



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
September 30, 2017**

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 1.5 million clients as of September 30, 2017. We were acknowledged as a financial holding company by the CNBS in 2012, and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from significant synergies as a result of being part of one financial group.

Our operations in Honduras include Banco Atlántida and Seguros Atlántida, the largest bank and insurance companies in Honduras in terms of assets, respectively. In addition, Banco Atlántida and Seguros Atlántida rank among the most profitable entities in the Honduran banking and insurance systems, according to the CNBS.

Banco Atlántida holds a distinguished position in the local marketplace as of September 30, 2017, highlighting the following:

	Market Share
Net Assets	23.5%
Net Loans	18.8%
Total Deposits	20.5%

For the nine months ended September 30, 2017 and 2016, Banco Atlántida had a ROAE of 11.6% and 12.7%, respectively, compared to the Honduran banking system which had a ROAE of 12.6% and 13.5%, respectively, according to the CNBS.

Furthermore, Seguros Atlántida ranks third in terms of total gross premiums written, with a market share of 15.2% and 17.0% for the years ended September 30, 2017 and 2016, respectively, according to the CNBS. For the nine months ended September 30, 2017 and 2016, Seguros Atlántida had a ROAE of 34.0% and 26.4%, respectively, according to the CNBS.

As of September 30, 2017, Banco Atlántida had one of the largest banking distribution networks in Honduras, with 2,003 points of service, comprised of 216 branches, 954 ATMs (including 276 proprietary ATMs and 678 third-party network ATMs) and 833 non-correspondent banking agents (third-party points of service).

Effects of changes in interest rates

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

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

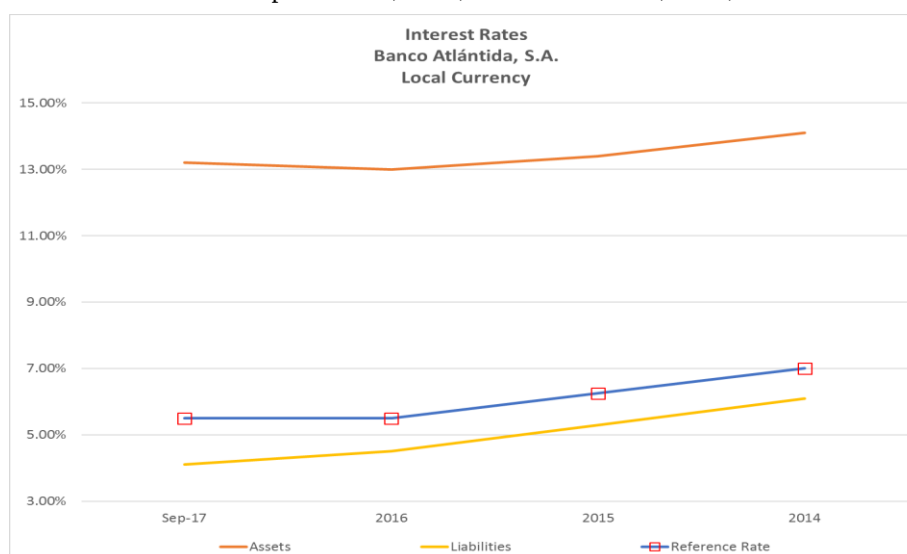
Increases in interest rates may reduce the volume of loans originated by Banco Atlántida. Sustained high interest rates have historically discouraged our clients from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of our assets.

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

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

Lempira-denominated assets and liabilities in Honduras

The chart below presents the weighted average interest rates on lempira-denominated assets and liabilities of Banco Atlántida as of September 30, 2017, and December 31, 2016, 2015 and 2014.



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

Banco Atlántida's average interest rate on lempira-denominated assets was 13.2% as of September 30, 2017, 13.0% as of December 31, 2016, 13.4% as of December 31, 2015, and 14.1% as of December 31, 2014. Banco Atlántida continues to pursue higher margin products emphasizing on personal loan products, payroll loans and credit cards. At its current interest level, for the nine months ended as of September 2017, Banco

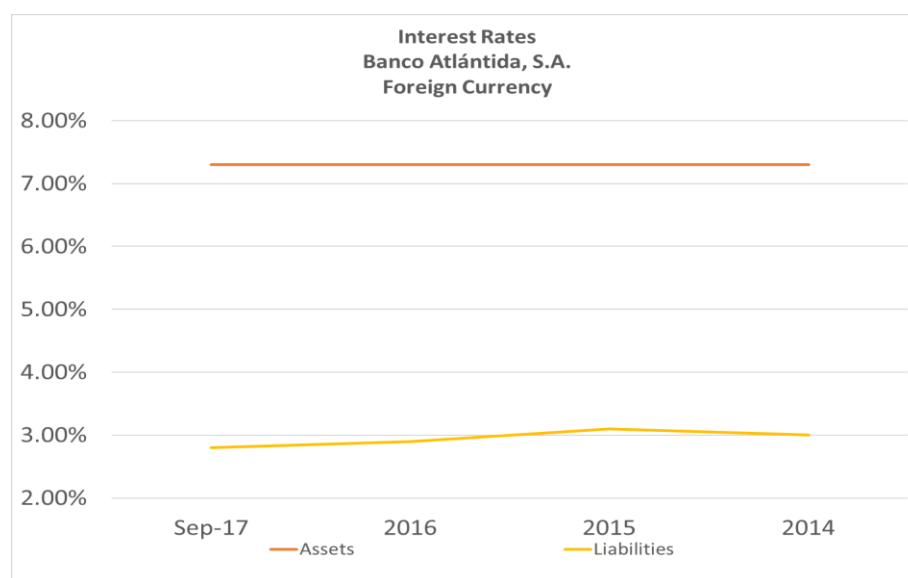
Atlántida's lempira-denominated assets have grown 4.8% outpacing the 1.3% increase reported by the local banking system during the same period.

