



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
as of March 31, 2018**

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, 2018. We were acknowledged as a financial holding company by the CNBS in 2012, and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from significant synergies because of being part of one financial group.

Our operations in Honduras include Banco Atlántida and Seguros Atlántida, the largest bank and insurance companies in Honduras in terms of assets, respectively. In addition, Banco Atlántida and Seguros Atlántida rank among the most profitable entities in the Honduran banking and insurance systems, according to the CNBS. Banco Atlántida holds a distinguished position in the local marketplace in terms of total net assets, total net loans and total deposits, with market shares of 16.8%, 18.2% and 19.7%, respectively, as of March 31, 2018, according to the CNBS. Furthermore, Seguros Atlántida ranks second in terms of total gross premiums written, with a market share of 15.0% and 16.9% for the three ended March 31, 2018 and for the year ended 2017, respectively, according to the CNBS. For the three Months ended March 31, 2018 and 2017, Banco Atlántida had a ROAE of 12.2% and 10.0%, respectively, compared to the Honduran banking system which had a ROAE of 12.5% and 14.6%, respectively, according to the CNBS. For the three Months ended March 31, 2018 and 2017, Seguros Atlántida had a ROAE of 34.2% and 28.9%, respectively. As of March 31, 2018, Banco Atlántida had one of the largest banking distribution networks in Honduras, with 2,026 points of service, comprised of 148 branches, 963 ATMs (including 299 proprietary ATMs and 664 third-party network ATMs) and 773 non-correspondent banking agents (third-party points of service).

Effects of changes in interest rates

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

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

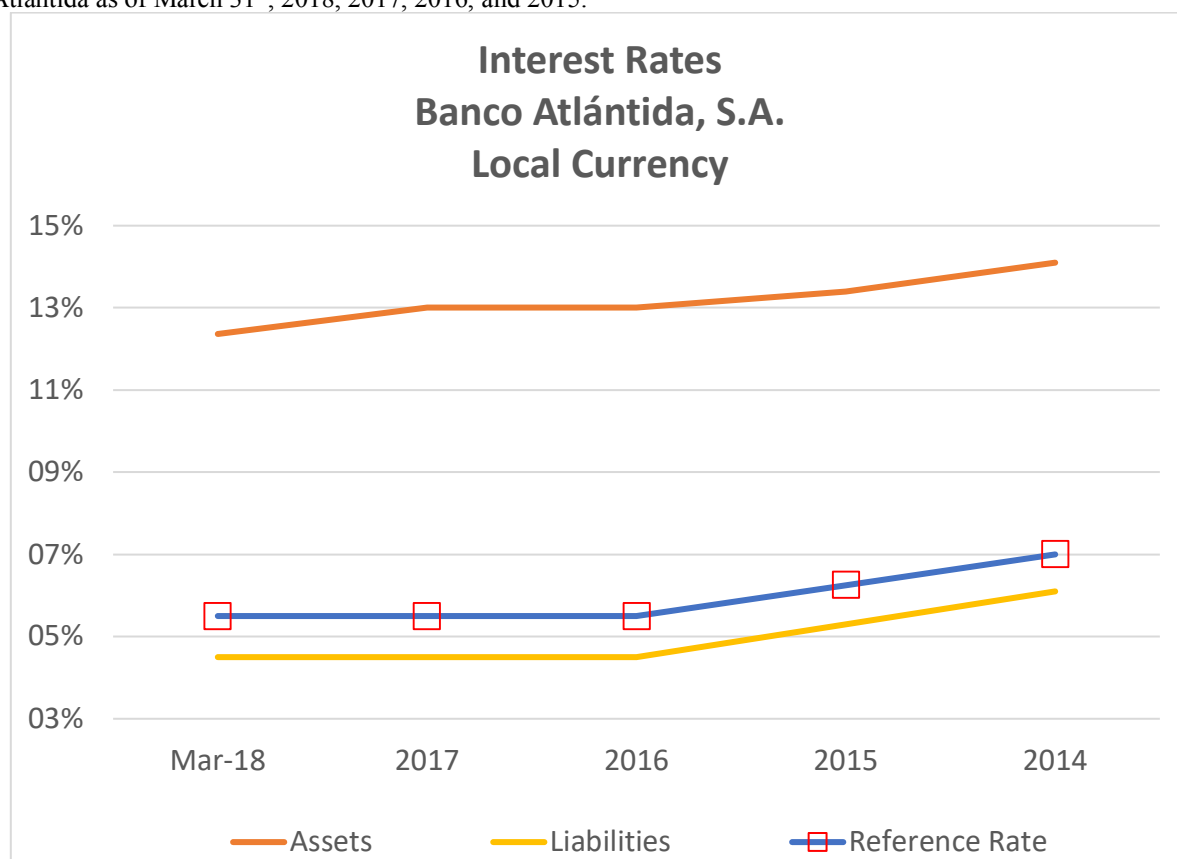
Increases in interest rates may reduce the volume of loans originated by Banco Atlántida. Sustained high interest rates have historically discouraged our clients from borrowing and have resulted in increased, asset impairment

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

Lempira-denominated assets and liabilities in Honduras

The chart below presents the weighted average interest rates on lempira-denominated assets and liabilities of Banco Atlántida as of March 31st, 2018, 2017, 2016, and 2015.



