



**MANAGEMENT'S DISCUSSION
AND ANALYSIS OF OUR
FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
AS OF DECEMBER 31, 2021**

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

The following discussion of our financial position and results of operations should be read in conjunction with our consolidated financial statements and other financial information related to this. Our consolidated financial statements have been prepared in accordance with the Honduran Banking GAAP. Our future results may vary materially from those discussed herein due to various factors affecting our business.

Overview

We are one of the largest financial services groups in Honduras and, through our subsidiaries, we offer a wide range of corporate and retail banking, insurance, pension fund management and other financial services to more than 3.7 million clients as of December 31, 2021. We were recognized as a Financial Group by the National Banking and Insurance Commission (CNBS) in 2012 and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from important synergies of being part of a Financial Group.

Our businesses are mainly focused on three segments: (i) banking, through our subsidiaries Banco Atlántida, one of the largest banks in Honduras based on total assets as of December 31, 2021, according to data from the CNBS, Banco Atlántida El Salvador and Banco Atlántida Nicaragua, the last one was created organically as part of our expansion plans in 2019; (ii) insurance, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of December 31, 2021, according to data from CNBS, and Atlántida Vida, Seguros de Personas; and (iii) pension fund management, through our subsidiary AFP Atlántida the largest private pension fund administrator of Honduras based on assets under management as of December 31, 2021, according to data published by our competitors, and AFP Confia , El Salvador's largest private pension fund administrator based on assets under management , as of December 31, 2021, according to data from the Superintendence of the Financial System of El Salvador (SSF).

Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida, these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to CNBS data. As of December 31, 2021 and 2020, Banco Atlántida had a net income of L 1,258,015 thousand and L621,098 thousand and a ROAE of 11.2% and 8.0%; Seguros Atlántida had a net profit of L234,343 thousand and L227,167 thousand and a ROAE of 16.7% and 21.5% and AFP Atlántida had a net profit of L233,974 thousand and L120,988 thousand and a ROAE of 22.3% and 19.1%, respectively. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits, with market shares of 19.8%, 21.4% and 21.1%, respectively, as of December 31, 2021, according to data from the CNBS. Seguros Atlántida is one of the largest insurers in terms of gross written premiums, with a market share of 16.6% and 18.0% as of December 31, 2021, and 2020, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 58.1% market share in terms of assets under management as of September 30, 2021 (data as of December 31, 2021, is not available yet).

We have one of the largest bank distribution networks in Honduras. As of December 31, 2021, we had 3,200 service points in Honduras, which together with our insurance distribution network and operations in El Salvador and Nicaragua added 3,308 service points as follows:

- 262 branches (146 agencies, 62 ATM windows, 23 drive thru and 31 branches related to the other lines of business that make up INVATLAN);
- 1,171 ATMs (427 proprietary ATMs and 744 third-party network ATMs); Y
- 1,875 non-correspondent banking agents.

As of December 31, 2021, and 2020, Banco Atlántida El Salvador had a net income of L158,667 thousand and L35,904 thousand and an ROAE of 8.2% and 2.2%, respectively. Banco Atlántida El Salvador remains a relatively small bank in El Salvador with a market share of 4.0% and 3.2%, in total assets and deposits, respectively, as of December 31, 2021, according to SSF data. As of December 31, 2021, AFP Confia had a market share of 52.1% in terms of total assets under management and 47.8% in terms of total number of clients according to SSF data. Regarding our operations in Nicaragua, Banco Atlántida Nicaragua is a recently created entity that began operations on November 1, 2019, and as a result, is not yet relevant in the Nicaraguan market.