Banco Atlántida's average interest rate on lempira-denominated liabilities maintained a downward trend due to its diverse retail deposit base, with no significant concentration in any specific type of deposit, with a rate of 4.10% as of September 30, 2017, 4.50% as of December 31, 2016, 5.30% as of December 31, 2015 and 6.10% as of December 31, 2014. Market wide, interest rates continue to decrease due to the outstanding liquidity which in turn also affects the yield of investments where surplus funds can be placed. As of September 30, 2017, compared to December 31, 2016, Banco Atlántida's local-denominated deposits have grown 12.4% while the local financial system has done so in 10.0% during the same period.

Foreign currency-denominated assets and liabilities in Honduras

The chart below presents the weighted average rates on foreign currency-denominated assets and liabilities of Banco Atlántida as of September 30, 2017, December 31, 2016, 2015 and 2014.

As of September 30, 2017, Banco Atlántida's average interest rate on foreign currency-denominated assets remained at 7.3% just as the stable rate of 7.3% as of December 31, 2016, 2015, and 2014. Higher capital requirements for loans granted in foreign currency, particularly to non-exporting entities, continues to influence pricing of such transactions and explains why interest rates have remained unchanged. Banco Atlántida's loan portfolio denominated in US Dollars receded 3.5% between December 31, 2016 and September 30, 2017, while the local financial system did so in 2.8% during the same period.



Conversely, Banco Atlántida's average interest rate on foreign-denominated liabilities stood at 2.8% as of September 30, 2017, 0.1pp lower than December 31, 2016. This rate stood at 3.10% and 3.0% as of December 31, 2015 and 2014. Liquidity provided by the increases in USD denominated deposits remains high and explains the decision to recently review our interest pricing structure. Regarding foreign denominated deposits, Banco Atlántida and the local financial system grew at a rate of 9.6% and 10.6%, respectively, between December 31, 2016 and September 30, 2017.

Effect of family remittances

Total family remittances to Honduras from abroad was US\$3,303.8 million for the period ended September 28, 2017 (an increase of 12.8% from the corresponding period in 2016), US\$2,928.8 million for the period ended September 29, 2016 (an increase of 7.86% from the corresponding period in 2015), US\$2,715.4 million for the period ended September 24, 2015 (an increase of 10.0% from the corresponding period in 2014)

and US\$2,468.6 million for the period ended September 25, 2014 (an increase of 8.27% from the corresponding period in 2013) according to the Central Bank.

The revenue we earned from family remittances consisted of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on commissions on f/x. Through Banco Atlántida, we processed US\$734.9 million in family remittances to Honduras from abroad for the period ended September 30, 2017 (22.2% of the market) compared to US\$565.7 million in family remittances to Honduras from abroad for the period ended September 30, 2016 (19.5% of the market).

Inflation

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

The Honduran economy has been characterized by moderate inflation in recent years. As of September 30, 2017, the inflation rate stood at 3.66% compared to 2.90% at September 30, 2016, mainly due to the increase in prices of Fuels in the local market, Clothing and Footwear, and Furniture and Items for Home Conservation. At the end of 2016, the inflation rate was 3.3%, compared to 3.2% and 6.1% at the end of 2015 and 2014 respectively, mainly due to lower oil import prices. The primary drivers of inflation were food and non-alcoholic beverages, housing, utilities, gas and other fuels, clothing and transportation. According to the Central Bank, the inflation target for 2017 is 4.0% (± 1 pp).

Exchange Rates

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

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

In recent years, through a crawling peg regime, the exchange rate of the Lempira against the US. dollar has depreciated at a stable rate. The Lempira exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras's main commodities and the high demand of foreign currency to pay for imported goods. The exchange rate was L23.3934 per US. \$1.00 on September 29, 2017, compared to L23.0164 per US. \$1.00 on September 29, 2016, as published by the Central Bank.

Demographic trends

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

As of 2015, Honduras had a population of approximately 8.4 million people, according to the IMF, which represented an estimated increase of approximately 2.0% compared to 2014. The average annual population growth rate from 2012-2015 was 4%, according to the IMF. According to the World Bank, although the poverty rate in Honduras increased to 68.7% in 2015, from approximately 67.6% in 2011, the unemployment

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

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

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

Bank loans

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

According to the Central Bank, for the nine months ended September 28, 2017, the growth rate of bank loans to the private sector was 10.9%, compared to the growth rate of 7.8% for the nine months ended September 28, 2016. For the years ended December 31, 2016 and 2015, the growth rate was 11.1% and 10.1%, respectively. The main reason for the slowdown has been a decrease in the growth of domestic corporate loans over the corresponding period. Demand for such loans in Honduras has declined, as certain large corporations have decided to access the international markets to obtain loans to meet their funding needs. Despite the decrease in the growth rate, private sector bank loans continued to experience growth rates higher than that of the country's GDP, experiencing a recovery as of September 28, 2017 when compared to September 28, 2016 as stated above.

