



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
as of March 31, 2019**

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 1.5 million clients as of March 31, 2019. We were acknowledged as a financial holding company by the National Banking and Insurance Commission of the Republic of Honduras (The Commission) in 2012, and our main subsidiary, Banco Atlántida, S. A. (a Honduran Subsidiary), was founded in 1913. We believe that our businesses benefit from significant synergies because of being part of one financial group.

Our operations in Honduras include Banco Atlántida and Seguros Atlántida, one of the bigger banks and insurance companies in Honduras in terms of assets, deposits and equity, respectively. In addition, Banco Atlántida and Seguros Atlántida rank among the most profitable entities in the Honduran banking and insurance systems, according to the Commission. Banco Atlántida holds a distinguished position in the local marketplace in terms of total net assets, total net loans and total deposits, with market shares of 18.4%, 19.2% and 20.0%, respectively, as of March 31, 2019, according to the Commission. Furthermore, Seguros Atlántida one of the bigger insurance company in terms of total gross premiums written, with a market share of 18.4% and 17.1% as of March 31 of 2019 and 2018, respectively, according to the Commission. For the three months Ended March 31, 2019 and 2018, Banco Atlántida had a ROAE of 10.7% and 12.2%, respectively, compared to the Honduran banking system which had a ROAE of 11.1% and 12.5%, respectively, according to the CNBS. For the three months Ended March 31, 2019 and 2018, Seguros Atlántida had a ROAE of 35.0% and 34.2%, respectively. As of March 31, 2019, Banco Atlántida had one of the largest banking distribution networks in Honduras, with 2,700 points of service, comprised of 148 branches, 63 teller windows embedded within Corporate client offices, 1,005 ATMs (including 304 proprietary ATMs and 701 third-party network ATMs) and 862 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, that are long-term assets. In contrast, most deposits are short-term. When interest rates increase, Banco Atlántida must pay higher interest on deposits while interest earned on assets does not increase as rapidly, which causes profits to decrease. Interest rate increases could result in adverse changes in our financial margin, reducing our growth rate or even resulting in decreases as compared to prior periods.

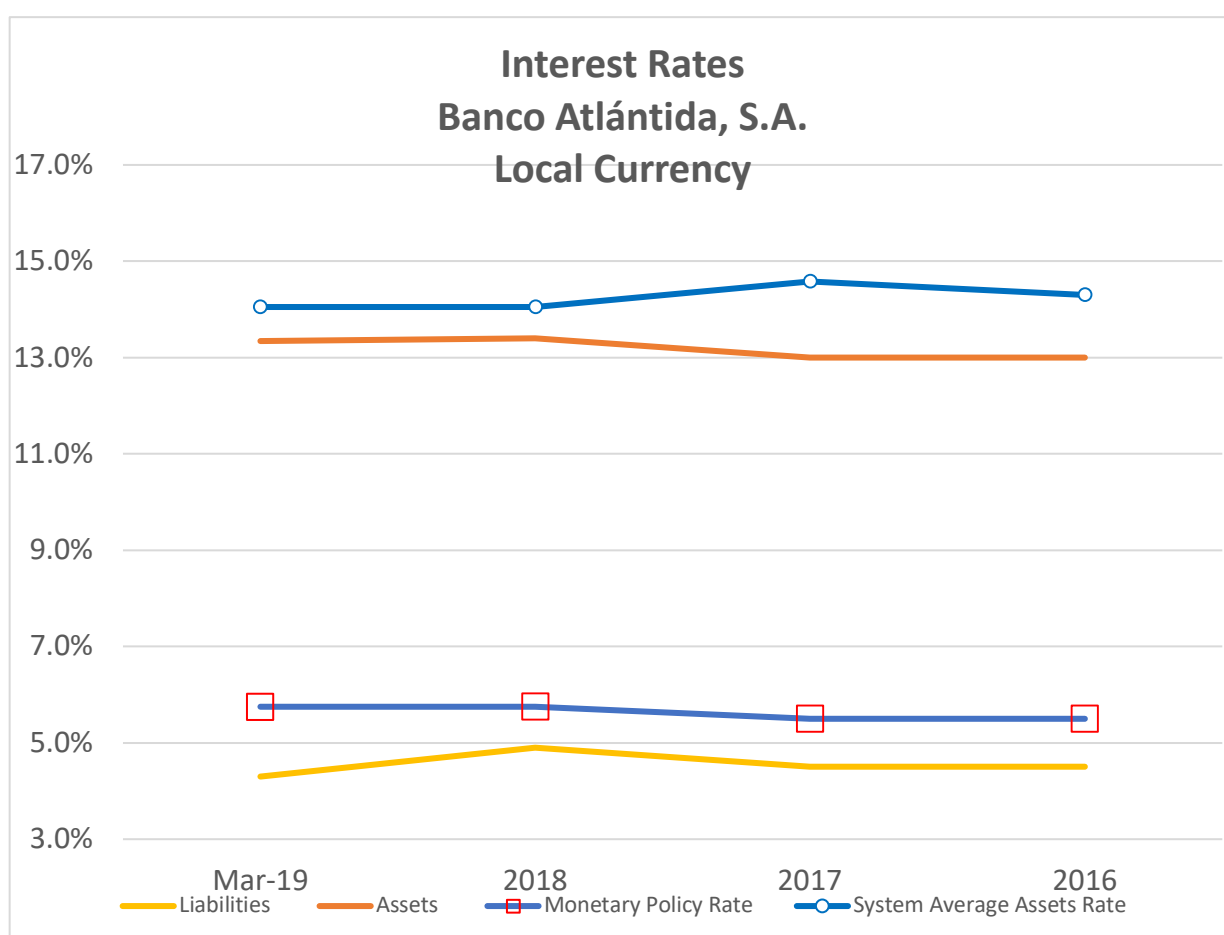
Increases in interest rates may reduce the volume of loans originated by Banco Atlántida. Sustained high interest rates have historically discouraged our clients from borrowing and have resulted in increased, asset impairment.

