



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

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 March 31, 2020. We were acknowledged as a financial holding company by the National Banking and Insurance Commission of the Republic of Honduras (The Commission) in 2012, and our main subsidiary, Banco Atlántida, S. A. (a Honduran Subsidiary), 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, one of the largest banks and insurance companies in Honduras in terms of assets. In addition, Banco Atlántida and Seguros Atlántida rank among the most profitable entities in the Honduran banking and insurance systems, according to the Commission. Banco Atlántida holds a distinguished position in the local marketplace in terms of total assets, total net loans and total deposits, with market shares of 18.6%, 19.8% and 20.6%, respectively, as of March 31, 2020, according to the Commission. Furthermore, Seguros Atlántida is one of the largest insurance company in terms of total gross premiums written, with a market share of 18.9% and 18.4% as of March 31 of 2020 and 2019, respectively, according to the Commission. For the three months ended March 31, 2020 and 2019, Banco Atlántida had a ROAE of 9.2% and 10.7%, respectively. For the three months Ended March 31, 2020 and 2019, Seguros Atlántida had a ROAE of 16.0% and 18.3%, respectively.

As of March 31, 2020, Invatlan had one of the largest banking distribution networks in Honduras (2,074 points of service) which, with our distribution network of insurance and our operations in El Salvador and Nicaragua adds up to 2,156 points of service, comprised as follows:

- 269 branches (150 agencies, 67 teller windows embedded within corporate client offices, 22 drive thru and 30 branches related to the other lines of business that make up Invatlan)
- 1,127 ATMs (398 proprietary ATMs and 729 third-party network ATMs)
- 760 non-correspondent banking agents.

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, that 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 the interest rate could result in adverse changes in our financial margin, reducing our growth rate or even resulting in decreases compared to previous periods.

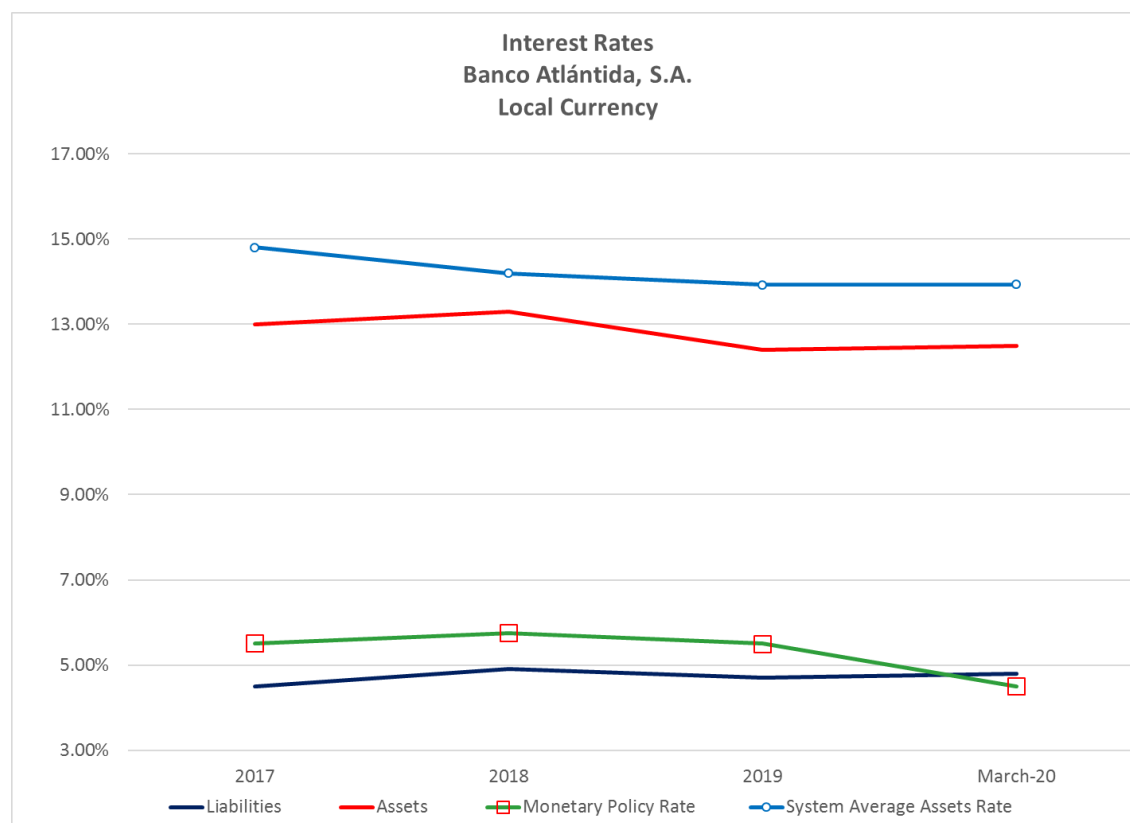
Increases in interest rates can reduce the volume of loans originated by Banco Atlántida. The historically sustained high interest rates have discouraged our clients from borrowing and has resulted in greater asset impairment.