Results of Operations for the nine Months Ended September 30, 2017 Compared to the nine months Ended September 30, 2016

The following table shows the principal components of our consolidated income statement for the nine months ended September 30, 2017 and 2016.

	September		Change	
	2017	2016	(L in thousands)	%
	(L in thousands)		(L in thousands)	
Interest income	4,759,599	4,419,119	340,480	7.7%
Interest expense	2,174,190	1,963,817	210,372	10.7%
Financial profit	2,585,409	2,455,301	130,108	5.3%
Loan impairment charges	338,133	365,168	(27,036)	(7.4%)
Financial profit, net of impairment charges	2,247,277	2,090,133	157,143	7.5%
Income from insurance activities	2,019,115	2,481,641	(462,526)	(18.6%)
Expenses from insurance activities	1,615,768	2,158,041	(542,273)	(25.1%)
Profit from insurance activities	403,347	323,601	79,747	24.6%
Services	75,688	99,123	(23,435)	(23.6%)
Commissions	1,007,039	760,213	246,826	32.5%
Leases	156,231	182,378	(26,147)	(14.3%)
Other income	390,251	435,666	(45,415)	(10.4%)
Total Proceeds from services	1,629,209	1,477,380	151,829	10.3%
Staff-expenses	1,061,684	958,629	103,055	10.8%
General and administrative expenses	1,668,615	1,551,795	116,820	7.5%
Depreciation and amortization	264,304	278,018	(13,714)	(4.9%)
Total other expenses	2,994,602	2,788,442	206,160	7.4%
Operating income	1,285,231	1,102,672	182,559	16.6%
Income from dividends	2,595	2,845	(250)	(8.8%)
Gain on sale of other and contingent assets	79,057	68,821	10,236	14.9%
Gain on sale of fixed assets	13,469	11,904	1,565	13.1%
Other income, net	(49,257)	128,696	(177,953)	(138.3%)
Total non-operating income (expenses)	45,865	212,267	(166,402)	(78.4%)
Income before income tax	1,331,097	1,314,939	16,157	1.2%
Income tax/capital gain/net assets tax	443,533	393,778	49,755	12.6%
Income before minority interest	887,564	921,162	(33,598)	(3.6%)
Net income attributable to noncontrolling interests	77,867	78,576	(709)	(0.9%)
Net Income	809,697	842,586	(32,889)	(3.9%)

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

Financial proceeds

The following table presents the components of our interest income for the nine months ended September 30, 2017 and 2016.

	For the nine-months ended September 30,		Change	
	2017	2016	(L in thousands)	%
Interest income	(L in thousands)			
Loans	4,037,157	3,480,441	556,716	16.00%
Investment securities	656,231	861,291	(205,060)	(23.81%)
Interest earning deposits	<u>66,210</u>	<u>77,387</u>	<u>(11,177)</u>	<u>(14.44%)</u>
Total interest income	<u>4,759,598</u>	<u>4,419,119</u>	<u>340,480</u>	<u>7.70%</u>

Interest income increased by 7.70% to L4,759,598 thousand for the nine months ended September 30, 2017 from L4,419,119 thousand for the corresponding period in 2016. This increase in interest income was mainly due to a trade-off between funds held through investments and the growth of our loan portfolio, particularly as the banking business has sought higher interest yielding assets through retail segment loans.

Interest on our loan portfolio increased by L556,716 thousand, or 16.0%, for the nine months ended September 30, 2017 as compared to the corresponding period in 2016, mainly due to a higher volume of loans disbursed in local currency whose average balance grew by 20.4% compared to the nine months ended September 30, 2016, adding L547,379 thousand to our interest income. The average balance of the US Dollar denominated loan portfolio as of September 30, 2017 increased 0.8% compared to September 30, 2016 after higher capital requirements have led to a preference for local denominated loans, particularly in the case of Corporate loans. The average yield of our loan portfolio for the nine months ended on September 30, 2017 increased to 11.2% compared to 10.9% for the nine months ended September 30, 2016 adding L 3,342 thousand to interest income.

Interest on investment securities decreased by L205,060 thousand, or 23.81%, for the nine months ended September 30, 2017 compared to the corresponding period in 2016, as the banking business continued to demand resources to allow the growth of its higher yielding loan portfolio, causing the average balance of investments to decrease by 16.0% for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. As a consequence of the decrease in the average balance of investment securities, particularly in local currency, interest income dwindled by L 192,892 thousand as of September 30, 2017 compared to September 30, 2016, while the decline in rates to 7.9% as of September 30, 2017 compared to 8.7% as of September 30, 2016, justified a decrease of L 12,168 thousand in interest income. During the third quarter of 2017, the banking business started to include in its investment portfolio sovereign bonds issued by the Government of Honduras, which in turn offer an average yield of 4.5%. This has allowed it to procure a higher yield over its US Dollar surplus resources explaining and increase of L13,133 thousand to partially offset the impact caused by the decrease of the local denominated investments.

Interest income from cash and cash equivalents decreased, in terms of absolute value, by L11,176 thousand, or 14.44%, for the nine months ended September 30, 2017 as compared to the corresponding period in 2016. This decrease in interest income from cash and cash equivalents was mainly due to a decrease in average interest rates which stood at 1.2% during the nine months ended September 30, 2017 compared to 1.9% during the nine months ended September 30, 2016, which in turn led to a decrease in income of L 15,176 thousand.