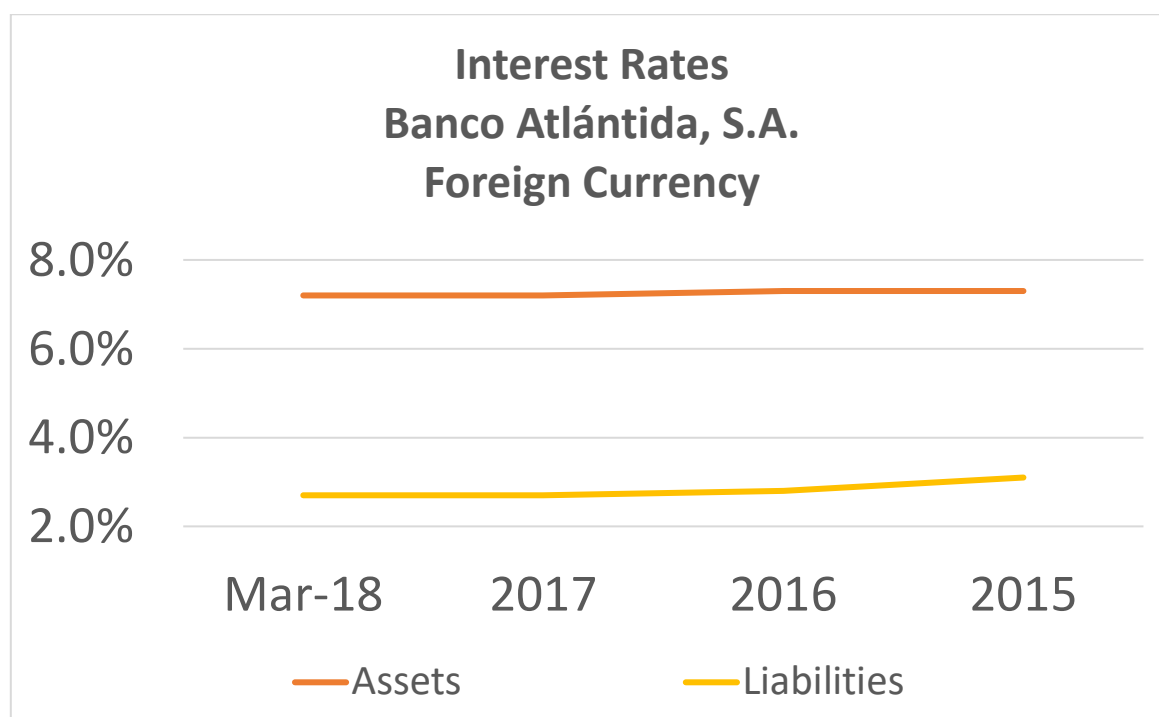
The Honduran banking industry generally does not establish its interest rates by reference to a benchmark rate; however, the weighted average interest rates on lempira-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum allowed bid rate that the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

Banco Atlántida’s average interest rate on lempira-denominated assets was 12.4% as of March 31, 2018, 13.0% as of December 31, 2017, 13.0% as of December 31, 2016, and 13.4% as of December 31, 2015. Banco Atlántida continues to pursue higher margin products emphasizing on personal loan products, payroll loans and credit cards. At its current interest level, as of March 31, 2018, Banco Atlántida’s lempira-denominated assets have grown 10.1% outpacing the 11.5% increase reported by the local banking system during the same period.

Banco Atlántida's average interest rate on lempira-denominated liabilities maintained a stable trend due to its diverse retail deposit base, with no significant concentration in any specific type of deposit, with a rate of 4.5% as of March 31, 2018, 4.5% as of December 31, 2017, 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 March 31, 2018, compared to March 2017, Banco Atlántida's local-denominated deposits have grown 12.7% while the local financial system has done so in 11.4% during the same period.

Foreign currency-denominated assets and liabilities in Honduras

The chart below presents the weighted average rates on foreign currency-denominated assets and liabilities of Banco Atlántida as of March 31st, 2018, 2017, 2016, and 2015.



As of December 31, 2017, Banco Atlántida's average interest rate on foreign currency-denominated assets remaining stable at a rate of 7.2% as of March 31, 2018, December 31, 2017, 2016 and 2015. 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 in US Dollars receded 1.8% between March 31, 2018 and March 2017, while the local financial system did so in 5.5% during the same period.

Conversely, Banco Atlántida's average interest rate on foreign-denominated liabilities stood at 2.7% as of March 31, 2018 and December 31, 2017. This rate stood at 2.8% and 3.1% as of December 31, 2016 and 2015. Liquidity provided by the increases in USD 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 4.9% and 6.0%, respectively, between March 31, 2018 and December 31, 2017.

Effect of family remittances

Total family remittances to Honduras from abroad was of US\$ 1,012.8 million for the period ended March 22nd, 2018 (an increase of 8.2% from the corresponding period in 2017), US\$ 929.2 million for the period

ended March 22nd, 2017 (an increase of 9.8% from the corresponding period in 2016), US\$ 835.5 million for the period ended March 22nd, 2016 (an increase of 8.4% from the corresponding period in 2015) according to the Central Bank.