Key factors affecting our financial condition and results of operations

Effects of the COVID-19 pandemic on our results of operations

On March 21, 2020, the CNBS issued resolution GES No. 175/21-03-2020, through which a temporary financial relief measure was approved, urging financial institutions to grant a deferment in the payment of the main financial obligations (not interest) owed by their debtors, until June 30, 2020. During the deferral period, payments on all principal, interest and fees were suspended. Once the deferral period has ended, debtors can request refinancing if necessary. Debtors and financial institutions had until September 30, 2020, to agree on debt refinancing plans. In addition, financial system institutions were urged to establish updated plans to ensure the continuity of their operations. Subsequently, on June 25, 2020, the CNBS issued resolution GES No. 278/25-06-2020 that allows supervised institutions (banks, financial companies, private development organizations, insurers) to grant additional grace periods or allow their debtors to restructure their loans, starting in July 2020 to debtors whose economic activities have been negatively affected by the COVID-19 pandemic, which would be determined on a case-by-case basis for each institution according to each debtor situation. This analysis should consider the debtor's ability to pay and its financial situation. If an institution determines that the severity is less, their payments could be deferred for shorter periods of time. For other debtors whose economic activities have been less affected by the pandemic, their payments were only deferred until July 31, 2020. In addition, on October 19, 2020, the Honduran Government, represented by the Central Bank, the CNBS and the Honduran Bank for Production and Housing (BANHPROVI) reached an agreement with the Honduran Association of Banking Institutions (AHIBA) to provide additional financial assistance, including the extension of grace periods for payment, micro, small and medium-sized enterprises adversely affected by the COVID-19 pandemic. On December 2, 2020, the CNBS issued resolution GES No.601/02-12-2020 by which it extended the deadline until March 31, 2021 for the credit institution to formalize the refinancing or adjustment of the debtor's credit obligations under these relief mechanisms.

Effects of Tropical Storms ETA and IOTA on our Results of Operations

On December 2, 2021, the CNBS issued resolution GES No.602/02-12-2020 by which it established relief mechanisms for debtors affected by tropical storms Eta & Iota, which consists of supervised institutions that carry out credit operations, after identification and evaluation, being able to grant grace periods to debtors (natural or legal persons), who have been affected, by the effects caused by tropical storms ETA and IOTA. The grace periods may not exceed three (3) months, corresponding to the installments of the months of November and December 2020 and January 2021, which must be applied at the request of the debtors or at the initiative of the institutions when identifying the affected clients, regardless of the category of risk in which the debtor is classified.

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

As of December 31, 2021, the percentages of loans in our portfolio that were deferred, restructured, or refinanced pursuant to the government relief order were as follows:

Consolidated COVID-19 pandemic effects

Business and commercial banking:		Portfolio	%	Interests	Total
With relief:	L	16,849,282	19.8%	212,338	17,061,620
With deferred installments		686,023	0.8%	20,733	706,756
Adjusted		11,724,809	13.8%	106,163	11,830,972
Refinanced		4,438,450	5.2%	85,442	4,523,892
Without relief:		68,142,326	80.1%	665,800	68,808,126
Total	L	<u>84,991,608</u>	<u>99.9% *</u>	<u>878,138</u>	<u>85,869,746</u>

Retail banking:		Portfolio	%	Interests	Total
With relief:	L	1,539,455	8.7%	18,852	1,558,307
With deferred installments		25,070	0.1%	291	25,361
Adjusted		1,298,279	7.4%	16,272	1,314,551
Refinanced		216,106	1.2%	2,289	218,395
Without relief:		16,125,241	91.3%	198,586	16,323,827
Total	L	17,664,696	100.0%	217,438	17,882,134
Total	L	101,666,830		1,095,645	102,762,475

Tropical Storms ETA and IOTA

*Through resolution GES No. 602/02-12-2020, the Commission extends until March 31, 2021, the deadline for debtors to benefit from the relief mechanisms of ETA and IOTA Tropical Storm to December 31, 2021, these reliefs represent 0.1% of the gross credit portfolio with a balance of L61,381 and L422 interest, as of December 31, 2020, there are no clients under the aid mechanisms.

Effects of changes in interest rates

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

- financial margin.
- volume of loans originated.
- market value of our financial assets; and
- gains or losses from sales of loans and securities.

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

Increases in interest rates can reduce the value of our financial assets. The Company owns a substantial portfolio of loans and debt securities that have both fixed and variable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates increase. This may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, could affect our results) as our subsidiaries implement strategies to reduce and mitigate future exposure to interest rates. The market value of an obligation with a variable interest rate may be adversely affected when interest rates increase due to a delay in the application of price change terms.

The assets and liabilities have been classified by Banco Atlántida's domicile as domestic (operations in Honduras) or foreign (operations outside Honduras) and by currency denomination (*lempiras* or United States Dollar (USD)). Domestic operations include *lempiras* (local currency of our operations in Honduras) and U.S. dollars-denominated assets and liabilities. Foreign operations include assets and liabilities denominated in USD. USD have been translated to *lempiras* using the exchange rate published by the Central Bank on the relevant dates. For more information, see "Exchange Rates" For the purposes of this section, U.S. dollar-denominated assets and liabilities include: (i) domestic USD, which includes all transactions conducted in Honduras or on behalf of Honduran residents in USD, and (ii) foreign USD, which includes all transactions conducted with entities outside of Honduras, such as multilateral banks and correspondents.