Interest expense

The following table presents the components of our interest expense for the nine months ended September 30, 2017 and 2016.

	For the nine-months ended September 30,		Change	
	2017	2016	(L in thousands)	%
Interest expense	(L in thousands)			
Deposits from customers.....	1,659,373	1,455,076	204,297	14.04%
Loans obtained from banks	68,166	79,176	(11,010)	(13.91%)
Financial obligations	446,650	429,565	17,085	3.98%
Total Interest expense	2,174,190	1,963,817	210,373	10.71%

Interest expense increased by L210,373 thousand to L2,174,190 thousand for the nine months ended September 30, 2017 from L1,963,817 thousand for the corresponding period in 2016, primarily due to an increase in interest paid on Deposits from customers.

Interest expense attributed to deposits from customers increased by L 204,297 thousand, or 14.04%, for the nine months ended September 30, 2017 as compared to the corresponding period in 2016. This increase is attributed to a higher volume of term deposits accounts whose average balance comprised a larger share of client deposits given that they grew to L22,269,772 thousand as of September 30, 2017 compared to L19,038,798 thousand as of September 30, 2016, or 17.0%. This means a shift compared to June 30, 2017, when cost was driven by growth of savings deposit accounts. Consequently, interest expense increased L122,127 thousand for the nine months ended September 30, 2017, compared to the corresponding period in 2016. Savings deposits also continued to drive growth just as their average balance increased to L26,867,459 thousand as of September 30, 2017 from L22,606,429 thousand as of the corresponding period the year before; thus, adding L101,130 thousand in interest expense. This increase was partially offset by a decrease in the average cost of our demand deposits of L12,966 thousand during the nine months ended on September 30, 2017 compared to the nine months period ended September 30, 2016, which in turn resulted primarily from a decrease in the average balance of certain corporate and institutional client accounts.

Interest expense from loans obtained from banks decreased by L11,010 thousand for the nine months ended September 30, 2017 as compared to the corresponding period in 2016 after USD 33,000 thousand in US Dollar denominated loans subscribed by Invatlan, the holding company, were cancelled with the proceeds of a USD 150,000 thousand bond issue performed on July 18, 2017.

Interest expense from financial obligations increased by L17,085 thousand, or 3.98%, for the nine months ended September 30, 2017, as compared to the corresponding period in 2016, primarily due to an increase in the average balance on these obligations by L.770,794 thousand, or 14.3%, following the placement of a USD 150,000 thousand bond issue in international markets performed by Invatlan with the purpose of using these proceeds for the repayment of debt, fund planned acquisition and general corporate purposes. Conditions include a 5-year tenor with a bullet payment at maturity, while interest rate is fixed, 8.25%, paid semi-annually in arrears.

Net interest margin for the nine months ended September 30, 2017 was L2,585,409 thousand as compared to L2,455,301 thousand for the corresponding period in 2016. The change in the net interest margin of our local currency-denominated assets contributed L247,020 thousand of the total increase, which was partially offset by a L116,913 thousand decrease in the net interest margin of our US. dollar denominated assets. The result was a net increase of L130,108 thousand, or 5.3%, as of September 2017.

Allowance for loan and interest losses

The following table presents our loan impairment charges, our NPL ratio, our coverage ratio and our loan and interest loan provision for the nine months ended September 30, 2017 and 2016.

	For the nine-months ended September 30,		Change	
	2017	2016		
	(L in thousands)	(L in thousands)	(L in thousands)	%
Loan impairment charges.....	338,133	365,168	(27,035)	(7.4%)
NPL ratio.....	3.2%	3.6%	-	-
Coverage ratio.....	120.2%	116.6%	-	-
Allowance for loan and interest losses	1,961,064	1,937,780	23,284	1.2%

Loan impairment charges decreased by 7.4% to L338,133 thousand for the nine months ended September 30, 2017 from L365,168 thousand for the corresponding period in 2016. Due to a lower non-performing loan ratio, our coverage ratio remained above 120.2% compared to 116.6% reported as of September 30, 2016.

The corporate banking segment contributed with L109,481 thousand in loan impairment charges, or a 51.8% decrease during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 as a direct result of loan portfolio quality improvement as shown by an NPL ratio of 1.7% as of September 30, 2017 compared to an NPL ratio of 2.5% registered during the corresponding period in 2016. Although additional allowances for loan and interest losses have been required to replace loan charge-off's stemming from the derecognition of loans as means to reach the required coverage ratio, in the case of corporate loans, the necessary amount for this purpose has decreased considering that fewer write-offs have occurred as of September 30, 2017 compared to September 30, 2016; L195,366 thousand and L370,264 thousand, respectively, or a decrease of 47.2%. Corporate loans represented 66.9% of the total loan balance as of September 30, 2017 (68.1% as of September 30, 2016), while their assigned allowance for loan and interest losses for the same period represented 52.8% of the total allowance for loan and interest losses (60.9% as of September 30, 2016).