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 of Honduras (Central Bank) at the relevant dates. For more information, see “Exchange Rates.” For purposes of this section, US Dollars-denominated assets and liabilities include: (I) US Dollar domestic, which includes all transactions conducted in Honduras or on behalf of Honduran residents in US Dollar 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 31, 2019, 2018, 2017 and 2016.



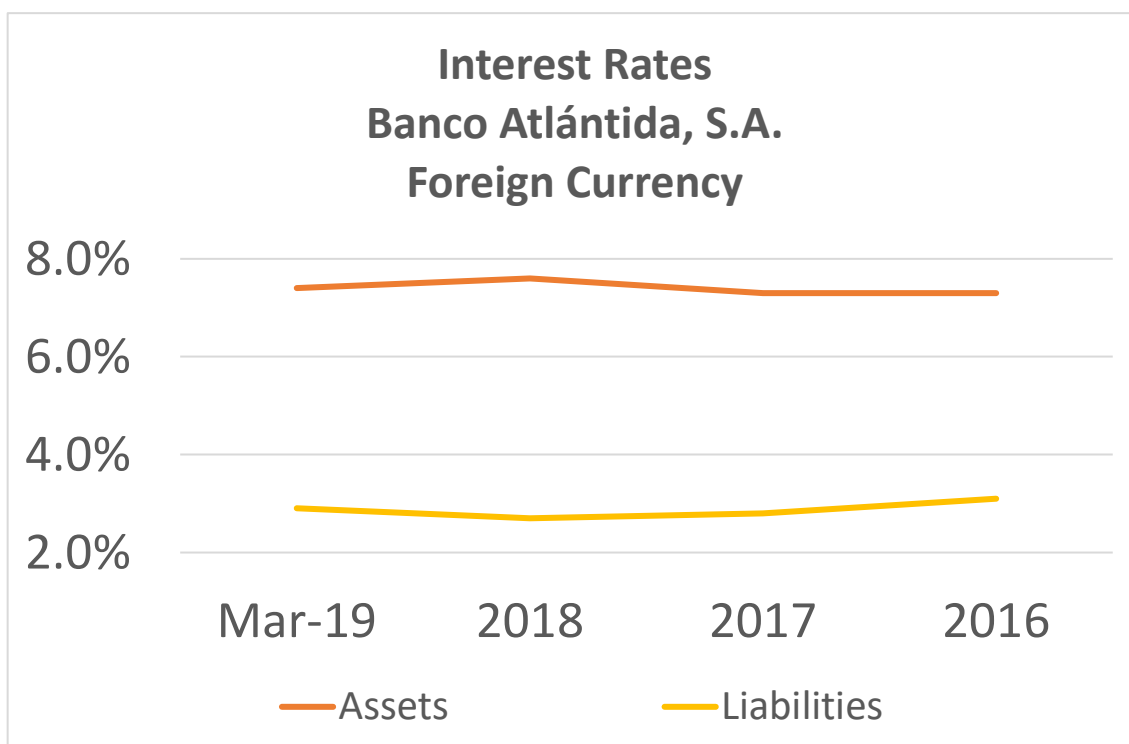
The Honduran banking industry generally does not set interest rates by reference to a benchmark rate; however, the weighted average interest rates on lempira-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum bid rate that the Central Bank allows for its treasury notes. This reference rate was modified on January 07, 2019, an increase of 0.25 pp, reaching 5.75% from 5.50% as of December 31, 2018, 2017 and 2016.