Assets and Liabilities Rates

Given that 81.9% of our consolidated interest income for the year ended December 31, 2021, is derived from Banco Atlántida, the tables below set forth the weighted average interest rates on assets and liabilities in lempiras and USD of Banco Atlántida at December 31, 2021, December 31, 2020 and 2019 as published by the Central Bank. The table also shows the reference rate published by the Central Bank.

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

	2019	2020	2021
Assets (loans-BASA)	12.5%	12.1%	10.9%
System Average Assets Rate	13.9%	13.7%	12.1%
Liabilities (deposits-BASA)	4.5%	4.6%	3.4%
Monetary Policy Rate	5.5%	3.0%	3.0%

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 reduced to 3.0% on November 27, 2020, a decrease of 0.75 bp, due to the continuous efforts by the Central Bank to mitigate the effects of the COVID-19 pandemic and has not changed since that date.

Banco Atlántida's average interest rate on lempiras-denominated assets (loans) was 10.9% as of December 31, 2021, compared to 12.1% as of December 31, 2020. For the year ended December 31, 2021, the loan portfolio denominated in lempiras grew 27.3% while the local financial system grew 14.6% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities denominated in lempiras (deposits) decreased to 3.4% as of December 31, 2021, compared to 4.6% as of December 31, 2020. As of December 31, 2021, deposits denominated in lempiras grew 12.9%, while the local financial system grew 13.2% during the same period, according to CNBS data.

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

	2019	2020	2021
Assets (loans-BASA)	7.1%	7.2%	6.5%
System Average Assets Rate	8.2%	7.7%	7.3%
Liabilities (Deposits-BASA)	2.6%	2.6%	2.2%
System Average Liabilities Rate	2.2%	1.9%	1.5%

As of December 31, 2021, Banco Atlántida's average interest rate on assets (loans) denominated in US dollars was 6.5%, compared to 7.2% as of December 31, 2020. The loan portfolio denominated in USD increased 2.8% as of December 31, 2021, while the local financial system increased 9.6% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on USD-denominated liabilities (deposits) was 2.2% as of December 31, 2021 and 2.6% as of December 31, 2020. USD-denominated deposits grew at a rate of 3.3% as of December 31, 2021, while deposits for the local financial system grew at a rate of 4.9% over the same period, according to CNBS data.

Effect of Family Remittances

As of December 31, 2021, family remittances that entered Honduras were USD7,352.7 million, which represented an increase of 28.3% compared to the corresponding period in 2020, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*		Change %
30/12/2021	7,352.7	(p)	28.3%
30/12/2020	5,731.2	(r)	3.9%
30/12/2019	5,514.7	(r)	12.8%
31/12/2018	4,887.1	(r)	10.4%

Expressed in millions of USD

(p) preliminary data

(r) revised data

The income obtained by Banco Atlántida as a result of handling family remittances consisted mainly of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD 2,165.0 million in family remittances during the period ended December 31, 2021, 30.8% more than the corresponding period of 2020, during which USD1,655.8 million were processed. As of December 31, 2021, Banco Atlántida's market share was 29.4%, while for the corresponding period of 2020 it was 28.9%.

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

An increase in inflation rates may affect our performance primarily because all of our assets are not adjusted for the effects of inflation. In addition, material increases in the rate of inflation could result in lower demand and affect the prices 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 affect our loan portfolio.

The Honduran economy has been characterized by moderate inflation in recent years. As of December 31, 2021, the inflation rate was 5.3%. This result is mainly explained by the increase in the prices of health services, furniture and items for home maintenance, transportation, recreation and culture, clothing and footwear, among others. According to the Central Bank, inflation for 2021 was outside the established goal, since it exceeded the 4.0% range (± 1 pp) agreed with the International Monetary Fund (IMF) by 30bp.

Exchange Rates

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

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

Last year, the exchange rate of the Lempira compared to the U.S. dollar appreciated at a stable rate due to the effects of the Covid-19 pandemic on the entry flows of foreign currency. During 2021, the lempira experienced a slight depreciation due to the post pandemic economic recovery. The Lempira exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras' main agricultural commodities and the high demand for foreign currency to pay for imported goods. The exchange rate was L24.3454 per US\$1.00 on December 31, 2021, compared to L24.1141 per US\$1.00 on December 31, 2020, according to the Central Bank.