For the SME loan segment, its NPL ratio has settled at 6.8% for the nine months ended September 30, 2017 compared to 9.1% for the nine months ended September 30, 2016. In terms of segment related loan impairment charges, these have increased L15,499 thousand, or 34.3%, compared to the same September-month period in 2016 in order to (1) compensate for charge off's which have increased to L 105,260 thousand as of September 30, 2017 compared to L93,523 thousand as of September 30, 2016 and (2) preserve the segment's coverage ratio in 70.6% as of September 30, 2017 considering it stood at 73.6% as of September 30, 2016. SME loans represented 10.2% of the total loan balance as of September 30, 2017 (9.7% as of September 30, 2016), while their assigned allowance for loan and interest losses for the same period represented 12.6% of the total allowance for loan and interest losses (15.3% as of September 30, 2016).

The retail banking segment required L74,831 thousand, or 80.0%, in additional loan impairment charges as of September 30, 2017, compared to the corresponding period in 2016. The NPL ratio for consumer loans, which includes credit cards, increased to 5.9% during the nine months ended September 30, 2017 from 4.4% during the nine months ended September 30, 2016 following a rise in past due loans belonging to the banking operation, which did so in L 155,391 thousand. Total consumer segment loans represented 22.9% of the total loan balance as of September 30, 2017 (22.2% as of September 30, 2016), while their assigned allowance for loan and interest losses for the same period represented 34.6% of the total allowance for loan and interest losses (23.8% as of September 30, 2016).

The balance of the non-performing loan portfolio decreased by 1.8% to L 1,631,975 thousand during the nine months ended September 30, 2017 from L 1,662,457 thousand during the corresponding period in 2016 as all entities keep a front-and-center approach that upholds loan quality through well-defined policies, complemented with an investment in tools and training to enhance credit analysis, as well as recovery efforts.

The non-performing loan ratio decreased to 3.2% for the nine months ended September 30, 2017 as compared to 3.6% for the corresponding period in 2016.

Allowance for loan and interest losses increased by 1.2% to L1,961,064 thousand for the nine months ended September 30, 2017 from L1,937,780 thousand for the corresponding period in 2016. As the entities continue to write-off non-performing loans (L 460,361 thousand were charged off during the nine months ended September 30, 2017; a decrease of L 75,416 thousand compared to the corresponding period the year before), the higher quality of the outstanding loan portfolio requires a lower amount to be compensated for: non-performing loan portfolio decreased 1.8% to L1,631,975 thousand during the nine months ended September 30, 2017 from L1,662,457 thousand during the corresponding period in 2016. Thus, loan impairment charges have decreased 7.5% to L 338,547 thousand as of September 30, 2017, compared to L 366,105 thousand as of September 30, 2016. Complementarily, as of September 30, 2017, Banco Atlántida reclassified to loans and interest losses a surplus provision of L116,820 thousand, since the underlying reason for having that provision, was resolved (interest included in the loan balance during refinancing and that have been recovered). This allowed our coverage ratio to improve to 120.2% as of September 30, 2017, compared to 116.6% as of September 30, 2016.

Proceeds from services

The following table presents the components of our fee and commission income for the nine months ended September 30, 2017 and 2016.

	For the nine-months ended September 30,		Change	
	2017	2016		
	(L in thousands)		(L in thousands)	%
Services.....	75,688	99,123	(23,435)	(23.6%)
Commissions.....	1,007,039	760,213	246,826	32.5%
Leases.....	156,231	182,378	(26,147)	(14.3%)
Other income ⁽¹⁾	390,251	435,666	(45,415)	(10.4%)
Total proceeds from services.....	1,629,209	1,477,380	151,829	10.3%

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

Proceeds from services increased by 10.3% to L1,629,209 thousand for the nine months ended September 30, 2017 from L1,477,380 thousand for the corresponding period in 2016, primarily due to a 32.5% increase in commissions. This increase was partially offset by a decrease in services of 23.6%, leases by 14.3% and a decrease in other income of 10.4%.

The increase in commissions of L246,826 thousand, or 32.5%, for the nine months ended September 30, 2017 from L760,213 thousand for the corresponding period in 2016 was primarily due to Banco Atlántida's income from credit and debit card fees which grew L203,207 thousand, during the third quarter of 2017 compared to the same period of 2016 primarily as a result of a reclassification of L148,639 thousand in credit card processing revenues that until December 31, 2016 were recorded under the line item "other income." Foreign exchange transactions continue to lead commission growth for the bank, posting a 27.5% increase as of September 30, 2017, or L38,267 thousand, compared to the same period during the preceding year. Meanwhile, income from remittance payments increased by L16,983 thousand to L112,308 thousand as of September 30, 2017 considering a higher inflow to the country as a whole by 12.8% between September 28, 2017 and September 30, 2016 according to figures publicly available from the Central Bank. The following other items of Banco Atlántida's commission income all experienced increases during the nine months ended September 2017 compared to the nine months ended September 30, 2016, including an increase of L8,188 thousand in public and private collection services; an increase of L6,197 thousand in corresponding banking

and an increase of L2,257 thousand in trust administration. By contrast, commissions from loans, decreased by L 38,237 thousand mainly due to changes on local regulations. Before changes all disbursement fees received were immediately recorded as revenue while the new regulation requires the disbursement fees originated during 2017 and going forward to be deferred during the duration of the loans. AFP Atlántida also stands out as its commission income from its main activity grows 22.4%, or L24,263 thousand to L132,376 thousand as of September 30, 2017 from L108,113 thousand as of September 30, 2016.