The revenue we earned from family remittances consisted of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Through Banco Atlántida, we processed US\$ 219,0 million in family remittances to Honduras from abroad for the period ended March 31st, 2018 (21.6% of the market) compared to US\$221,0 million in family remittances to Honduras from abroad for the period ended March 31st, 2017 (23.8% of the market).

Competition

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

Inflation

A rise on inflation rates may impact our performance mainly because 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 March 31st, 2018, the inflation rate stood at 4.4% compared to 3.9% as of March 31st, 2017, mainly due to the increase in the kwh rate of residential electric power, the rental of housing and certain foods. At the end of 2017, the inflation rate was 4.7%, compared to 3.3% and 2.4% at the end of 2016 and 2015 respectively, mainly due to lower oil import prices. The primary drivers of inflation were mainly influenced by the item “Food and non-alcoholic beverages”; followed by “Accommodation, Water, Electricity, Gas and Other Fuels”; as well as “Clothing and Footwear”; “Furniture and Articles for the Conservation of the Home” and “Personal Care”; together with the contribution of the items: “Transportation”; “Recreation and Culture”; and “Hotels, Cafes and Restaurants”. According to the Central Bank, the inflation target for 2017 was reached because it was kept within the 4.0% (± 1 pp) range that was agreed with the International Monetary Fund.

Exchange Rates

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

In addition, any devaluation or depreciation of the Lempira against the US. dollar could have a negative impact on the ability of our subsidiaries’ clients to repay loans and make insurance premium payments, which in turn could have an 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 L23.6399 per US. \$1.00 on March 27th, 2018, compared to L23.5192 per US. \$1.00 on March 27th, 2017, as published by the Central Bank.

Demographic trends

As of 2017, Honduras had a population of approximately 8.9 million people, according to the Honduran Central Bank, which represented an estimated increase of approximately 2.3% compared to 2016. The average annual population growth rate from 2012-2017 was 5.7%. 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. \$ 2,594 in 2017, 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 55.8%, as of December 31st, 2017.

According to the Central Bank, as of March 22nd, 2018, the growth rate of bank loans to the private sector was 11.3%, compared to the growth rate of 7.1% as of March 22nd, 2017. For the year ended December 30th, 2016, the growth rate was 5.9%. The main reason for the change is explained by the concession to industrial companies, commercial and service industries, as well as credit to the families. The private sector bank loans continue to experience growth rates higher than that of the country's GDP, experiencing a recovery as of December 30th, 2017 when compared to December 30th, 2016 as stated above.

Results of Operations for the Three Months Ended March 31, 2018 Compared to the nine months Ended March 31,2018

The following table shows the principal components of our consolidated income statement for the Three Months ended March 31,2018 and 2017

	March		Change	
	2018	2017		
	(L in thousands)		(L in thousands)	%
Interest income	1,828,012	1,565,834	262,178	16.7%
Interest expense	834,091	665,488	168,989	25.3%
Financial profit	993,921	900,346	93,575	10.4%
Loan impairment charges	141,242	86,940	54,302	62.5%
Financial profit, net of impairment charges	852,679	813,406	39,273	4.8%
Income from insurance activities	823,791	675,439	148,352	22.0%
Expenses from insurance activities	719,603	541,916	177,687	32.8%
Profit from insurance activities	104,188	133,523	(29,335)	(22.0%)
Services.....	116,688	24,851	91,837	369.6%
Commissions	316,340	344,730	(28,390)	(8.2%)
Leases.....	44,985	54,446	(9,461)	(17.4%)
Other income	57,581	92,010	(34,429)	(37.4%)
Total Proceeds from services	535,594	516,037	19,557	3.8%
Staff-expenses.....	415,769	388,757	27,012	6.9%
General and administrative expenses	548,804	522,662	26,142	5.0%
Depreciation and amortization.....	156,624	89,211	67,413	75.6%
Total other expenses	1,121,197	1,000,630	120,567	12.0%
Operating income	371,265	462,336	(91,071)	(19.7%)
Income from dividends	1,644	1,529	115	7.5%
Gain on sale of other and contingent assets	9,653	23,440	(13,787)	(58.8%)
Gain on sale of fixed assets	2,996	3,262	(266)	(8.2%)
Other income, net.....	59,380	(10,267)	49,113	478.4%
Total non-operating income (expenses) ..	73,672	17,964	55,708	310.1%
Income before income tax	444,937	480,300	(35,363)	(7.4%)
Income tax/capital gain/net assets tax	176,599	150,948	25,651	17.0%
Income before minority interest	268,338	329,352	(61,014)	(18.5%)
Net income attributable to noncontrolling interests	30,380	28,410	1,970	6.9%
Net Income	237,958	300,942	(62,984)	(20.9%)

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 three Months ended March 31, 2018 and 2017

	For the Three-months ended March 31,		Change	
	2018	2017		
	(L in thousands)		(L in thousands)	%
Interest income				
Loans	1,591,923	1,342,136	249,787	18.6%
Investment securities.....	224,460	202,061	22,399	11.1%
Interest earning deposits.....	11,628	21,637	(10,009)	(46.3%)
Total interest income	1,828,012	1,565,834	262,177	16.7%

Interest income increased by 16.7% to L1,828,012 thousand for the three Months ended March 31, 2018 from L1,565,834 thousand for the corresponding period in 2017. This increase in interest income was mainly due to the growth of our loan portfolio, particularly as the banking business has sought higher interest yielding assets through retail segment loans, combined with a decrease in loans in non-accrual status.