Banco Atlántida’s average interest rate on lempira-denominated assets was 13.3% as of March 31, 2019, 13.4% as of March 31, 2018 and 2017, 13.0% Banco Atlántida continues to pursue higher margin products emphasizing on personal loan products, payroll loans and credit cards. At its current interest level, as of December 31, 2018, Banco Atlántida’s lempira-denominated assets have grown 11.9% outpacing the 2.7% 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 4.9% as of March 31, 2019, 4.5% as of March 31, 2018, interest rates increased compared to March 2017. As of March 31, 2019, compared to December 31, 2018, Banco Atlántida's local-denominated deposits have grown 9.6% while the local financial system has done so in 7.2% 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, 2019, 2018, 2017 and 2016.



As of March 31, 2019, Banco Atlántida's average interest rate on foreign currency-denominated assets remaining stable at a rate of 7.4% as of March 31, 2018 a rate of 7.6%. Higher capital requirements for loans granted in foreign currency, particularly to non-exporting entities, continues to influence pricing of such transactions. Banco Atlántida's loan portfolio in US Dollars increased 20.4% between March 31, 2018 and March 2019, while the local financial system did so in 16.8% during the same period.

Banco Atlántida's average interest rate on foreign-denominated liabilities stood at 2.4% as of March 31, 2019 and at 2.7% March 31, 2018. Liquidity provided by the increases in USD deposits remains high regarding foreign denominated deposits.

Effect of family remittances

Total family remittances to Honduras from abroad was US\$ 1,185.4 million for the period ended March 28, 2019 (an increase of 10.1% from the corresponding period in 2018), US\$ 1,076.4 million for the period ended March 28, 2018 (an increase of 7.8% from the corresponding period in 2017), US\$ 929.2 million for the period ended March 22, 2017 (an increase of 11.2% from the corresponding period in 2016) 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\$ 299,0 million in family remittances to Honduras from abroad for the period ended March 2019 (25% of the market) compared to US\$ 219,0 million in family remittances to Honduras from abroad for the period ended March 31, 2018 (22.0% 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 in inflation rates may impact our performance mainly because all our assets are not adjusted for the effects of inflation. In addition, material increases in the rate of inflation could result in lower demand for, and affect the pricing of, our services and products. Because much of our costs and expenses are fixed, we may not be able to reduce costs in the event of inflation. Increases in the rate of inflation could also negatively impact our loan portfolio.

The Honduran economy has been characterized by moderate inflation in recent years. As of March 31, 2019, the inflation rate was 4.1% compared to 4.4% as of March 31, 2018, due to the increase in the tariff paid for residential electricity, home leases and in the price of certain foods. At the end of 2018, the inflation rate was 4.2%, compared to 4.7% and 3.3% at the end of 2017 and 2016 respectively. The primary drivers of inflation were food and non-alcoholic beverages, utilities, gas and other fuels, clothing, housing, personal care, transportation, recreation, hotels, furniture, cafés and restaurants. According to the Central Bank, the inflation targets for 2018 was reached because it was kept within the 4.0% (± 1 pp) range that was agreed with the International Monetary Fund (IMF).

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 U.S. dollar has depreciated at a stable rate. The lempira exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras’s main agricultural commodities and the high demand for foreign currency to pay for imported goods. The exchange rate was L24.4272 per U.S.\$1.00 on March 31, 2019, compared to L23.6399 per U.S.\$1.00 on March 31, 2018, as published by the Central Bank.

Demographic trends

As of 2018, Honduras had a population of approximately 9.0 million people, according to the Central Bank, which represented an estimated increase of approximately 1.6% compared to 2017. The average annual population growth rate from 2012-2018 was 7.5%. According to the World Bank, although the poverty rate in Honduras decreased to 61.9% in 2018, from approximately 66.5% in 2012, the unemployment rate increased from 4.0% in 2012 to 4.4% in 2018. GDP per capita in US dollars increased from US. \$ 2,208 in 2012 to US. \$ 2,662 in 2018, reflecting an increase in purchasing power.

As of December 31, 2017, Honduras had a population of approximately 8.9 million people, according to the 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 64.3% in 2017, from approximately 66.5% in 2012, the unemployment rate increased from 4.0% in 2012 to 4.5% in 2017. GDP per capita in US. dollars increased from US. \$ 2,208 in 2012 to US. \$ 2,608 in 2017, reflecting an increase in purchasing power.

As of December 31, 2016, Honduras had a population of approximately 8.7 million people, according to the Central Bank, which represented an estimated increase of approximately 1.7% compared to 2015. The average annual population growth rate from 2012-2016 was 4.0%. 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 3.8% in 2012 to 4.7% in 2016. GDP per capita in US. dollars increased

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 rate 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 Commission) to GDP (as published by the Central Bank) was 55.8%, as of December 31, 2018.