The decrease in proceeds from leases of L26,147 thousand, or 14.3%, for the nine months ended September 30, 2017 from L 182,378 thousand for the corresponding period in 2016 was primarily due to a lower renewal rate of expiring operating lease contracts administered by Acresa. This decrease is offset by a decrease in depreciation expenses related to leases given the decrease in the volume of leases.

The decrease in other income of L45,415 thousand, or 10.4%, for the nine months ended September 30, 2017 from L435,666 thousand for the corresponding period in 2016 stemmed from a reclassification of L148,639 thousand in credit card processing revenues that until December 31, 2016 were recorded under this line item. Conversely, banking business loan recoveries increased L61,913 thousand as of September 30, 2017 compared to September 30, 2016, while Invatlan and AFP Atlántida recorded an additional L20,621 thousand and L17,340 thousand, respectively, in other income during the same period.

Income from insurance activities

The following table presents the components of our net premium income for the nine months ended September 30, 2017 and 2016.

	For the nine-months ended September 30,		Change	
	2017	2016	(L in thousands)	%
	(L in thousands)		(L in thousands)	%
Income from insurance activities	2,019,115	2,481,641	(462,526)	(18.6%)
Expenses from insurance activities	1,615,768	2,158,041	(542,273)	(25.1%)
Profit from insurance activities	403,347	323,601	79,747	24.6%

Profit from insurance activities increased by 24.6% to L403,347 thousand for the nine months ended September 30, 2017 from L323,601 thousand for the corresponding period in 2016. This increase was mainly due to a 25.1% decrease of total expenses from insurance activities, which was partially offset the decrease in income from insurance activities of 18.6% during the nine months ended September 30, 2017 compared to the corresponding period in 2016.

Income from insurance activities decreased by 18.6% to L2,019,115 thousand for the nine months ended September 30, 2017 from L2,481,641 thousand for the corresponding period in 2016, mainly due to a L394,026 thousand, or 76.6%, decrease in the amount of income recognized from restitution of claims reserves. Meanwhile, expenses from reserve requirements have followed the same downward trend during the same period doing so at a higher rate (84%), and is one the reasons for which the profit from insurance activities has performed better as of September 30, 2017 compared to September 30, 2016. Insurance premiums decreased by 2.9%, or L47,676 thousand, to L1,599,789 thousand during the nine months ended September 30, 2017 compared to the same period during 2016. Meanwhile, income from recovered claims of foreign insurance reinsurers decreased by 26.1%, or L30,278 thousand during the nine months ended September 30, 2017 compared to the same period during 2016.

Expenses for insurance activities decreased by 25.1% to L1,615,768 thousand for the nine months ended September 30, 2017 from L2,158,041 thousand for the corresponding period in 2016. This was primarily due to lower reserve requirements for ongoing risks which decreased L479,843 thousand, or 84.0%, for the nine months ended September 30, 2017, as compared to the corresponding period in 2016. Following the same trend, claim expenses decreased L22,519 thousand, or 4.7% for the nine months ended September 30, 2017, as compared to the corresponding period in 2016. Expenses from premiums cancelled and reinstated decreased

L28,874 thousand, or 6.5% for the nine months ended September 30, 2017, as compared to the corresponding period in 2016 due primarily to modifications to the terms and conditions of insurance policies which allow for more amendments to policies rather than their cancellations and entry as new ones when a change is requested, hence translating in a decrease of cancellation expenses.

Other expenses

The following table presents the components of our operating and administrative expenses for the nine months ended September 30, 2017 and 2016.

	For the nine-months ended September 30,		Change	
	2017	2016		
	(L in thousands)		(L in thousands)	%
Other expenses:				
Staff-expenses	1,061,684	958,629	103,055	10.8%
General and administrative expenses	1,668,615	1,551,795	116,820	7.5%
Depreciation & amortizations	264,304	278,018	(13,714)	(4.9%)
Total other expenses	2,994,602	2,788,442	206,160	7.4%

Other expenses increased by 7.4% to L2,994,692 thousand for the nine months ended September 30, 2017 from L 2,788,442 thousand for the corresponding period in 2016. The increase in other expenses was primarily due to the increase in staff expenses and administrative expenses by 10.8% and 7.5%, respectively. This increase was partially offset by a 4.9% decrease in depreciation and amortization expenses.

The increase in general and administrative expenses of L 116,820 thousand, or 7.5%, for the nine months ended September 30, 2017 as compared to the corresponding period in 2016 was primarily due to the following: (1) a L53,124 thousand, or 78.2% increase in software licenses as the bank continues to update its core applications, digitalizing it's front and back office transactions, as well as continuing the automatization of processes; (2) a L43,624 thousand, or 36.7% increase in marketing expenses related to Banco Atlántida's update of its corporate logo; (3) a L18,643 thousand increase in maintenance and repairs, primarily related to changes at Banco Atlántida's branches as part of the corporate logo update and (4) a L14,088 thousand increase in third party fees related to payments performed to the network of non-banking correspondents (Agentes Bancarios Atlántida). In terms of savings, the bank has reduced its credit card loyalty program expense by L19,115 thousand as of September 30, 2017 with regards to the corresponding period in 2016 after its least profitable credit card branding contract expired on the first half of 2016 and a similar expense did not occur in 2017. Meanwhile, Invatlan posted a L21,830 thousand increase in its general and administrative expense during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016, primarily resulting from non-recurring expenses related to external consultants. AFP Atlántida also registered one of the most noticeable increases in its general and administrative expense, doing so by L11,756 thousand as of September 30, 2017 compared to its results for the same month the year before attributed to marketing expenses.