Interest on our loan portfolio increased by L 249,787 thousand, or 18.6%, for the three Months ended March 31, 2018 as compared to the corresponding period in 2017, mainly due to a higher volume of loans disbursed in local currency whose average balance grew by 12.0% compared to the three Months ended March 31, 2018, adding L 1,594,320 to our interest income. Interest income of the period also increased with the contribution of the most recent entity acquired, Banco Atlántida El Salvador (a subsidiary of Inversiones Financieras Atlántida, S.A.), which added L 656,682 in interests over an average balance of L 6,140,875 in loans. The average balance of the US Dollar denominated loan portfolio as of March 2018 increased 18.3% compared to March 31, 2017 after higher capital requirements have led to a preference for local denominated loans or to the conversion into local currency denominated loans, particularly in the case of Corporate loans.

Interest on investment securities increased by L22,399 thousand, or 11.1%, for the three Months ended March 31, 2018 compared to the corresponding period in 2017, 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 9.3% for the three Months ended March 31, 2018 as compared to the three Months ended March 31, 2017. Because of the decrease in the balance of investment securities, particularly in local currency, interest income dwindled by L 238,241 thousand as of March 31, 2018 compared to March 31, 2017.

Interest income from cash and cash equivalents decreased by L 10,009 thousand, or 46.3%, for the three Months ended March 30, 2018 as compared to the corresponding period in 2017 due to the reduction in cash and cash equivalents.

Interest expense

The following table presents the components of our interest expense for the three Months ended March 31, 2018 and 2017

	For the Three-months ended March 31,		Change	
	2018	2017		
	(L in thousands)		(L in thousands)	%
Interest expense				
Deposits from customers.....	595,124	508,147	87,977	17.1%
Loans obtained from banks	90,501	49,466	41,035	83.0%
Financial obligations.....	148,466	107,875	40,592	37.6%
Total Interest expense.....	834,091	665,488	168,603	25.3%

Interest expense increased by L834,091 thousand to L 665,488 thousand for the three Months ended March 31, 2018 from L168,603 thousand for the corresponding period in 2017, primarily due to an increase in interest paid on Deposits from customers.

Interest expense from deposits from customers increased by L87,977 thousand, or 17.1%, for the three Months ended March 31, 2018 as compared to the corresponding period in 2017. increase in the average balance of our deposits, primarily led by the 13.1% increase in the balance of our savings deposits, which in turn resulted from our strategy of expanding the participation of this lower cost source of funding within our deposit mix. In addition, the increase in our interest expense was also due to the balance of our term deposits increasing by 4.9%. While term deposits continue to represent the largest component of our interest expense, this is a smaller percentage increase than savings deposits as we have been revising the pricing on our term deposits. Finally, the 10.3% increase in the balance of our demand deposits also contributed to the increase in our overall interest expense due to an increase of our corporate client's base. These increases were partially offset by the slight decrease in the average interest rates we paid on deposits, which stood at 5.5% during the three months ended March 31, 2018 compared to 5.6% during the three months ended March 31, 2017, given the decrease in the corresponding reference interest rates in Honduras.

Interest expense from loans obtained from banks increased by L41,035 thousand, or 83.0%, for the three Months ended March 31, 2018 as compared to the corresponding period in 2017 primarily as a result of our decision to increase loans from international financial institutions in order to match funding to our long-term loans to customers in foreign currency. This increase was also due to the increase in the average interest rate on loans obtained from banks which reached 6.7% during the three months ended March 31, 2017 as compared to 6.2% during the three months ended March 31, 2018. The increase in the average interest rate paid on these loans was primarily due to the increase in the balance of our long-term loan portfolio, which carry a higher average interest rate.

Interest expense from financial obligations increased by L40,592 thousand, or 37.6%, for the three Months ended March 31, 2018, as compared to the corresponding period in 2017, primarily due to an increased in the balance of our financial obligations given that we had to use our credit facility with the Central Bank in order to meet our daily liquidity reserve requirements due to the non-recurring event where we had to return certain taxes we collected from our clients to the Honduran government. This increase was also due to the increase in the average interest rate we paid on financial obligations, which reached 8.7% during the three months ended March 31, 2018 as compared to 8.4% during the three months ended March 31, 2017, which in turn was due to some of our newly issued long-term obligations carrying higher interest rates.

Net interest margin for both the three months ended March 31, 2018 and March 31, 2017 was 5.7%. As explained above, our adequate response to prevailing market conditions through the anticipation of interest rate movements, adjustment of our pricing for customer deposits and continuous effort to increase the participation of higher yielding assets in our balance sheet have allowed us to uphold our net interest margin in a period of generally decreasing interest rates on most of our revenue generating assets.