According to the Central Bank, as of December 31, 2018, the growth rate of bank loans to the private sector was 13.4%, compared to the growth rate of 8.5% as of December 31, 2017. For the year ended December 30, 2016, the growth rate was 5.4%. 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 31, 2018 when compared to December 31, 2017 as stated above.

Results of Operations for the Month Ended March 31, 2019 Compared to the month Ended March 31,2018

The following table shows the principal components of our consolidated income statement for the years ended March 31, 2019 and 2018

	March		Change	
	2019	2018		
	(HNL000's)		(HNL000's)	%
Interest income	2,118,969	1,828,012	290,957	15.9%
Interest expense	1,005,901	834,091	171,810	20.6%
Financial profit	1,113,068	993,921	119,147	12.0%
Loan impairment charges	162,037	141,242	20,795	14.7%
Financial profit, net of impairment charges	951,031	852,679	98,352	11.5%
Income from insurance activities	913,262	823,791	89,471	10.9%
Expenses from insurance activities	798,391	719,603	78,788	10.9%
Profit from insurance activities	114,871	104,188	10,683	10.3%
Services	40,227	116,688	(76,461)	(65.5%)
Commissions	381,348	316,340	65,008	20.6%
Leases	42,751	44,985	(2,234)	(5.0%)
Other income	119,881	57,581	62,301	108.2%
Total Proceeds from services	584,207	535,594	48,614	9.1%
Staff-expenses	505,569	415,769	89,800	21.6%
General and administrative expenses	572,389	548,804	23,585	4.3%
Depreciation and amortization	181,043	156,197	24,419	15.6%
Total other expenses	1,259,001	1,121,197	137,804	12.3%
Operating income	391,109	371,265	19,845	5.3%
Income from dividends	1,392	1,644	(252)	(15.3%)
Gain on sale of other and contingent assets	17,604	9,653	7,951	82.4%
Gain on sale of fixed assets	40,825	2,996	(271)	(9.0%)
Other income, net	36,206	59,380	95,586	(161.0%)
Total non-operating income (expenses)	57,927	73,673	(15,746)	(21.4%)
Income before income tax	449,036	444,938	4,098	0.9%
Income tax/capital gain/net assets tax	190,614	176,599	14,015	7.9%
Income before minority interest	258,421	268,339	(12,906)	(3.7%)
Net income attributable to noncontrolling interests	29,908	30,380	(472)	(1.6%)
Net Income	228,521	237,959	(9,438)	(4.0%)

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, 2019 and 2018.

	March 31,			
	2019	2018	Change	
	(HNL's)	(HNL's)	(HNL's)	%
Interest Income				
Loans	1,880,026	1,591,923	288,103	18.1%
Investments Securities	228,000	224,460	3,540	1.6%
Interest earning deposits	10,943	11,629	(686)	(5.9%)
Total, interest income	2,118,969	1,828,012	290,957	15.9%

Interest income increased 15.9% to L2,118,969 for the three months ended March 31, 2019, from L1,828,012 for the period corresponding to 2018. This increase in interest income was mainly due to the increase in interest on loans of 18.1%.

Interest on our loan portfolio increased by L288,103, or 18.1%, for the three months ended March 31, 2019 compared to the period corresponding to 2018, mainly due to a higher volume of loans disbursed in local currency whose average balance grew by 12.4% compared to the three months ended March 31, 2018, adding L 1,338,156 to our interest income. The average balance of the portfolio of loans denominated in US dollars as of March 2019 increased 8.5% compared to March 31, 2018, this is due to the growth of the year-on-year portfolio of L8,314.1 million in local currency and L3,648.9 million in foreign currency.

Interest on investments in securities increased by L3,540, or 1.6%, for the three months ended March 31, 2019 compared to the corresponding period in 2018, caused mainly by an increase in the average balance of investments of 8.4% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Interest expense

The following table presents the components of our interest expense for the three months ended March 31, 2019 and 2018.

	March 31,			
	2019	2018	Change	
	(HNL's)	(HNL's)	(HNL's)	%
Interest expense				
Deposits from customers	669,452	595,124	74,328	12.5%
Loans obtained from banks	217,515	148,466	69,049	46.5%
Bonds and guaranteed notes	118,934	90,501	28,433	31.4%
Total interest expense	1,005,901	834,091	171,810	20.6%

Interest expenses increased by L 171,810 thousand to L1,005,901 thousand for the three months ended March 31, 2019 from L834,091 thousand for the corresponding period in 2018, primarily due to an increase of 12.5%, 46.5% and 31.4% in interest paid on deposits, loans obtained from banks and financial obligations.