Demographic trends

During the last 4 years the behavior of the main demographic variables of the country has been as shown in the following table:

Period	Population (millions)	% Change	GDP * (USD)	% Change	Poverty rate	% Change	Unemploy- ment rate	% Change
2020	9.3	1.7%	2,563	-6.6%	N/A	N/A	9.4%	68.6%
2019	9.2	1.4%	2,743	2.8%	48.0%	-4.76%	5.6%	-1.4%
2018	9.0	1.8%	2,669	2.1%	50.4%	1.20%	5.7%	2.2%
2017	8.9	1.6%	2,614	5.1%	49.8%	0.20%	5.5%	-17.8%

- GDP per capita
- N/A- not available

Bank loans

The growth rate of the loan portfolio of Banco Atlántida, specifically for its retail banking segment, can be attributed to low bank penetration. In terms of bank penetration, the proportion of loans (as published by the Commission) to GDP (as published by the Central Bank) was 58.7%, as of December 31, 2021.

According to the Central Bank, as of December 31, 2021, the growth rate of bank loans to the private sector was 12.0%, compared to the growth rate of 3.9% and 7.3% as of 2020 and 2019, respectively. The main change is explained by the increase in the demand for loans from the private sector, as a result of the reactivation of many economic activities that had to partially operate or completely close due to the pandemic and the greater number of vaccinated people, derived from the measures adopted by the Government to ensure its people's wellbeing and the country's economic growth and sustainability.

Results of operations for the year ended December 31, 2021, compared to the year ended December 31, 2020.

	Diciembre 31,		Change	
	2021	2020	HNL	%
Interest income	9,994,080	9,898,690	95,390	1.0%
Interest expense	4,681,605	4,876,556	(194,951)	-4.0%
Financial profit	5,312,475	5,022,134	290,341	5.8%
Loan impairment charges	825,852	1,134,326	(308,474)	-27.2%
Financial profit, net of impairment charges	4,486,623	3,887,808	598,815	15.4%
Income from insurance activities	4,734,483	4,269,892	464,591	10.9%
Expenses from insurance activities	4,224,478	3,744,627	479,851	12.8%
Profit from insurance activities	510,005	525,265	(15,260)	-2.9%
Services	81,288	89,523	(8,235)	-9.2%
Commissions	3,819,165	3,127,715	691,450	22.1%
Leases	11,408	8,203	3,205	39.1%
Other income	819,632	535,301	284,331	53.1%
Total Proceeds From services	4,731,493	3,760,742	970,751	25.8%
Staff-expenses	2,886,286	2,316,401	569,885	24.6%
General and administrative expenses	4,591,798	3,722,400	869,398	23.4%
Depreciation and amortization	788,725	701,264	87,461	12.5%
Total operating expenses	8,266,809	6,740,065	1,526,744	22.7%
Operating income	1,461,312	1,433,750	27,562	1.9%
Income from dividends	2,308	2,806	(498)	-17.7%
Gain on sale of assets available for sale	192,259	74,842	117,417	156.9%
Gain on sale of fixed assets	158,678	22,405	136,273	608.2%
Other income, net	422,837	(23,183)	446,020	-1924%
Total non-operating income	776,082	76,870	699,212	909.6%
Income before income tax	2,237,394	1,510,620	726,774	48.1%
Income tax/capital gain/net assets tax	904,911	578,368	326,543	56.5%
Income before non-controlling interest	1,332,483	932,252	400,231	42.9%
Net income attributable to noncontrolling interest	204,729	141,672	63,057	44.5%
Net income	1,127,754	790,580	337,174	42.6%

In thousands of HNL's except percentages

Below is an analysis of the components of our consolidated statement of comprehensive results set out in the table above:

Interest income

The following table presents the components of our interest income for the years ended, December 31, 2021 and 2020:

Interest income on:	December 31,		Change	
	2021	2020	HNL's	%
Loans	8,533,034	8,662,068	(129,034)	(1.5%)
Certificates, bonds and others	1,187,303	967,977	219,326	22.7%
Leasing	239,641	233,723	5,918	2.5%
Deposits	4,102	34,922	(820)	(2.3%)
Total	9,994,080	9,898,690	95,390	1.0%

(In thousands of HNL's except percentages)

Interest income increased 1.0%, or L95,390 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, primarily due to an increase in interest income from certificates, bonds, and others by 22.7% and a decrease in interest income on loans by 1.5%.