Allowance for loan and interest losses

The following table presents our loan impairment charges, NPL ratio, our coverage ratio and our loan and Provision for loan losses (PLL)for the three Months ended March 31,2018 and 2017

	For the Three-months ended March 31,			
	2018	2017	Change	
	(L in thousands)		(L in thousands)	%
Loan impairment charges.....	141,242	86,940	54,302	62.5%
NPL ratio.....	1.8%	2.0%	-	-
Coverage ratio	189.9%	191.2%	-	-
Provision for loan losses	2,024,585	1,852,888	171,697	9.3%

Loan impairment charges increased by 62.5% to L141,242 thousand for the three Months ended March 31, 2018 from L86,940 thousand for the corresponding period in 2017. NPL ratio decreased to 1.8% as of March 31, 2018 from as 2.0% of March 31, 2017. Coverage ratio remained above settling at 189.9% as of March 31, 2018 compared to 191.2% as of March 31, 2017.

As of March 31, 2018, loan impairment charges attributable to retail banking products amounted to L141,242 thousand, or an increase of L54,302 thousand compared to the expense registered during the year ended March 31, 2018 of L86,940 thousand. Retail loans continue to demand higher loan impairment charges compared to the rest of the loan portfolio in par with Banco Atlántida's strategy in recent years to diversify its loan portfolio by offering its retail clients a host of retail products (such as personal non-secured loans, payroll loans, mortgages and credit cards) that provide higher interest yields; thus, the increase in loan impairment charges has been proportional to the increase in portfolio. Charge-off's from this business segment amounted to L 7,763,792 thousand as of March 31, 2018 in contrast to L 200,112 thousand as of March 31, 2017. compared to the L31,851 thousand in loan impairment charges recorded during the three months ended March 31, 2017. This increase was primarily due to an increase in non-performing retail loans as consequence of political and social events following the Honduran presidential elections that continued to be felt into the first quarter of 2018 as factors such as deteriorating sales and unemployment, among others, negatively affected our retail clients. Our retail NPL ratio increased to 6.7% during the three months ended March 31, 2018 as compared to 4.6% during the three months ended March 31, 2017 primarily due to the deterioration of the retail loan and credit card portfolio, as a consequence of the above mentioned political and social events.

The corporate banking segment contributed with L 35,074 thousand in loan impairment charges, or a decreased of 77.4% compared to the year-end result of L 155,092 thousand in 2017 in loan impairment charges, just second to retail products in terms of loan impairment charges for the year 2018. The segment's NPL ratio has improved to 1.8% as of March 31, 2018 compared to 2.0% as of March 31, 2017, decrease was primarily due to the fact that no charge-offs were recognized for this loan portfolio during the three months ended March 31, 2018 as compared to L155,092 thousand in charge-offs during the three months ended on March 31, 2016. Hence, our coverage ratio was already strong enough to withstand an increase in our corporate loan portfolio. Our corporate NPL ratio decreased to 1.5% during the three months ended March 31, 2018 compared to 1.8% during the three months ended March 31, 2017 primarily due to our increased collection efforts which led to an improvement in the quality of our portfolio.

The SME banking segment contributed with L 292.341 thousand in loan impairment charges, a 47.1% increase from the loan impairment charge recorded in the year ended March 31, 2018. This result is attributed to the incorporation of Banco Atlántida El Salvador, S.A. which was acquired by our subsidiary in that country, Inversiones Financieras Atlántida, S.A.

During the three months ended March 31, 2018, loan impairment charges attributable to our SME banking

segment amounted to L30,509 thousand, an increase of L20,572 thousand, or 207.0%, as compared to the L9,937 thousand in loan impairment charges recorded during the three months ended March 31, 2017. This increase was, primarily due to (i) the growth of our SME loan portfolio and (ii) the fact that we were not able to free up reserves due to the continued presence in our portfolio of certain non-performing loans, which we have not yet been charged off because we are pending judicial approval in order to be able to do so. Thus, our SME charge-offs decreased to L1,488 thousand during the three months ended March 31, 2018 as compared to the L1,609 thousand in charge-offs recorded during the three months ended March 31, 2017. Our SME NPL ratio decreased to 7.3% during the three months ended 7.8% during the three months ended March 31, 2017 because the new loans that did enter into the portfolio were of a higher credit quality.

Total impairment of financial assets increased by 5.8% to L1,947,530 thousand during the three months ended March 31, 2017 from L1,840,048 thousand for the corresponding period in 2017. This increase was primarily due to the impairments taken in each of our segments as described above. In particular, we had to increase our loan allowances to account for the increase in our NPL portfolio. As leverage, we used the favorable coverage we had as of December 31, 2017 to bear the increase of our NPL balance, thus providing a coverage ratio of 118% during the three months ended March 31, 2018 as compared to 128.1% during the three months ended March 31, 2017, in each case above the regulatory requirement of 110%.

Proceeds from services

The following table presents the components of our fee and commission income for the three Months ended March 31, 2018 and 2017

	For the Three-months ended March 31,		Change	
	2018	2017		
	(L in thousands)		(L in thousands)	%
Services.....	116,688	24,851	91,837	369.6%
Commissions.....	316,340	344,730	(28,390)	(8.2%)
Leases.....	44,985	54,446	(9,461)	(17.4%)
Other income.....	57,581	92,010	(34,429)	(37.4%)
Total proceeds from services.....	535,594	516,037	19,557	3.8%

Proceeds from services increased by 3.8 % to L535,594 thousand for the three Months ended March 31, 2018 from L516,037 thousand for the corresponding period in 2017. Primarily due to a 369.6% increase in services This increase was partially offset by a decrease in other income of 37.4%, leases by 17.4%, and commissions 8.2%

The decreased in commissions of L28,390 thousand, or 8.2%, for the three Months ended March 31, 2018 from L344,730 thousand for the corresponding period in 2017 was primarily due to Banco Atlántida's In contrast, commissions from public and private collections decreased by L5,351 thousand, or 23%, during the three months ended March 31, 2018 as compared to the corresponding period in 2017, primarily due to a decrease in commissions from income taxes, which in turn was due to a decrease in the amounts collected from our clients.