Interest expense of deposits from customers increased by L74,328 thousand, or 12.5%, for the three months ended March 31, 2019 compared to the corresponding period in 2018. This increase was primarily due to a L 5,286,621 thousand, or 9.5%, increase in the average balance of both savings and time deposits portfolio, as the Group sought additional funding to sustain higher loan disbursements, particularly in local currency. The average balance of savings deposits increased L 2,381,135 thousand, or

7.3% as of March 31, 2019 compared to the corresponding period in 2018 as the Banco Atlántida continues to perform as the largest financial entity in terms of deposits. As a consequence of the additional volume, the interest expense related to savings deposits increases L 26,798 thousand during the three months ended on March 31, 2019 compared to the corresponding period in 2018. Additionally, the average balance of term deposits increased by L 2,905,486 thousand, or 10.3%, as of March 31, 2019 compared to March 31, 2018 causing interest expense to increase by L 47,530 thousand during the three months ended March 31, 2019 compared to the corresponding period in 2018. Overall, the average interest rates paid on deposits increased to 3.7% during the three months ended March 31, 2019 compared to 3.6% during the three months ended March 31, 2018.

Interest expense from loans obtained from banks increased by L69,049 thousand, or 46.5%, for the three months Ended March 31, 2019 as compared to the corresponding period in 2018 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. Additionally, during the first quarter of 2019, Banco Atlántida has become active in a recently established repo market sponsored by the Central Bank, known as MED in Spanish, where Banco Atlántida has become a pioneer user, considering the access to low cost funding in local currency. This accounted for nearly half of the increase as it added L 38,614 thousand to interest expense during the three months ended March 31, 2019 compared to the corresponding period in 2018. Banco Atlántida has continued to use its credit lines with correspondent banks and other international financial entities as demand for foreign currency loans has remained strong. The average balance of US denominated obligations with foreign entities did increase by L 2,910,832 thousand, or 124.0%, during the same period. Interest rate paid over total loans decreased to 6.0% for the three months ended March 31, 2019 compared to 6.7% for the three months ended March 31, 2018.

Interest expense from Bonds and guaranteed notes increased by L28,433 thousand, or 31.4% for three months ended March 31, 2019 as compared to the corresponding period in 2018, due to an increase in interest expenses of BAES by L13,594 thousand on USD50,000 thousand of bonds issued on July 2018, an increase in interest expenses of Banco Atlántida by L9,206 thousand on L695,000 thousand and US\$33,100 thousand bonds issued on November 2018, and an increase in interest expenses of INVATLAN by L4,354 thousand due to the Amortized cost effects on Guaranteed notes issued in 2017.

Allowance for loan and interest losses

The following table presents our loan impairment charges, Non-Performing Loan (NPL) ratio, our coverage ratio and our loan and Provision for Loan Losses (PLL) for the three months ended March 31, 2019 and 2018

	March 31,		Change	
	2019	2018		
	(HNL000's)	(HNL000's)	(HNL000's)	%
Loan impairment charges	162,037	141,242	20,795	14.7%
NPL ratio	2.4%	2.9%	-	-
Coverage ratio	123.5%	118.8%	-	-
Provision for loan losses	2,066,624	2,024,585	42,039	2.1%

Loan impairment charges increased by 14.7% or L20,795 thousand for the Three months Ended March 31, 2019 from L141,242 thousand for the corresponding period in 2018. NPL ratio decreased to 2.5% as of March 31, 2019 from 2.9% of March 31, 2018, while NPL coverage ratio decreased to 123.5% as of March 31, 2019 compared to 118.8% as of March 31, 2018.

During the three months ended March 31, 2019, the charges for loan impairment attributable to our retail banking products decreased to L 65,160 compared to 69,512 as of March 31, 2018 the cancellations decreased to L53,346 compared to L77, 071 to March 31, 2018. The NPL coverage ratio of the consumer portfolio reached 120% during the three months ended as of March 31, 2019 as compared to 108.3% for the same period during 2018.

The corporate banking segment contributed L39,003 thousand in loan impairment charges, or an increase of 11.2% compared to the result of L35,074 thousand in 2018. The loan impairment charges of the

corporate loan portfolio increased L3,294 thousand, as of March 31, 2019 while that of residential mortgages increased L2,957 thousand compared to March 31, 2018.

During the three months ended March 31, 2019, the loan impairment charges attributable to our SME banking segment amounted to L57,874 thousand, or 57.9% compared to L36,656 thousand recognized as of March 31, 2018. Cancellations registered during the three months ended March 31, 2019 increased to L30,365 compared to L11,585 for the three months ended March 31, 2018. Our NPL ratio of SMEs decreased to 3.9% during the three months ended 31 March 2019, compared to 8.1% during the three months ended March 31, 2018, as means to maintain the required coverage ratio, additional loan impairment charges of L17,424 thousand were recognized during the three months ended on March 31, 2019 compared to the same period in 2018.