Interest income on loans decreased by 1.5%, or L129,034 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, as a result of the reduction in interest rates that led to a decrease of L803,801 thousand in interest income, partially offset by an increase of L674,767 thousand in interest income due to a higher volume of loans in local and foreign currency, with an increase in average portfolio of 9.2 % and 7.1%, respectively.

Interest income on investments in certificates, bonds and others increased by 22.7%, or L219,326 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, due to a higher volume of local and foreign investments that resulted in an increase of L453,590 thousand. This increase was partially offset by a decrease in interest rates that led to a decrease in income of L234,261 thousand.

Interest income from financial leases increased by 2.5%, or L5,918 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, due to the reduction of the interest rates that led to a decrease of L12,753 thousand in interest income, offset by an increase of L18,671 thousand due to a higher volume of financial leases in local currency, with an average increase in the portfolio balance of 8.4%.

Interest expense

Interest expense on:	December 31,		Change	
	2021	2020	HNL's	%
Deposits	3,293,313	3,750,526	(457,213)	-12.2%
Loans obtained from banks	531,310	577,500	(46,190)	-8.0%
Bonds and guaranteed notes	856,982	548,530	308,452	56.2%
Total	4,681,605	4,876,556	(194,951)	-8.1%

(In thousands of HNL's except percentages)

Interest expenses decreased by 8.1%, or L194,051 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, primarily as a result of the 56.2% increase in expenses from interest on bonds and guaranteed notes, offset by a 12.2% decrease in interest expense on deposits and 8.0% decrease in interest expense on loans obtained from banks, as explained below.

Interest expense on deposits decreased 12.2%, or L457,213 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to a decrease in interest rates, which led to a decrease in interest expense of L891,208 thousand, partially offset by an increase of L433,995 thousand due to an 18.4% increase in the volume of deposits.

Interest expense on loans obtained from banks decreased by 8.0%, or L46,121 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, primarily as a result of the decrease in market interest rates that led to a decrease in interest expense of L113,537 thousand, this decrease was partially offset by an increase in the volume of loans obtained from banks, which led to an increase in expense for interest by L67,416 thousand.

Interest expense on bonds and guaranteed notes increased by 56.2%, or L308,452 thousand, mainly due to (i) an increase in interest paid on local and foreign currency bonds of L10,348 thousand and L36,643 thousands, respectively; and (ii) an increase in interest paid on guaranteed notes of L256,682 thousand, which corresponds mainly to the interest caused by the new secured notes in foreign currency USD300,000 thousand issued by INVATLAN in May 2021.

Loan impairment charges

	December 31, 2021	2020	Change	%
Loan impairment charges	825,852	1,134,326	(308,474)	-27.2%
NPL ratio ⁽¹⁾	2.3%	2.4%	-	-
Coverage ratio ⁽²⁾	131.2%	133.3%	-	-
Provision for loan losses	3,038,643	2,774,028	264,615	9.5%

(In thousands of HNL's except percentages)

(1) The NPL ratio is calculated dividing NPLs (including refinanced NPLs) by our gross loan portfolio.

(2) The coverage ratio is calculated dividing the provision for loan losses by NPLs (including refinanced NPLs).

Loan impairment charges decreased by 27.2%, or L308,474 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, while our delinquency rate was 2.3% as of December 31, 2021, and 2.4% as of December 31, 2020, on the other hand the NPL coverage ratio was 131.2% as of December 31, 2021, and 133.3% as of December 31, 2020.

For the year ended December 31, 2021, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L595,116 thousand;
- b) Attributable to SME banking L190,798 thousand; and
- c) Attributable to corporate banking L39,938 thousand.

During the year 2020, the Group's senior management decided to create additional reserves to protect against the possible negative effects of the COVID-19 pandemic on the loan portfolio, which largely explains why the impairment charges decreased during 2021.

The provision for credit losses increased by L264,615 thousand as of December 31, 2021. This increase will be mainly due to the recognition of loan impairment charges for L825,852 thousand to interest included in loans for L52,626 thousand, effect of differential exchange rate for L1,970 thousand, write-offs of loans for L549,805 thousand and release of reserves for L66,028 thousand.

Proceeds from services

The following table presents the components of income from services for the years ended December 31, 2021, and 2020:

Income proceeds from:	December 31,		Change	
	2021	2020	HNL's	%
Services	81,288	89,523	(8,235)	-9.2%
Commissions	3,819,165	3,127,715	691,450	22.1%
Leases	11,408	8,203	3,205	39.1%
Other income	819,632	535,301	284,331	53.1%
Total	4,731,493	3,760,742	970,751	25.8%

(In thousands of HNL's except percentages)

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

Proceeds from service increased by 25.8%, or L970,745 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, primarily due to a 22.1% increase in commission income, an increase in other income of 53.1, as explained below.

