the Existing Indenture, including any limitation on the amount of indebtedness we may incur, which on a going forward basis shall be limited only to the extent set forth in the Indenture and (ii) the encumbrances on our assets pledged as security for the Existing Notes. All funds provided to facilitate the covenant defeasance for the Existing Notes shall be held by the Trustee for the Existing Notes in an account established by the Trustee (and under its sole control) for the benefit of the holders of the Existing Notes, with notice of the foregoing to be provided by the Trustee to each holder of the Existing Notes and the SGX ST, on which the Existing Notes are currently listed.

As a result of the foregoing, we will be entitled to pledge all of the collateral currently held as security for the benefit of the holders of the Existing Notes as collateral solely for the benefit of the holders of the notes, with the holders of the Existing Notes secured by the cash deposited with the Trustee for the Existing Notes under the defeasance provisions of the Existing Indenture. To address, among other things, any concerns over the time period that the Trustee would hold the funds deposited pursuant to the defeasance provisions of the Existing Indenture, we shall instruct the Trustee for the Existing Notes to apply the funds deposited pursuant to the defeasance provisions of the Existing Indenture to redeem the Existing Notes on July 28, 2021, when we may do so without incurring any premium.

We currently are negotiating with a Honduran financial institution to enter into a \$70,000,000 unsecured credit facility, with one half of the credit amount to be made available to us and the remaining amount to be made available to Banco Atlántida, on an as needed basis. If we enter into the facility, we intend to use the funds for general corporate purposes, and Banco Atlántida intends to use such funds to make loans to women-owned, minority-owned and other businesses.

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, 2020.

(L in thousands, except rates)	Less than 30 days	31 to 90 days	91 days to 1 year	Between 1 and 5 years	Less than 5 years	Total
Deposits for clients and other banks	18,439,911	17,439,953	20,035,837	28,652,341	18,967,430	103,535,472
Financial obligations	673,370	581,004	1,591,160	3,920,459	3,597,094	10,363,087
Bonds and guaranteed notes	-	-	1,022,363	6,306,743	-	7,329,106
Total	19,113,281	18,020,957	22,649,360	38,879,543	22,564,524	121,227,665
% of Total	15.8%	14.8%	18.7%	32.1%	18.6%	100.0%

Capital expenditures

Our consolidated capital expenditures increased to L1,308,114 thousand for the year ended December 31, 2020 compared to L1,205,998 thousand for the year ended December 31, 2019 primarily due to our investment in the development of intangibles (such as licensing programs, among others). Capital expenditures totaled L1,205,998 thousand for the year ended December 31, 2019 compared to L1,394,656 thousand for the year 2018, mainly due to our increase in the acquisition of information technology services in order to provide quality and efficient services to our customers. For more information, see Notes 11 and 12 of our audited financial statements.

Off-Balance sheet arrangements

In the normal course of business, we are a 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 as contingent loans, such as guarantees, letters of credit and loans under contract pending disbursement, including credit lines and syndicated loans. We provide our clients with services related to the issuance and confirmation of commercial and stand-by letters of credit and to the issuance of guarantees. Our letters of credit operations totaled L458,550 thousand as of December 31, 2020, L416,643 thousand as of December 31, 2019 and L362,969 thousand as of December 31, 2018. Our issuance of guarantees totaled L5,503,169 as of December 31, 2020, L5,490,618 thousand as of December 31, 2019 and L5,659,985 thousand as of December 31, 2018. Our loans under contract pending disbursement totaled L4,396,235 thousand as of December 31, 2020, L4,313,114 thousand as of December 31, 2019 and L4,354,232 thousand as of December 31, 2018.

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, we generally determine the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the client's creditworthiness. We may also require commitment letters and oral assurances. 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 adequacy. Additional collateral is required when appropriate as determined by the credit committee of our subsidiaries.

Qualitative and Quantitative Disclosure about Market Risks

We are 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 we regularly assess and manage our exposures to these risks, see Note 4 to our audited consolidated financial statements contained elsewhere in this offering memorandum.