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 of Honduras (Central Bank) at the relevant dates. For more information, see “Exchange Rates.” For purposes of this section, US Dollars-denominated assets and liabilities include: (I) Domestic US Dollar, which includes all transactions conducted in Honduras or on behalf of Honduran residents in US Dollar and (ii) Foreign US Dollar, which includes all transactions performed with entities outside Honduras, such as multilateral and correspondent banks.

Assets and Liabilities Rates in Lempiras

The chart below presents the weighted average interest rates of assets and liabilities on lempiras of Banco Atlántida as of March 31, 2020 and December 31, 2019, 2018 and 2017.



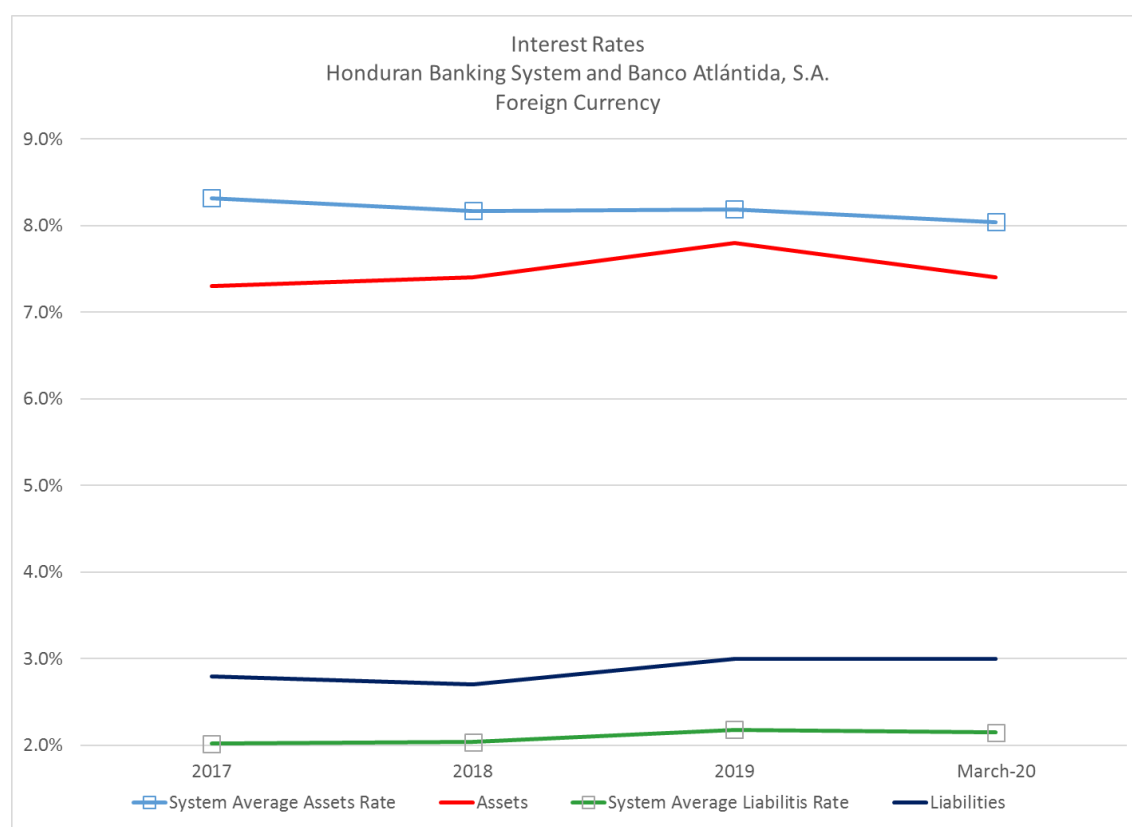
The Honduran banking industry generally does not set interest rates by reference to a benchmark rate; however, the weighted average interest rates on lempira-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum bid rate that the Central Bank allows for its treasury notes. This reference rate was modified to 4.50% on March 24, 2020, a decrease of 0.75 pp, due to the efforts of the Central Bank to mitigate the effects of the COVID-19 pandemic. Previous changes were made on February 10, 2020 where the minimum bid rate was changed to 5.25% from 5.50% as of December 2019.