The increase in commission income of 22.1%, or L691,450 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, is mainly explained by the follows increases:

Banco Atlántida's commission income:

Loan commissions	96,117
Commissions on products and services	80,072
Credit/debit card fees	35,530
Other commissions	147,741
Sub Total	359,461
AFP Atlántida's commission income	127,054
AFP Confia's commission income	150,996
Banco Atlántida El Salvador commissions on loans and services	16,024
Total Commissions	653,535

(In thousands of HNL's)

The increase in other income of 53.1% or L284,325 thousand for the year ended December 31, 2021, compared to the year ended December 31, 2020, is mainly due to the increase in other income of Banco Atlántida due to: (i) an increase of L99,154 thousand in profits from the purchase and sale of foreign currency as a result of greater economic activity in the country, (ii) an increase in income of L190,274 thousand derived from the sale of financial instruments to amortized cost, (iii) a decrease of L12,551 in other miscellaneous services of COALSA.

Profit from insurance activities

The following table presents the components of profit from insurance activities for the years ended December 31, 2021 and 2020:

	December 31,		Change	
	2021	2020	(HNL)	%
Income from insurance activities	4,734,483	4,269,892	464,591	10.9%
Expenses from insurance activities	4,224,478	3,744,627	479,851	12.8%
Profit from insurance activities	510,005	525,265	(15,260)	-2.9%

(In thousands of HNL's except percentages)

Profit from insurance activities decreased by 2.9%, or L15,260 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to revenue and expenses movements as discussed below.

Income from insurance activities increased by 10.9%, or L464,591 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to an increase in premiums issued of L515,626 thousand as a result of the increase in the operations of Atlántida Vida, an increase of L7,816 in written premiums of Seguros Atlántida; an increase in ceded reinsurance commissions for L22,567 thousand, an increase in the variation in unexpired risk reserves for L388,504 thousand, of which L225,964 thousand correspond to the increase in the operations of Atlántida Vida, an increase in salvage and recoveries of claims for L37,998 thousand, and an increase in reversal due to impairment of premiums receivable for L14,384 thousand, partially offset by a decrease in claims recovered from foreign reinsurers for L523,995 thousand, mainly due to the liquidation of reserves caused by Hurricanes Eta/Iota.

Expenses from insurance activities increased by 12.8%, or L479,851 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to an increase in variations of reserves of Atlántida Vida for L483,628 thousand and a decrease of L9,353 thousand by Seguros Atlántida, an increase of L32,512 thousand in commissions, an increase of L55,061 thousand in ceded premiums, an increase of L32,144 thousand in premiums for excess of loss contracts, an increase of L132,199 thousand in other technical expenses, offset by a decrease in claims of L236,522 thousand due to the absence of claims similar to those caused by tropical storms by Seguros Atlántida and a decrease of L22,669 thousand in the estimate for impairment of premiums receivable.

Operating expenses

The following table presents the components of operating expenses for the years ended December 31, 2021, and 2020.

	December 31,		Change	
	2021	2020	HNL's	%
Staff expenses	2,886,286	2,316,401	569,885	24.6%
General and administrative expenses	4,591,798	3,722,400	869,398	23.4%
Depreciation and amortization	788,725	701,264	87,461	12.5%
Total	8,266,809	6,740,065	1,526,744	22.7%

(In thousands of HNL's except percentages)

Operating expenses increased by 22.7%, or L1,526,744 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to a 24.6% increase in staff expenses and a 23.4% increase in general and administrative expenses, as explained below.

Staff expenses increased by 24.6% or L569,885 thousand, for the year ended December 31, 2021 compared to the year ended December 31, 2020, mainly due to an increase in Banco Atlántida salaries of L110,835 thousand; an increase of L15,872 thousand due to the incorporation of GUIP, an increase of L23,687 thousand due to the performance evaluation and the hiring of more programmers by INFATLAN to execute new Banco Atlántida's projects, an increase of L16,487 thousand due to a new requirement for auxiliary personnel by Banco Atlántida to SESA, an increase of L11,235 thousand due to an increase in the head count of Confía, Atlántida Vida and AFP Atlántida; In addition, there was an increase in provision expenses for bonuses of L266,125 thousand and an increase of L70,003 thousand in medical care for Group's employees, an increase in employer contributions of L20,486 thousand, an increase in travel expenses for L19,754 thousand and an increase in insurance premiums for L10,547 thousand.