Proceeds from services

The following table presents the components of our fee and commission income for the Three months ended March 31, 2019 and 2018

	March 31,		Change	
	2019	2018		
	(HNL000's)		(HNL000's)	%
Services	40,227	116,688	(76,461)	(65.5%)
Commissions	381,348	316,340	65,008	20.6%
Leases	42,751	44,985	(2,234)	(5.0)
Other income	119,881	57,581	62,301	108.2%
Total proceeds from services	584,207	535,594	48,614	9.1%

Proceeds from services increased by 9.1% to L584,207 thousand for the three months ended March 31, 2019 from L535,594 thousand for the corresponding period in 2018, mainly due to the increase in commissions fee income to 20.6% and others income to 108.2%.

The decrease of 65.5% and the increase in Other income should be analyzed together, since the decrease in income from Services was caused by reclassification of several accounts to Other Income, in order to improve the presentation of financial information. These reclassifications affected Other Income in a positive way, therefore, to better analyze both accounts we compare them the balances together resulting a decrease of L14,161 if we compare the results as of March 31, 2018 with the results as of March 31, 2018. The resulting decreased was caused by a reduction of L3,000 in account management services, a decrease of L16,000 in other diverse services and an increase in income of L5,552 coming from the purchase and sale of foreign currency.

The increase in commissions from L65,008 thousand, or 20.6%, to L381,348 for the three months ended March 31, 2019 of L316,340 thousand for the corresponding period in 2018 was mainly due to (1) Banco Atlántida El Salvador had an increase of L 3,173 in the credit management commissions, sent by transfers and issuance of cards, (2) AFP had an increase of L 14,689 was mainly due to income from operations, and (3) Banco Atlántida increased commissions credit cards increased by L8.0 million, business services L7.9 million, family remittances L7.2 million, purchase and sale of foreign currency L7.0 million, commissions on trusts L2.6 million, central government revenues L2 .1 million, international commissions L2.1 million, drafts and transfers L1.2 million.

Income from insurance activities

The following table presents the components of our net premium income for the Three months ended March 31, 2019 and 2018

	March 31,		Change	
	2019	2018		
	(HNL000's)		(HNL000's)	%
Income from insurance activities	913,262	823,791	89,471	10.9%
Expenses from insurance activities	798,391	719,603	78,788	10.9%
Profit from insurance activities	114,871	104,188	10,683	10.3%

Profit from insurance activities increased by 10.3% or L10,683 thousand, for the three months ended March 31, 2019 of L114,871 thousand compared to the corresponding period in 2018. This growth was due to an increase in the 11% in revenues from insurance activities, mainly the release of technical reserves in the amount of L.25 million with respect to the same period of the previous year. Claims and liquidation expenses recovered by 21.56% were also increased.

Income from insurance activities increased by 10.9% or L89,471 thousand for the three months ended March 31, 2019, compared to the corresponding period in 2018. This growth is mainly due to income from variation in technical reserves by a 133 %, as well as an increase in technical revenues of L.2 million, this compared to the closing of the same period 2018. Net insurance premiums decreased by 4.53%, during the year of 2019 compared to the same period of 2018.

Expenses from insurance activities increased by 10.9% or L78,788 thousand for the three months ended March 31, 2019 compared to the corresponding period in 2018, mainly due to a 30.8% increase in premium expenses paid for the three months that ended on March 31, 2019, compared to the same period corresponding to 2018, caused by modifications to the terms and conditions of the insurance policies that allow a modification of the pending insurance policy, instead of its cancellation and re-entry as new after a change request. This change in the procedure causes a decrease of said cancellation expenses.

Other expenses

The following table presents the components of our operating and administrative expenses for the three months Ended March 31, 2019 and 2018

	March 31,		Change	
	2019	2018		
	(HNL000's)		(HNL000's)	%
Other expenses:				
Staff-expenses	505,569	415,769	89,800	21.6%
General and administrative expenses	572,389	548,804	23,585	4.3%
Depreciation & amortizations	181,043	156,624	24,419	15.6%
Total other expenses	1,259,001	1,121,197	137,804	12.3%

Other expenses increased by 12.3% or L137,804 thousand for the three months ended March 31, 2019 compared to L1,121,197 thousand for the corresponding period in 2018. The increase in other expenses was mainly due to (1) an increase in 21.6% in Personnel expenses, (2) an increase of 4.3% in general and administrative expenses and (3) an increase of 15.6% in Depreciation and Amortization.