Banco Atlántida's average interest rate on lempira-denominated assets was 12.5% as of March 31, 2020 and 12.4% as of December 31, 2019. Banco Atlántida's lempira-denominated assets have grown 1.2%, overcoming the 1.2% decrease reported by the local banking system during the same period.

The average interest rate of Banco Atlántida on liabilities denominated in lempiras was 4.8% as of March 31, 2020 and 4.7% as of December 31, 2019. As of March 31, 2020, compared to December 31, 2019, deposits denominated in local currency of Banco Atlántida have grown by 1.6%, while the local financial system has decrease by 1.3% during the same period.

Assets and Liabilities Rates in Foreign Currency

The following table presents the weighted average rates of assets and liabilities in foreign currency of Banco Atlántida as of March 31, 2020 and December 31, 2019, 2018, and 2017.



As of March 31, 2020, and December 31, 2019, Banco Atlántida's average interest rate on assets denominated in foreign currency was 7.4% and 7.8%, respectively. Banco Atlántida's loan portfolio in US dollars increased 0.8% between March 31, 2020 and December 31, 2019, while the local financial system did so by 1.1% during the same period.

The average interest rate of Banco Atlántida on foreign currency-denominated liabilities was 3% as of March 31, 2020 and 3.0 % as of December 31, 2019. Foreign currency-denominated deposits of Banco Atlántida grew 1.9% between March 31, 2020 and December 31, 2019, while the local financial system did so by 8.5% during the same period.

Effect of Family Remittances

As of March 31, 2020, family remittances that entered Honduras were USD1,208.8 million, represented an increase of 5.1% compared to the corresponding period in 2019, while for the previous immediate periods, they were as shown in the following table:

Period	Amount*		Change %
26/03/2020	1,208.80	(p)	5.14%
26/03/2019	1,149.70	(r)	10.62%
26/03/2018	1,039.30	(r)	4.10%
26/03/2017	998.4	(r)	10.90%

* expressed in millions of USD

(p) preliminary data

(r) revised data

The income obtained by Banco Atlántida from family remittances mainly consisted of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD 316.1 million in family remittances during the period ended March 31, 2020, 5.9% more than the corresponding period of 2019, during which USD298.5 million were processed. As of March 31, 2020, Banco Atlántida's market share was 26.2%, while for the corresponding period of 2019 it was 25.2%.