The decrease in proceeds from leases of L9,461 thousand, or 17.4%, for the three Months ended March 31, 2018 from L 54,446 thousand for the corresponding period in 2017 was primarily due to a lower renewal rate of expiring operating lease contracts administered by ACRESA, the leasing company. Until March 31, 2014 leases were recorded as operating leases (even if they were financial in nature), but due to the adoption of a new regulatory framework as of January 1, 2016, their accounting would be that of a financial lease. Eventually, their income will continue to decrease just as the outstanding contracts as of March 31, 2014 continue to expire. This decrease is offset by a decrease in depreciation expenses related to leases given the decrease in their volume for the reasons described above.

The decrease in other income of L34,429 thousand, or 37.4%, for the three Months ended March 31, 2018 from L92,010 thousand Conversely, banking business loan recoveries (loans that had been previously written-off) increased L74,570 thousand as of March 31, 2018 compared to March 31, 2017. Other items grew as well, including profit from financial assets and liabilities at fair value as it increased L 21,576 thousand during the three Months ended on March 31, 2018 to 24,802 thousand from L. 3,225 thousand during the three Months ended on March 31, 2017 mainly due to the performance of the stocks held in companies related to the financial sector. Account handling fees increased by L 12,142 thousand for the year ended March 31, 2017.

Income from insurance activities

The following table presents the components of our net premium income for the three Months ended March 31, 2018 and 2017

	For the Three-months ended March 31,		Change	
	2018	2017		
	(L in thousands)		(L in thousands)	%
Income from insurance activities	823,791	675,439	148,352	22.0%
Expenses from insurance activities	719,603	541,916	177,687	32.8%
Profit from insurance activities	104,188	133,523	(29,335)	(22%)

Profit from insurance activities decreased by 22% to L29,335 thousand for the three Months ended March 31, 2018 from L133,523 thousand for the corresponding period in 2017. This decrease was mainly due to an 32.8% increase in total expenses from insurance activities, mainly due to an increase of the insurance claims by 39.9% compared to the corresponding period in 2017.

Income from insurance activities increased by 22.0% to L148,352 thousand for the three Months ended March 31, 2018 from L 148,352 thousand for the corresponding period in 2017. Meanwhile, as counterbalance, income from recovered claims of foreign insurance reinsurers increased by 109%, during the three Months ended March 31, 2018 compared to the same period during 2017. Insurance premiums increased by 10.4%, during the three Months ended March 31, 2018 compared to the same period during 2017.

Expenses for insurance activities increased by 32.8% to L177,687 thousand for the three Months ended March 31, 2018 from L541,916 thousand for the corresponding period in 2017. After a downward trend during most part of the 2017 year, during the last quarter of 2018, claim expenses increased because of the events that followed the local elections. Hence, the insurance company withstood an increase in claim expenses of 39.9% for the three Months ended March 31, 2018, as compared to the corresponding period in 2017. Expenses from premiums cancelled and reinstated also increase 69% for the three Months ended March 31, 2018, as compared to the corresponding period in 2017 due primarily to modifications to the terms and conditions of insurance policies which allow for an amendment of the outstanding insurance policy rather than its cancellation and re-entry as a new one following a change request. This change in procedure causes a decrease of such cancellation expenses.

Other expenses

The following table presents the components of our operating and administrative expenses for the three Months ended March 31, 2018 and 2017

	For the Three-months ended March 31,		Change	
	2018	2017		
	(L in thousands)		(L in thousands)	%
Other expenses:				
Staff-expenses.....	415,769	388,757	27,012	6.9%
General and administrative expenses	548,804	522,662	26,142	5.0%
Depreciation & amortizations.....	156,624	89,211	67,413	75.6%
Total other expenses	1,121,197	1,000,630	120,567	12.0%

Other expenses increased by 12.0% to L120,567 thousand for the three Months ended March 31, 2018 from L 1,000,630 thousand for the corresponding period in 2017. The increase in other expenses was primarily due to (1) the increase in staff expenses 6.9%, (2) a 5.0% increase in general and administrative expenses and (3) a 75.6% increase in depreciation and amortization expenses.