General and administrative expenses increased 23.4%, or L869,398 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to an increase of L222,516 thousand in various expenses of Banco Atlántida mainly due to: an increase of L102,161 thousand in other expenses for services, an increase of L26,270 thousand in real estate, an increase of L16,082 thousand in transportation of valuables, an increase of L12,446 thousand in miscellaneous expenses, an increase of L11,422 thousand in security and surveillance, an increase of L9,384 thousand in buildings, an increase of L7,990 thousand in vehicles, an increase of L6,780 thousand in computer equipment, an increase of L7,509 thousand in furniture and office equipment, an increase of L11,704 thousand in utilities; an increase of L25,298 thousand in other administrative expenses of Banco Atlántida El Salvador; an increase in the outsourced services of Banco Atlántida and Confía in L242,209 thousand and L146,378 thousand, respectively; an increase in professional fees of L84,272 thousand, an increase in contributions to regulators of L53,216 thousand and an increase in expenses of directors by L37,672 thousand.

Depreciation and amortization expenses increased by 12.5%, or L87,461 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to the increase in the capitalization of software and applications, the acquisition of vehicles, computer equipment and the amortization of improvements to properties leased from Banco Atlántida.

Non-operating income (expenses)

	December 31,		Change	
	2021	2020	HNL's	%
Dividend income	2,308	2,806	(498)	-17.7%
profit on sale of assets available for sale	192,259	74,842	117,417	156.9%
Profit on the sale of fixed assets	158,678	22,405	136,273	608.2%
Other income (expenses), net	422,837	(23,183)	446,020	1923.9%
Total	776,082	76,870	699,212	909.6%

(In thousands of HNL's except percentages)

Non-operating income (expenses) increased by 909.6%, or L699,212 thousand, during the year ended December 31, 2021, compared to the year ended December 31, 2020, primarily due to an increase in other net income (expenses) at 1923.9%; an increase in profit from the sale of fixed assets by 608.2% and an increase in profit from the sale of assets available for sale by 156.9%, as explained below.

Profit on sale of assets available for sale increased by 156.9%, or L117,417 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, attributed to an increase in the country's economic activity, as a result of the suspension of the restrictions adopted in 2020 by the government to deal with the effects of the Covid-19 pandemic.

Profit from the sale of fixed assets increased by 608.2% or L136,273 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to an increase of L 97,457 thousand and L 35,102 thousand in the income of Banco Atlántida El Salvador and AFP CONFIA, respectively, due to the sale of real estate in 2021.

Other income (expenses), net, increased 1923.9%, or L446,020 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020, mainly due to: (i) an increase in other income (several) by L300,962 thousand mainly caused by a release of reserves on investments by L59,335 thousand, an increase of L97,110 thousand mainly due to the release of provisions for labor liabilities caused by the voluntary resignation of the Group's employees, an increase of L6,967 thousand due to the recovery of written off loans, an increase in income from dividends by L6,442 thousand, an increase by L48,716 thousand proceeds from other commissions on loans, an increase in other income derived from deferred income tax by L33,002 and other income by L18,623 thousand; ii) an increase in stock valuation losses by L30,320 thousand; iii) an increase in other income proceeds from sales of assistance plans "Auxilio Plus" by L21,300 thousand; (iv) an increase in other financial income derived from payments on behalf of some trusts by L17,500 thousand; v) an increase in recoveries of financial assets by L58,133 thousand, and (vi) a decrease in Other Expenses by L52,352 thousand due to a release of L69,989 in investment valuation reserves and an increase in advisory expenses by L17,637 thousand.

Profit before tax and non-controlling interest

Profit before taxes and non-controlling interest increased by 48.1% to L2,237,394 thousand for the year ended December 31, 2021, from L1,510,620 thousand for the corresponding period in 2020, as a result of the factors discussed above.

Income tax

Income tax expense increased by 56.5%, or L326,543 thousand, for the year ended December 31, 2021, compared to the year ended December 31, 2020. The effective income tax rate was 33.8% as of December 31, 2021, compared to December 31, 2020, it was 37.0%.