The increase in personnel expenses of L89,800 thousand, or 21.6%, for the three months ended March 31, 2019 compared to the corresponding period in 2018 was mainly due to the incorporation of the personnel expenses of Atlántida Securities and Atlántida Capital, which were acquired through Inversiones Financieras Atlántida, SA, which contributed an additional expense of L 2,639 thousand as of March 31, 2019. Invatlan and its subsidiaries also recorded an increase in the number of full-time employees which reached 3,941 (including Banco Atlántida El Salvador, SA, Atlántida Securities, Atlántida Capital) as of March 31, 2019 compared to 3,736 at March 31, 2018.

The increase in general and administrative expenses of L23,599 thousand, or 4.3%, for the three months ended March 31, 2019 compared to the corresponding period in 2018, was mainly due to the

following: (1) incorporation of the general and administrative expenses of Atlántida Securities and Atlántida Capital acquired through Inversiones Financieras Atlántida, SA for a total of L 3,907 thousand, for the three months ended March 31, 2019; (2) an increase of L 3,487 thousand in the general and administrative expenses of the insurance company due to the increase in payment of professional fees, niif fees and expenses for bank guarantee (3) an increase of L2,236 thousand in general expenses as of March 31, 2019 in the Administradora de Fondos de Pensiones Atlántida (Pension Fund Administrator) in relation to greater investment in marketing and advertising (4) an increase of L13,009 thousand in the general and administrative expenses of Banco Atlántida, SA as of March 31, 2019 compared to the Year ended on March 31, 2018, mainly due to (i) an increase in Loyalty programs for L 5,735 thousand (ii) an increase in other commissions for L 7,223 (5) an increase of L 6,769 in general and administrative expenses due to increase in Fees Due to the due diligence process, the acquisition of two companies in El Salvador.

The increase in depreciation and amortization expenses of L24,419 thousand, or 15.6%, for the three months ended March 31, 2019 compared to the corresponding period in 2018 was mainly due to (1) the incorporation of Atlántida Securities and Atlántida Capital and Atlántida Vida L 237 thousand, as well as (2) an increase of L21,030 thousand in the amortization expense of Banco Atlántida, SA The increase in depreciation and amortization was mainly due to an increase in software licenses and investment in equipment of technology; and (3) an increase of L 3,389 in the amortization expense of Banco Atlántida El Salvador, mainly due to depreciation and amortization of computer equipment, furniture and equipment, leased premises.

Non-operating income (expenses)

The following table presents the components of our Non-operating income (expenses) for the three months ended March 31, 2019 and 2018.

	March 31,		Change	
	2019	2018		
	(HNL000's)	(HNL000's)	(HNL000's)	%
Income from dividends	1,392	1,644	(252)	(15.3%)
Gain on sale of foreclosed assets	17,604	9,653	7,951	82.4%
Gain on sale of fixed assets	2,725	2,996	(271)	(9.0%)
Other income, net	36,206	59,380	(23,174)	(39.0%)
Total	57,927	73,673	(15,746)	(21.4%)

Non-operating income decreased by L15,746 or 21.4% during the three months ended March 31, 2019 compared to the same period in 2018.

Gain on sale of foreclosed assets increased by L7,951 or 82.4% during the three months ended March 31, 2019 compared to the period in 2018, was mainly due to the following: Banco Atlántida's Gains from the sale of foreclosed assets, increased L6,651, as the Bank has stepped-up its sales efforts by engaging existing sales force from its commercial units and turning to external brokers to increase sales volume.

Other net income decreased by L23,174 or 39.0% regarding to the same period of 2018, mainly due to a decrease of L3,875 in the recovery of the written-off portfolio, an increase of L23,820 in the valuation of instruments measured at fair value with change in profit or losses, a decrease in other financial income by L14,374 and a decrease in other net income by L27,229.

Income tax

The expense for income tax increased to L14,015 thousand, or 7.9%, for the three months ended March 31, 2019, compared to the corresponding period in 2018, the effective income tax rate was 38.4% as of March 31, 2019 compared to 39.7% as of March 31, 2018.

Net income

Net income decreased by 4.0% or L9,438 thousand for the three months ended March 31, 2019, compared to the corresponding period in 2018.

Liquidity and Funding

Banco Atlántida represents our primary source of funds, and its liquidity comes from client deposits, loans from banks and financial institutions and debt securities.

The following table sets forth our primary sources of funding on a consolidated basis as of March 31, 2019 and as of March 31, 2018.

	As of March 31, (HNL000's)			
	2019	2018	Change	%
Demand Deposits	10,104,354	10,190,535	(86,181)	(0.8%)
Term Deposits	33,629,258	31,226,768	2,402,490	7.7%
Saving Deposits	29,813,386	25,139,381	4,674,005	18.6%
Others	606,605	507,936	98,679	19.4
Total deposits	74,153,603	67,064,620	7,088,982	10.6%
Loans and borrowings from banks	9,946,738	7,290,505	2,656,233	36.4%
Corporate bonds and secured notes	6,157,416	4,464,882	1,692,534	37.9%
	90,257,756	78,820,007	11,437,749	14.5%

The Group's main sources of funds have traditionally consisted of deposits and loans from banks, as well as issued debt securities.