The increase in general and administrative expenses of L26,142thousand, or 5.0%, for the three Months ended March 31, 2018 as compared to the corresponding period in 2017 was primarily due to the following: (1) the incorporation of the general and administrative expense of Banco Atlántida El Salvador acquired through Inversiones Financieras Atlántida, S.A. for a total of L a L 52,488 thousand for the three ended March 31, 2018; (2) an increase of L 1,217 thousand in the general and administrative expense of the insurance company, (3) an increase of L 6,243 thousand in the general and administrative expense of AFP Atlántida related to higher investment in marketing, (4) an increase of L 21,776 thousand in the general and administrative expense of Invatlan, the holding company, attributed to external counsel costs associated with the acquisition of Banco Atlántida El Salvador, S.A., including rebranding expenses and other organizational costs; an increase of L8,632 thousand registered in the general administrative expense of Coalsa, (4) and a L 4,642 thousand increase in the general and administrative expense of Banco Atlántida, S.A. as of March 31, 2018 compared to the year ended on March 31,2018. Banco Atlántida, S.A. The increase in administrative expenses of L3,677 thousand, or 0.5%, during the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 was primarily due to (i) an increase in marketing expenses of L9,954 thousand, which in turn was principally due to flagship campaigns aimed at promoting credit and debit card use as well as advertisements related to our digital banking platforms and (ii) an increase in lease expenses of L7,680 thousand, which in turn was principally the result of our decision to acquire certain servers and other high-end equipment through leases as these give us access to additional benefits, such as upgrades and year-round maintenance. This increase was partially offset by the absence of a non-recurring expense related to purchases of employee uniforms we incurred in the first quarter of 2017.

The increase in staff expenses of L 310,714 thousand, or 22.0%, for the three Months ended March 31, 2018 as compared to the corresponding period in 2017 was primarily due to the incorporation of the expense belonging to Banco Atlántida El Salvador, S.A. through Inversiones Financieras Atlántida, S.A. which contributed with an additional expense of L41,212 thousand as of March 31, 2018. Invatlan and its subsidiaries also registered an increase in the number of full-time employees which reached 4,106 (including Banco Atlántida El Salvador, S.A.) as of March 31, 2018 compared to 3,152 as of March 31,2018 Three other entities also registered and increase in their staff expenses during the same period of comparison, these being Arrendamientos y Créditos Atlántida and AFP Atlántida with a change of L 7,087 thousand, L 12,991 thousand respectively.

The increase in depreciation and amortization expenses of L67,413 thousand, or 12.0%, for the three Months ended March 31, 2018 as compared to the corresponding period in 2017 was primarily due to (1) the incorporation of Banco Atlántida El Salvador, S.A. L 17,389 thousand, as well as to (2) an increase of L 56,745 thousand in the amortization expense of Banco Atlántida, S.A. The increase in depreciation and amortization was primarily due to an increase in software licenses and investment in technology equipment which are required to be depreciated.

Our cost-to-income ratio during the three months ended March 31, 2017 was 63.7%, as compared to 65.9% for the corresponding period in 2017 mainly as a result of operating income growing at a higher rate than operating expense, or 7.8% as compared to 4.1%.

Non-operating income (expenses)

The following table presents the components of our Non-operating income (expenses) for the three Months ended March 30, 2018 and 2017.

	For the Three-months ended			
	March 31,			
	2018	2017	Change	
	(L in thousands)		(L in thousands)	%
Income from dividends	1,644	1,529	115	7.5%
Gain on sale of foreclosed assets	9,653	23,440	(13,787)	(58.8)
Gain on sale of fixed assets	2,996	3,262	(266)	8.2
Other income, net.....	59,380	(10,267)	49,113	478.5%
Total.....	73,672	17,964	55,708	310.1%

Non-operating income decreased by L55,708 thousand from L73,672 thousand during the three Months ended March 31, 2018 to L17,964 thousand during the three Months ended March 31, 2017.

The incorporation of Inversiones Financieras Atlántida, S.A. and Subsidiary (Banco Atlántida El Salvador, S.A.) added L142,637 to other non-operating income (expenses), mainly because of the business combination (acquisition of 99.8194622% of the outstanding shares of Banco Atlántida El Salvador, S.A.) that provided for an additional income of L140,873 thousand (US\$ 5,998 converted at an exchange rate of L23.4868 HNL/USD) from intangible assets recognized as of March 31, 2018. This non-recurring income was offset by L45,280 thousand (US\$ 1,928 converted at an exchange rate of L23.4868 HNL/USD) cumulative loss belonging to Banco Atlántida El Salvador, S.A. which was also recognized following its acquisition by Inversiones Financieras Atlántida, S.A. Additionally, after acquiring 49% of the outstanding shares of Corporation de Inversiones Atlántida, S.A. during 2018; Invatlan, the holding company, was entitled to L39,712 in dividends as of March 31, 2018. These gains were rounded off by an increase of L 8,985 thousand from the sale of fixed assets as of March 31, 2018 compared to the corresponding period in 2017 and by a L 12,958 thousand decrease in extraordinary expenses from Seguros Atlántida, S.A. during the same period. The net positive outcome of these transactions was offset by (1) a decrease at the Invatlan holding company level given that it had L60,700 thousand of non-recurring restitutions of investment provisions occurring during the first quarter of 2017, (2) Banco Atlántida El Salvador, S.A. loss of L 16,352 thousand from the sale of foreclosed assets, (3) a decrease in Acres's profit from the disposal of assets available for sale equal to L15,091 thousand, (4) a L32,763 increase in non-operating expense primarily attributed to losses related to credit card frauds, (5) a L 44,783 thousand decrease in interests recovered from refinanced loans that were registered as other income during the three Months ended March 31, 2018 but has now been reclassified to interest income during 2018, and (6) a L84,955 thousand decrease in proceeds from recoveries of loans that had been charged-off.

Income before tax

Income before tax decreased by 7.4% to L444,937 thousand for the three Months ended March 31, 2018 from L480,300 thousand for the corresponding period in 2017.