The increase in staff expenses of L 103,055 thousand, or 10.8%, for the nine months ended September 30, 2017 as compared to the corresponding period in 2016 was primarily due to an increase in the number of full-time employees which reached 3,413 as of September 30, 2017 compared to 3,169 as of September 30, 2016. Wages and salaries increased L34,121 thousand, or 8%, during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 and outsourcing contracts increased by L20,855 thousand, or 16.7%, primarily due to additional resources required for Banco Atlántida's credit card business and its loan collection activities given the recent growth in its retail business. Related fringe benefits such as employer dues and vacation bonus increased by L15,093 thousand and L4,190 thousand, respectively. Additionally, other items such as travel expenses and training increased by L16,087 thousand and L6,265 thousand, respectively during the nine months ended September 30, 2017 as compared to the corresponding period in 2016. Three other entities also registered and increase in their staff expenses during the same period

of comparison, these being Seguros Atlántida, Arrendamientos y Créditos Atlántida and AFP Atlántida with a change of L 5,092 thousand, L 4,550 thousand and L 4,115 thousand, respectively.

The decrease in depreciation and amortization expenses of L13,714 thousand, or 4.9%, for the nine months ended September 30, 2017 as compared to the corresponding period in 2016 was primarily due to ACRESA's retirement of assets as contracts reached their maturity, which allowed for a decrease of L 41,836 thousand. An increase of L 25,554 thousand in the amortization expense of the bank linked to intangible assets, mostly software developments.

Our cost-to-income ratio for the nine months ended September 30, 2017 was 64.8%, compared to 65.5% for the corresponding period in 2016 mainly as a result of operating income growing at a higher rate than operating expenses, or 8.5% compared to 7.4%.

Non-operating income (expenses)

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

	For the nine-months ended September 30,		Change	
	2017	2016		
	(L in thousands)		(L in thousands)	%
Income from dividends	2,595	2,845	(250)	(8.8%)
Gain on sale of foreclosed assets	79,057	68,821	10,236	14.9%
Gain on sale of fixed assets	13,469	11,904	1,565	13.2%
Other income, net	(49,256)	128,697	(177,953)	(138.3%)
Total	45,865	212,267	(166,402)	(78.4%)

Non-operating income decreased by L166,402 thousand, or 78.4%, from L212,267 thousand during the nine months ended September 30, 2016 to L45,865 thousand during the nine months ended September 30, 2017. The decrease in non-operating income is primarily attributed to (1) decreases at the Invatlan holding company level given that it had L60,700 thousand of non-recurring restitutions of investment provisions occurring during the first quarter of 2016, and (2) Banco Atlántida reported a decrease in proceeds from recoveries of loans that had been charged-off of L67,894 thousand as compared to the nine months ended September 30, 2016 after such income was reclassified as other income (proceeds from services) beginning in 2017. Additionally, interest recovered from refinanced loans for L25,005 thousand that was registered as other income during the nine months ended September 30, 2016 has now been reclassified to interest income during the corresponding period in 2017. Finally, as of September 30, 2017, Fraud expense has increased by L25,149 thousand compared to September 30, 2016.

Income before tax

Income before tax increased by 1.2% to L1,331,097 thousand for the nine months ended September 30, 2017 from L1,314,939 thousand for the corresponding period in 2016.

Income tax

Income tax expense increased to L49,755 thousand, or 12.6%, for the nine months ended September 30, 2017 from L393,778 thousand for the corresponding period in 2016, or an effective tax rate of 33.2% as of September 30, 2017 compared to an effective tax rate of 29.9% as of September 30, 2016. This increase is primarily due to the fact that during the first quarter of 2016, Invatlan recorded a non-recurring adjustment of L60,700 thousand as non-operating income from restitutions of investment provisions which constituted a non-taxable item. Not taking into account this non-recurring adjustment, the effective tax rate would have reached 31.4% as of September 30, 2016. Under this scenario, the increase in the effective tax rate as of September 30,

2017 compared to September 30, 2016, can be explained by the additional net asset tax that Invatlan has been eligible to pay after increasing its total assets as a result of the resources provided by the bond issue of US 150 million.

Net Income

Net income decreased by 3.9% to L 809,697 thousand for the nine months ended September 30, 2017 from L842,586 thousand for the corresponding period in 2016. Conversely, average shareholders' equity increased by 13.5% to L 9,306,508 thousand as of September 30, 2017, from L 8,198,600 thousand for the corresponding period in 2016. This led to a ROAE of 11.6% for the nine months ended September 30, 2017, compared to 13.7% for the corresponding period in 2016.

While net income decreased by 3.9%, average total assets increased by 13.9% to L 80,437,855 thousand for the nine months ended September 30, 2017 from L 70,614,167 thousand for the corresponding period in 2016, leading to a ROAA as of September 30, 2017 of 1.3%, compared to 1.6% as of September 30, 2016.

Liquidity and Funding

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

The following table sets forth our primary sources of funding on a consolidated basis as of September 30, 2017 and as of December 31, 2016.