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 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 a moderate inflation in recent years. As of March 31, 2020, the inflation rate was 3.9%, mainly explained due to the rise in prices of some food in the last two weeks of the month, given mobilization restrictions due to the outbreak of COVID-19. This effect was partially offset by the decline recorded in fuel prices. On March 2019, the inflation rate was 4.1%, compared to 4.4% and 3.9% on March of 2018 and 2017, respectively. The main drivers of inflation were food and non-alcoholic beverages and to a lesser extent transportation, health, clothing and footwear, accommodation, water, electricity, gas and other fuels, furniture and articles for home conservation, hotels, cafes and restaurants, recreation and culture, and personal care. According to the Central Bank, the inflation target for 2019 was achieved, as it remained within the range of 4.0% (± 1 pp) agreed with the International Monetary Fund (IMF).

Exchange Rates

The Group is exposed to currency risk any time an open position in a currency other than Lempiras is held. Volatility in Lempiras exchange rates could result in higher risks associated with such positions.

In addition, any devaluation or depreciation of the Lempira 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. The exchange rate was L24.7540 per U.S.\$1.00 on March 31, 2020, compared to L24.4316 per U.S.\$1.00 on March 31, 2019, as published by the Central Bank.

Demographic trends

During the last 4 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	Unemploy- ment rate	% Change
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%	-3.7%	5.6%	1.8%
2017	8.9	2.3%	2,612	5.0%	64.3%	5.6%	5.5%	-17.9%
2016	8.7	1.2%	2,488	3.7%	60.9%	-11.4%	6.7%	9.8%

- **GDP per capita**

Bank loans

The growth rate of the loan portfolio of Banco Atlántida, specifically for its retail banking segment, can be attributed to low bank penetration. In terms of bank penetration, the proportion of loans (as published by the Commission) to GDP (as published by the Central Bank) was 56.0%, as of December 31, 2019.

According to the Central Bank, as of March 31, 2020, the growth rate of bank loans to the private sector was 7.3%, compared to the growth rate of 13.1% and 11.3 % as of 2019 and 2018 respectively. The main change is explained by the concession to industrial companies, commercial and service industries, as well as credit to families. Bank loans from the private sector continue to experience higher growth rates than those of the country's GDP, as indicated above.

Results of Operations for the Three Months Ended March 31, 2020 Compared to Same Period of 2019

The following table shows the principal components of the consolidated income statement for the three months ended March 31, 2020 and 2019:

	March 31,		Change	
	2020	2019	HNL000's	%
Interest income	2,404,581	2,118,969	285,612	13.5
Interest expense	1,150,758	1,005,901	144,857	14.4
Financial profit	1,253,823	1,113,068	140,755	12.6
Loan impairment charges	225,793	162,037	63,756	39.3
Financial profit, net of impairment charges	1,028,030	951,031	76,999	8.1
Income from insurance activities	946,766	913,262	33,504	3.7
Expenses from insurance activities	823,729	798,391	25,338	3.2
Profit from insurance activities	123,037	114,871	8,166	7.1
Services	40,658	40,227	431	1.1
Commissions	776,585	381,348	395,237	103.6
Leases	57,916	42,751	15,165	35.5
Other income	142,714	119,881	22,833	19.0
Total Proceeds from services	1,017,873	584,207	433,666	74.2
Staff-expenses	618,392	505,569	112,823	22.3
General and administrative expenses	927,623	572,389	355,234	62.1
Depreciation and amortization	155,884	181,043	(25,159)	(13.9)
Total other expenses	1,701,899	1,259,001	442,898	35.2
Operating income	467,041	391,108	75,933	19.4
Income from dividends	112	1,392	(1,280)	(92.0)
Gain on sale of other and contingent assets	23,651	17,604	6,047	34.4
Gain on sale of fixed assets	3,012	2,725	287	10.5
Other income, net	17,267	36,206	(18,939)	(52.3)
Total non-operating income (expenses)	44,042	57,927	(13,885)	(24.0)
Income before income tax	511,083	449,035	62,048	13.8
Income tax/capital gain/net assets tax	213,016	190,614	22,402	11.8
Income before minority interest	298,067	258,421	39,646	15.3
Net income attributable to noncontrolling interests	45,115	29,900	15,215	50.9
Net Income	252,952	228,521	24,431	10.7

In thousands of L except percentages

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

Financial Proceeds

The following table presents the components of the interest income for the three months ended March 31, 2020 and 2019:

Interest Income on:	March 31,		Change	
	2020	2019	HNL's	%
Loans	2,137,320	1,880,026	257,294	13.7%
Investments Securities	249,834	228,000	21,834	9.6%
Interest earning deposits	17,427	10,943	6,484	59.3%
Total, interest income	2,404,581	2,118,969	285,612	13.5%

In thousands of L except percentages

Interest income increased 13.5% or L285,612 for the three months ended March 31, 2020, compared to the corresponding period of 2019, mainly due to an increase in loan interest income of 13.7% and 9.6% on investment securities.

Interest on our loan portfolio increased by L257,294, or 13.7%, for the three months ended March 31, 2020 compared to the period corresponding to 2019, mainly due to a higher volume of loans disbursed in local currency whose average balance grew by 13.3% compared to the three months ended March 31, 2019, adding L172,480 to our interest income, the average balance of the portfolio of loans denominated in US dollars as of March 2020 increased 15.5% compared to March 31, 2019, adding L83,611 to our interest income. This is due to the growth of the year-on-year portfolio of L5,387 million in local currency and L4,550 million in foreign currency.

Interest income on investments in securities increased by L21,834, or 9.6%, for the three months ended March 31, 2020 compared to the corresponding period in 2019, due to an increase in the average balance of investments of 16.1 % for the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

Interest Expense

The following table presents the components of the interest expense for the three months ended March 31, 2020 and 2019:

Interest expense	March 31,		Change	
	2020	2019	HNL's	%
Deposits from customers	864,521	669,452	195,069	29.1%
Loans obtained from banks	152,687	217,515	(64,828)	-29.8%
Financial obligations	133,550	118,934	14,616	12.3%
Total, interest income	1,150,758	1,005,901	144,857	14.4%

In thousands of L except percentages

Interest expenses increased by L144,857 thousand or 6.8% for the three months ended March 31, 2020 compared to the corresponding period of 2019, caused mainly by an increase in interest expense on deposits by 29.1% and a decrease of interest expense on loans obtained from Banks of 29.8%.

Interest expense on deposits increased by L195,069 thousand or 29.1%, for the three months ended March 31, 2020 compared to the corresponding period of 2019, mainly due to a volume growth of term deposits by L1,885 million and savings deposits by L1,095 million.

Interest expense on loans obtained from Banks decreased by L64,828 thousand, or 29.8%, for the three months ended March 31, 2020, compared to the corresponding period of 2019, mainly due to decrease in interest expenses on loans obtained from banks of Banco Atlántida S. A. by L69,089 thousand and an increase in BAES interest expense on loans by L3,490 thousand.

Allowance for Loan and Interest Losses

The following table presents the loan impairment charges, NPL ratio, the coverage ratio and the loan and Provision for loan losses (PLL) for the three months ended March 31, 2020 and 2019:

	March 31,		Change	
	2020	2019	(HNL)	%
Loan impairment charges	225,793	162,037	63,756	39.3%
NPL ratio	2.1%	2.90%	-	-
Coverage ratio	137.2%	123.50%	-	-
Provision for loan losses	2,268,095	2,066,624	201,471	9.7%
In thousands of L except percentages				

Credit impairment charges increased by 39.3% or L63,756 thousand for the three months ended March 31, 2020 compared to the corresponding period of 2019. The delinquency rate decreased to 2.1% as of March 31, 2020 in relation to 2.9% as of March 31, 2019. The coverage ratio increased to 137.2% as of March 31, 2020, compared to 123.5% as of March 31, 2019.

During the three months ended March 31, 2020, the impairment charges of loans attributable to the retail banking portfolio increased by L115,946 thousand, compared to the corresponding period of 2019 due to the initial measures adopted by the Bank during March 2020 in preparedness to the challenges posed by the Covid19 emergency. This is remarkable for the consumer loan portfolio and enhances the loan loss coverage ratio considering that in the same period, consumer loan repayments increased from L48,152 thousand to L107,209 thousand, or 122.6%.