Income tax

Income tax expense increased to L25,651 thousand, or 17.0%, for the three Months ended March 31, 2018 from L150,948 thousand for the corresponding period in 2017, or an effective tax rate of 39.5% as of March 31, 2018 compared to an effective tax rate of 31.3% as of March 31, 2018. This increase was primarily due to an increase in our taxable operating income.

Net Income

Net income decreased by 20.9% to L237,958 thousand for the three Months ended March 31, 2018 from L 300,942 thousand for the corresponding period in 2017. Conversely, average shareholders' equity increased by 12.61% to L 10,502,920 thousand as of March 31, 2018, from L 9,195,356 thousand for the corresponding period in 2017, our ROAE was 9.1%% during the three months ended March 31, 2018, as compared to 13.1% for the corresponding period in 2017.

Net income decreased by 20.3% and average total assets increased by 24.3% to L 1,892,435 thousand for the three Months ended March 31, 2018 from L 71,503,471 thousand for the corresponding period in 2017, and consequently, ROAA as of March 31, 2018 settled at 1.3%, compared to 1.6% as of March 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.

The following table sets forth our primary sources of funding on a consolidated basis as of March 31, 2018 and as of March 31,2017.

	As of March 31, 2018	As of March 31, 2017	Change	
	(L in thousands)		(L in thousands)	
Demand deposits.....	10,190,535	8,344,761	1,845,774	22.1%
Term deposits	31,226,768	26,641,626	4,585,142	17.2%
Savings deposits.....	25,139,381	21,212,316	3,927,065	18.5%
Other	507,936	368,250	139,686	37.9%
Total deposits	67,064,621	56,566,953	10,497,668	18.6%
Loans and borrowings from banks	7,290,505	7,008,361	282,144	4.0%
Corporate bonds and secured notes.....	4,464,882	1,001,040	3,463,842	346.0%
	78,820,008	64,576,354	14,243,654	22.1%

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

Total deposits increased by 18.6% to L 67,064,621 thousand as of March 31, 2018 as compared to L56,566,953 thousand as of March 31,2017 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 L7,290,505 thousand as of March 31, 2018, compared to L7,008,361 thousand as of March 31,2017, representing an increase of 5.5% 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 March 31, 2018, we had (I) an aggregate amount of US. \$ \$298,035 thousand (L 7,030,024 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US. \$ \$299,333 thousand (L7,076,195 thousand) in uncommitted lines of credit from foreign institutions on consolidated basis, of which U.S.\$266,359 thousand (L6,296,689 thousand) was available to draw upon.

Corporate bonds and secured notes issued were L4,464,882 thousand as of March 31, 2018, compared to L1,001,040 thousand as of March 31, 2017, representing an increase of 346.0%, primarily due to an issue of US\$150 million in Senior Secured Notes in the form of a 144A / RegS by Inversiones Atlántida, S.A., with the purpose of using these proceeds for the repayment of debt, fund planned acquisition and general corporate purposes. Conditions include a 5-year tenor with a bullet payment at maturity, while interest rate is fixed, 8.25%, paid semi-annually in arrears.

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

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

Regulatory capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, pursuant to Honduran capitalization requirements, Banco Atlántida is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 10% or above. As of March 31, 2018, Banco Atlántida's capital ratio was 12.6% compared to 12.3% as of March 31, 2017; 13.4% as of March 31, 2016; and 13.6% as of March 31, 2015.

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 March 31,			
	2018	2017	2016	2015
	(L in thousands, except percentages)			
Total Tier 1	6,488,863	6,488,863	5,386,163	4,993,927
Total Tier 2	1,267,320	1,018,734	794,972	770,437
Total regulatory capital	7,756,182	7,507,597	6,181,135	5,764,364
Total risk-weighted assets	61,626,144	61,083,980	46,307,367	42,375,602
Regulatory capital as a percentage of risk-weighted assets.....	12.6	12.3	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 March 31, 2018.

(L in millions, except percentages)	Less than 30 days	31 to 90 days	91 to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits and obligations from customers.....	10,312,969	13,905,239	11,652,865	17,178,760	14,014,788	67,064,621
Loans and borrowings from banks..	62,137	303,813	904,421	2,611,956	3,408,178	7,290,505
Debt securities issued.....			1,109,197	3,355,685		4,464,882
Total.....	10,375,106	14,209,053	13,666,483	23,146,401	17,422,966	78,820,008
% of Total.....	13.2%	18.0%	17.3%	29.4%	22.1%	100.0%

Capital expenditures

Our consolidated capital expenditures increase to L 117,217 thousand for the three Months ended March 31, 2018 compared to L 3,128 thousand for the three Months ended March 31,2017 primarily since throughout the first quarter of 2017 our subsidiaries made significant investments in information technology and in expanding their distribution fleet.

Off-Balance sheet arrangements

In the normal course of business, Invatlan party to many 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 7,796,369 as of March 31, 2018, L7,406,983 thousand as of March 31,2017. Issuance of guarantees totaled L2,687,208 as of March 31, 2018, L 2,999,650thousand as of March 31,2017. Loans under contract pending disbursement totaled L 4,377,311as of March 30, 2018, L3,314,227 thousand as of March 31,2017.

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

Qualitative and Quantitative Disclosure about Market Risks

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