	As of September 30, 2017	As of December 31, 2016	Change (L in thousands)	
	(L in thousands)			
Demand deposits	8,824,185	8,289,943	534,242	6.4%
Savings deposits	28,287,647	24,668,921	3,618,726	14.7%
Term deposits	22,299,479	20,228,830	2,070,649	10.2%
Other	530,420	465,604	64,816	13.9%
Total deposits	59,941,731	53,653,299	6,288,433	11.7%
Loans and borrowings from banks	7,137,687	7,023,455	114,332	1.6%
Bancatlan corporate bonds	4,507,656	1,001,296	3,506,360	350%
	71,587,074	61,678,050	9,909,025	16.1%

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

Total deposits increased by 11.7% to L59,941,731 thousand as of September 30, 2017 as compared to L53,653,299 thousand as of December 31, 2016 primarily due to Banco Atlántida's commercial strategy to promote growth of demand deposits over term deposits considering their stability and low cost of funds. Deposits included retail and corporate deposits, generated mainly through our distribution network, and our relationships with commercial clients.

Loans and borrowings from banks were L7,137,687 thousand as of September 30, 2017, compared to L7,023,455 thousand as of December 31, 2016, representing an increase of 1.6% primarily due to Banco Atlántida's financial strategy which used existing liquidity to fund loan disbursement needs rather than financing. Nonetheless, the banking business, particularly its corporate segment, continues to use readily available credit facilities to fund infrastructure and energy credits. Loans and borrowings from banks included short-term trade finance, lines of credit and long-term loans from international financial institutions and multilateral organizations. Banco Atlántida has lines of credit with 17 worldwide financial institutions with

which it has had longstanding correspondent relationships. Some of its main lines of credit are held with the IFC, IADB, Proparco, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AGAs. As of September 30, 2017, we had (i) an aggregate amount of US.\$ \$297,902 thousand (L 6,984,161 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US.\$ \$245,974 thousand (L5,766,741 thousand) was available to draw upon, and (ii) an aggregate amount of US.\$50,000 thousand (L1,169,810 thousand) in a loan we obtained from Proparco on September 30, 2015 which matures on October 15, 2025 and bears interest at a rate of 6.34%, payable semiannually, of which US.\$25,000 thousand (L584,905 thousand) was outstanding as of September 30, 2017.

Debt securities issued were L998,226 thousand as of September 30, 2017, compared to L1,001,296 thousand as of December 31, 2016, representing a decrease of 0.3%, which was primarily the result of exchange rate variations. Debt securities issued consisted of corporate bond issuances in the local market with a defined maturity date and variable interest payments.

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

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

Regulatory capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, pursuant to Honduran capitalization requirements, Banco Atlántida is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 10% or above. As of September 30, 2017, Banco Atlántida's capital ratio was 12.1% compared to 12.4% as of December 31, 2016; 13.4% as of December 31, 2015; and 13.6% as of December 31, 2014.

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

	As of September 30, 2017	As of December 31,		
		2016	2015	2014
	(L in thousands, except percentages)			
Total Tier 1	5,988,863	5,686,163	5,386,163	4,993,927
Total Tier 2	1,310,184	987,762	794,972	770,437
Total regulatory capital.....	7,299,047	6,673,925	6,181,135	5,764,364
Total risk-weighted assets.....	60,253,578	53,877,580	46,307,367	42,375,602
Regulatory capital as a percentage of risk-weighted assets	12.1	12.4	13.4	13.6

Commitments and contractual obligations

We enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes our commitments and contractual obligations as of September 30, 2017.

(L in thousands, except percentages)	Less than 30 days	31 to 90 days	91 to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits and obligations from customers	9,135,705	11,220,130	10,188,408	17,681,682	11,715,805	59,941,731
Loans and borrowings from banks.....	1,555,525	191,851	752,116	2,063,641	2,574,553	7,137,686
Debt securities issued				4,507,656		4,507,656
Total	10,691,230	11,411,981	10,940,524	19,745,323	14,290,358	67,079,417
% of Total.....	15.9%	17.0%	16.3%	29.4%	21.3%	100.0%

Capital expenditures

Our consolidated capital expenditures increased to L280,555 thousand during the nine months ended September 31, 2017 compared to L157,324 thousand for the corresponding period in 2016.

Off-Balance sheet arrangements

In the normal course of business, Invatlan serves as a counterparty to a number of off-balance sheet activities that have credit, market and operational risk and are not reflected in our financial statements. These activities include commitments to extend credit not otherwise accounted for, such as contingent loans, such as guarantees, letters of credit and loans under contract pending disbursement, including credit lines and syndicated loans. The company provides our clients with services related to the issuance and confirmation of commercial and stand-by letters of credit and to the issuance of guarantees. Letters of credit operations totaled L 523,981 thousand as of September 30, 2017; L421,163 thousand as of December 31, 2016 and L373,204 thousand as of December 31, 2015. Issuance of guarantees totaled L3,219,126 thousand as of September 30, 2017; L3,003,855 thousand as of December 31, 2016 and L2,084,047 thousand as of December 31, 2015. Loans under contract pending disbursement totaled L3,408,324 thousand as of September 30, 2017; L2,977,175 thousand as of December 31, 2016 and L2,377,992 thousand as of December 31, 2015

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

Qualitative and Quantitative Disclosure about Market Risks

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