During the three months ended March 31, 2020, credit impairment charges attributable to the SME banking portfolio decreased by L81,695 thousand, or 169.8% compared to the same period of the previous year, as a result of a lower non-performing loan ratio which decreased to 6.09% as of March 31, 2020 compared to 7.10% as of March 31, 2019, including regulatory changes which have resulted in lower loss reserve requirements. Charge-off's for the SME portfolio have also decreased during the first quarter of 2020 by L26,686 thousand compared to the first quarter of 2019. Mortgages have incurred in a loan loss reserve expense of L8,737 thousand as of March 31, 2020 compared to L9,596 thousand as of March 31, 2019.

During the three months ended March 31, 2020, the impairment charges on loans in the corporate portfolio increased by L29,505 thousand compared to the corresponding period of 2019, due to corporate loan charge-off's have declined during the first quarter of 2020 compared to the first quarter of 2019 to L12,000 thousand from L31,477 thousand. Nonetheless, since our loan portfolio continues to be entrenched in the corporate business segment, representing 73.1% of total portfolio as of March 31 2020 compared to 71.2% as of March 31, 2019; it is deemed appropriate that under current circumstances loan loss reserves be strengthened as to increase loan loss coverage ratios.

Proceeds from Services

The following table presents the components of fees and commission income for the three months ended March 31, 2020 and 2019:

	March 31,		Change	
	2020	2019	HNL's	%
Services	40,658	40,227	431	1.1%
Commissions	776,585	381,348	395,237	103.6%
Leases	57,916	42,751	15,165	35.5%
Other income	142,714	119,881	22,833	19.0%
Total, Proceeds from services	1,017,873	584,207	433,666	74.2%

In thousands of L except percentages

Service income increased 74.2% or L433,666 thousand for the three months ended March 31, 2020 compared to the corresponding period of 2019, mainly due to the increase in commission income to 103.6%.

The increase in commissions income by L395,237 thousand or 103.6%, for the three months ended March 31, 2020 compared to the corresponding period of 2019, was mainly due to the incorporation of commission income from AFP CONFIA by L394,063.

Profit from insurance activities

The following table presents the components of the net income from insurance activities for the three months ended March 31, 2020 and 2019:

	March 31,		Change	
	2020	2019	(HNL)	%
Income from insurance activities	946,766	913,262	33,504	3.7%
Expenses from insurance activities	823,729	798,391	25,338	3.2%
Profit from insurance activities	123,037	114,871	8,166	7.1%

in thousands of Ls, except percentages

Profit from insurance activities increased 7.1% or L8,166 thousands, for the three months ended March 31, 2020.

Income from insurance activities increased by 3.7% or L33,504 thousand for the three months ended March 31, 2020, compared to the corresponding period 2019, mainly due to an increase in net premiums of L63.1 thousand, an increase in the income of reinsurance commissions by L6.9 thousand, a negative variation in the release of technical reserves for L15.3 thousand due to the fact that a major policy that was issued until March 2020 and that was in force in December 2018 is not accruing - December 2019 and a decrease in income from claims and liquidation expenses recovered by L15.1 thousand.

Expenses for insurance activities increased by 3.2% or L25,338 thousand for the three months ended March 31, 2020 compared to the corresponding period in 2019, mainly due to an increase in the constitution of technical reserves for L25.5 thousand due to an increase in the constitution due to higher net premiums for the period and the restitution of the reserve of the Accidents and Illnesses branch released in December 2019, the other expenses decreased by a value of low relative importance.

Other expenses

The following table presents the components of the operating and administrative expenses for the three months ended March 31, 2020 and 2019:

Other expenses:	March 31,		Change	
	2020	2019	(HNL)	%
Staff expenses	618,392	505,569	112,823	22.3%
General and administrative expenses	927,623	572,389	355,234	62.1%
Depreciations and amortizations	155,884	181,043	(25,159)	(13.9%)
Total, other expenses	1,701,899	1,259,001	442,898	35.2%

In thousands of L except percentages

Other expenses increased 35.2% or L442,898 thousand for the three months ended March 31, 2020 compared to the corresponding period of 2019, mainly due to an increase of 22.3% in Personnel expenses, and an increase of 62.1% in general and administrative expenses.