Total deposits increased by 10.6% or L7,088,982 thousand as of March 31, 2019 compared to the period in 2018, mainly due to an 18.6% increase in savings deposits and 7.7% in term deposits, respectively.

Loans obtained from other banks included short-term commercial financing, lines of credit and long-term loans from international financial institutions and multilateral organizations. Banco Atlántida has lines of credit with 17 global financial institutions with which it has maintained correspondent relations for a long time. Some of its main lines of credit are maintained with IFC, IADB, Proparco, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AGAs.

As of March 31, 2019, we had a total amount of US\$298,371 thousand (L7,288,368 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US\$176,779 thousand (L4,318,216 thousand) were available for use.

The corporate bonds and the guaranteed notes issued amounted to L6,157,416 thousand as of March 31, 2019, compared to L4,464,882 thousand as of March 31, 2018, which represents an increase of 37.9%, mainly due to an issuance of Banco Atlántida corporate bonds for HNL695 million and US\$33.1 million (HNL808.5 million) net of HNL880.0 million in bonds redeemed at the end of the last year, to finance business and for corporate purposes in general. The conditions include a term of 3 to 5 years with a single payment at maturity, while the interest rate establishes a minimum and a maximum rate of 7.50% and 10.5% per annum for bonds in HNL, and between 3.5% and 6.0% per annum, for corporate bonds in USD. Quarterly interest based on the past due period. Additionally, Banco Atlántida El Salvador, SA issued bonds denominated "CIBAES1" for an amount of up to US\$50 million (HNL1,221 million). The conditions include a term of 5 years with a single payment at maturity date, while the interest rate is fixed, 8.0%, paid semi-annually.

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

We expect the deposits, loans and loans from banks and debt securities issued to be enough to meet our liquidity requirements in the next 12 months.

Regulatory Capital

As a holding company, we are not obliged to maintain regulatory capital in a consolidated manner. However, in accordance with the Honduran regulatory capitalization requirements, Banco Atlántida must maintain specific levels of capital as a percentage of its risk-weighted assets (capital adequacy ratio) of 10.5% or more. As of March 31, 2019, the capital adequacy ratio of Banco Atlántida S.A., was 12.3% and 12.4% as of March 31, 2018.

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.

	31 March	Of 31 December, (in miles of lempiras)			
	2019	2018	2017	2016	
Total, Tier 1	7,488,863	7,488,863	6,488,863	5,686,163	
Total, Tier 2	1,602,129	1,361,627	1,018,734	987,762	
Total, Regulatory capital	9,090,991	8,850,490	7,507,597	6,673,925	
Total, Risk weighted assets	73,744,345	71,545,025	61,083,980	53,877,580	
Regulatory Capital as a percentage of risk weighted assets	12.3	12.4	12.3	12.4	

Commitments and contractual obligations

The following table summarizes our commitments and contractual obligations as of March 31, 2019:

(L in thousands, except percentages)	Less than 30 days	31 to 90 days	91 to 1 year	Between 1 and 5 years		Total
				More than 5 years		
Deposits and obligations from customers	11,153,453	14,792,105	12,705,110	19,389,169	16,113,766	74,153,603
Loans and borrowings from banks	849,433	1,218,026	1,678,814	3,489,391	2,711,073	9,946,737
Debt Securities issued	-	-	-	5,849,828	488,544	6,338,372
Total	12,002,886	16,010,131	14,383,924	28,728,388	19,313,383	90,438,712
% of Total	13.3%	17.7%	15.9%	31.8%	21.4%	100.0%

Capital Expenditures

Our consolidated capital expenditures increased to L 76,662 thousand for the three months ended March 31, 2019 compared to L62,201 thousand lempiras for the three months ended March 31, 2018 mainly due to our subsidiaries significant investments in information technology.

Off-Balance sheet arrangements

In the normal course of business, the group participates in 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 grant credits that are not otherwise accounted for, such as contingent loans, such as guarantees, letters of credit, and loans under pending disbursement contracts, including lines of credit and syndicated loans. The group provides our clients with services related to the issuance and confirmation of commercial and reserve letters of credit and the issuance of guarantees. Letter-of-credit operations totaled L9,890,398 as of March 31, 2019, L7,796,369 thousand as of March 31, 2018. The issuance of guarantees totaled L413,314 as of March 31, 2019, L269,547 thousand as of December 31, 2019. March 2018. The loans under the agreement pending disbursement totaled L4,513,161 as of March 31, 2019, and L4,839,614 thousand as of March 31, 2018.

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, a specific commitment is generally mandatory, which include guarantees 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.