Staff expenses increased by L112,823 thousand or 22.3%, for the three months ended March 31, 2020 compared to the corresponding period of 2019, mainly due to the incorporation of AFP CONFIA personnel expenses by L74,564 thousand and Banco Atlántida Nicaragua L4,479, as well as the increase in the staff expenses of Banco Atlántida Honduras by L18,076 thousand, Banco Atlántida El Salvador by L549 thousand and AFP Atlántida by L3,374.

General and administrative expenses increased by L355,234 thousand or 62.1%, for the three months ended March 31, 2020 compared to the corresponding period of 2019, mainly due to the incorporation of AFP CONFIA general and administrative expenses by L230,623 thousand and Banco Atlántida Nicaragua for L6,955, as well as an increase those expenses of Banco Atlántida, S. A. by L55,442 thousand, Banco Atlántida el Salvador by L4,240 thousand, Seguros Atlántida by L3,758 and Invatlan by L5,293.

Non-operating income (expenses)

The following table presents the components of the Non-operating income (expenses) for the three months ended March 31, 2020 and 2019:

	March 31,		Change	
	2020	2019	HNL's	%
Income from dividends	112	1,392	(1,280)	(92.0)
Gain on sale of other and contingen assets	23,651	17,604	6,047	34.4
Gain on sale of fixed assets	3,012	2,725	287	10.5
Other income, net	17,267	36,206	(18,939)	(52.3)
Total non-operating income (expenses)	44,042	57,927	(13,885)	(24.0)

In thousands of lempiras, except the percentages

Non-operating income decreased by L13,885 thousands or 24.0% during the three months ended March 31, 2020 compared to the corresponding period in 2019.

Gain on sale of assets available for sale increased by L6,047 thousand or 34.4% during the three months ended March 31, 2020 compared to the same period in 2019, due to: (1) the restitution of deferred profits for the sale of assets held for sale that at the time were financed with credits granted by the Bank itself and (2) to the promotion efforts carried out by the Sub-Management of Assets Held For Sale that derive in the sale of these.

Other net income decreased by L18,939 thousand or 52.3% compared to the same period in 2019, mainly due to the following: (1) an increase in earnings due to fluctuation in the exchange rate net of expenses for this same concept for L5,345 Thousands; (2) an increase in income from recoveries of assets written off by L3,383 thousand; (3) a decrease in income from fluctuation in the value of financial assets to be traded for L26,030 thousand, (4) an increase in other income of L15,100 thousand, (5) a decrease in other financial income for L10,250, (6) an increase in the expense of financial assets and liabilities held to trade for L32,580; (7) a decrease in other expenses by L39,656, and (8) an increase in taxes on interests by L11,933.

Income tax

Income tax expense increased by L22,402 thousand or 11.8%, for the three months ended March 31, 2020, compared to the corresponding period of 2019, the effective income tax rate was 41.1% at 31 March 2020 compared to 38.4% as of March 31, 2019.

Liquidity and Funding

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 the primary sources of funding as of March 31, 2020 and as of December 2019:

	In thousands of L, except the percentages			
	March 31, 2020	December 31, 2019	Change (HNL)	%
Demand deposits	13,290,948	13,475,526	(184,578)	(1.4%)
Saving deposits	37,324,036	36,228,942	1,095,094	3.0%
Term deposits	35,968,916	34,009,918	1,958,998	5.8%
Others	524,272	666,483	(145,211)	(21.7%)
Total, deposits	87,108,172	84,383,869	2,724,303	3.2%
Loans and Borrowings from bank	10,519,338	9,842,323	677,015	6.9%
Corporate bonds and secured notes	6,816,307	6,778,077	38,230	0.6%
	104,443,817	101,004,269	3,439,548	3.4%

The main sources of funds of Banco Atlántida have traditionally consisted of bank deposits and loans, as well as debt securities issued.

Total deposits increased 3.2% or L2,724,303 thousand as of March 31, 2020, compared to December 31, 2019, mainly due an increase in savings deposits by 3.0% and term deposits by 5.8%.

Loans obtained from other banks included short-term commercial financing, 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 correspondent relationships for a long time.

As of March 31, 2020, the Group had signed credit lines with foreign financial institutions for USD376,718 thousands (L9,325,279 thousands), of which USD225,885 thousands (L5,591,545 thousands) were available to use.

Corporate bonds and guaranteed notes increased by L38,230 thousand or 0.6% as of March 31, 2020, compared to December 31, 2019, mainly due to the increase in debt due to the application of the amortized cost method and the effect of the variation in exchange rates on bonds and notes denominated in foreign currency.

Through our asset and liability management policy, we seek to ensure that sufficient liquidity is available to cover withdrawals of deposits, pay other liabilities at maturity, grant loans or other forms of credit to clients, pay liabilities derived from policies insurance that we issue, and Meet the needs of working capital. The minimum amount of liquidity that our main subsidiaries must maintain depends on the reserve requirements established by the Central Bank, as well as the legal, technical and mathematical reserves required by our insurance operations. We comply with these requirements while maintaining an adequate balance between the maturity profile and the diversity of our financing sources.

Regulatory Capital

The Group is not obligated to maintain regulatory capital on a consolidated basis, however, in accordance with Honduran regulatory capitalization requirements, Banco Atlántida must maintain specific capital levels as a percentage of its risk-weighted assets (capital adequacy index) of the 11% or more. As of March 31, 2020, Banco Atlántida S.A.'s capital adequacy ratio was 12.07% and 12.14% as of December 31, 2019

The following table shows the calculation of the capital adequacy index of Banco Atlántida:

	In thousands of L			
	March 31,	December 31,		
	2020	2019	2018	2017
Total, Tier 1	7,741,323	7,988,863	7,488,863	6,488,863
Total, Tier 2	2,127,530	1,894,418	1,361,627	1,018,734
Total, Regulatory capital	9,868,853	9,883,281	8,850,490	7,507,597
Total, Risk weighted assets	81,789,762	81,437,715	71,545,025	61,083,980
Regulatory Capital as a percentage of risk weighted assets	12.07	12.14	12.4	12.3

Commitments and contractual obligations

The following table summarizes the commitments and contractual obligations as of March 31, 2020:

(HNL 000's, except percentages)	Less than 30 days	31 to 90 days	91 days to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits and obligations from customers	16,746,742	15,596,760	16,088,308	23,466,753	15,209,609	87,108,172
Loans and borrowings from banks	305,559	1,449,165	1,960,657	2,238,515	4,565,442	10,519,338
Debt securities issued	-	-	34,036	6,287,191	495,080	6,816,307
Total	17,052,301	17,045,925	18,083,001	31,992,459	20,270,131	104,443,817
% of Total	16.30%	16.30%	17.40%	30.60%	19.40%	100.00%

Capital expenditures

By March 31, 2020 capital expenditures were L1,1147,644 thousands compared to L1,394,656 thousand as of December 30, 2019. This capital investments are mainly due to a significant acquisitions and developments of equipment and information technology to provide quality and efficient services to our customers.

Off-Balance sheet arrangements

In the normal course of operations of the Group, there are several commitments, derived from securities, letters of credit, etc., which are not reflected in the consolidated financial statements. The Group does not expect any losses resulting from the development of these transactions. These contingent liabilities are detailed as follows:

		March 31, 2020	December 31, 2019
Letters of credit and idle credit documents	L	740,810	416,643
Sureties and bank guarantees issued		5,391,367	5,490,618
Acceptance debtors		303,835	472,793
Idle credits		5,097,064	4,313,114
Other responsibilities		100,485	71,037
	L	<u>11,623,561</u>	<u>10,764,205</u>

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 consolidated financial statements.