Net income

As a result, net income increased by 42.6% to L1,127,754 thousand for the year ended December 31, 2021, from L790,580 thousand for the year ended December 31, 2020. Average net worth increased by 8.7 % to L14,639,749 thousand for the year ended December 31, 2021, from L 13,463,727 thousand for the year ended December 31, 2020. ROAE was 7.7% for the year ended December 31, 2021, in compared to 5.9% for the year ended December 31, 2020.

Liquidity and funding

Banco Atlántida represents our main source of funds, the Group's liquidity comes mainly from deposits, loans from banks and financial institutions and debt securities.

The following table shows the main sources of funds of the Group as of December 31, 2021 and 2020:

	December 31			
	2021	2020	Change	%
Demand deposits	20,798,239	16,887,212	3,911,027	23.2%
Savings deposits	56,752,094	46,779,158	9,972,936	21.3%
Term deposits	38,830,579	39,735,678	(905,099)	-2.3%
Other	184,393	133,424	50,969	38.2%
Total, Deposits	116,565,305	103,535,472	13,029,833	12.6%
Banks loans	16,324,834	10,363,087	5,961,747	57.5%
Bonds and guaranteed notes	11,396,531	7,329,106	4,067,425	55.5%
	144,286,670	121,227,665	23,059,005	19.0%
(In thousands of HNL's except percentages)				

Deposits increased 12.6% to L116,565,305 thousand as of December 31, 2021, compared to L103,535,472 thousand as of December 31, 2020, mainly as a result of uncertainties caused by the COVID-19 pandemic, which has caused customers increase their savings deposits at Banco Atlántida due to their perceived financial strength.

Bank loans were L16,324,834 thousand as of December 31, 2021, compared to L10,363,087 thousand as of December 31, 2020. Banco Atlántida has lines of credit with 19 global financial institutions with which it has had correspondent relationships. long standing Some of its main credit line providers include IFC, PROPARCO, CABEI, Global Climate Partnership Fund, Central Bank of Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AG. As of December 31, 2021, we had a total amount of US\$402,953 thousand (L9,810,047 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US\$253,770 thousand (L6,178,125 thousand) were available for use.

Bonds and secured notes issued were L11,396,531 thousand as of December 31, 2021, compared to L7,329,106 thousand as of December 31, 2020, which represents an increase of L4,067,425 thousand of which L3,544,791 correspond to INVATLAN as a result of the net effect of the new issuance of secured notes USD300,000 (L7,039,545 thousand) and the redemption of notes previously issued for USD150,000 thousand (L3,304,276 thousand) and L522,634 thousand caused mainly by the issuance of bonds in foreign currency for USD65,825 thousand (L1,602,535 thousand) and the redemption for USD29,400 (L715,755 thousand), as well as the redemption for L346,021 thousand of bonds in local currency of Banco Atlántida.

Through our asset and liability management policy, we seek to ensure that sufficient liquidity is available to honor deposit withdrawals, pay other liabilities at maturity, extend loans or other forms of credit to customers, pay liabilities arising from the insurance policies we issue, and meet working capital needs. The minimum amount of liquidity that our main subsidiaries are obliged to maintain depends on the reserve requirements established by the Central Bank, as well as the technical and mathematical legal reserves required by our insurance operations.

We expect deposits, loans and borrowings from banks and debt securities issued to 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, in accordance with Honduran, Salvadoran and Nicaraguan capitalization requirements, Banco Atlántida, Banco Atlántida El Salvador and Banco Atlántida Nicaragua are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras and Nicaragua and capital fund for El Salvador). As of December 31, 2021, the required capital adequacy ratio for Honduras and Nicaragua was 11.0% and 10.0%, respectively, while the required equity fund for El Salvador was 12.0%.

The followings tables show the calculation of the regulatory capital for Banco Atlántida (capital adequacy ratio), Banco Atlántida El Salvador (equity fund) and Banco Atlántida Nicaragua (capital adequacy ratio), in accordance with regulatory requirements:

	December 31,			
Banco Atlántida:	2021	2020	2019	2018
Total, level 1	8,677,567	8,680,524	7,988,863	7,488,863
Total, level 2	3,035,703	1,958,843	1,894,418	1,361,627
Total, Regulatory Capital	11,713,270	10,639,367	9,883,281	8,850,490
Total, Risk-weighted assets	98,852,163	83,072,295	81,437,715	71,545,025
Regulatory capital as a percentage of risk-weighted assets	11.8%	12.8%	12.1%	12.4%

(In thousands of HNL's except percentages)

	December 31,			
Banco Atlántida El Salvador:	2021	2020	2019	2018
Total, level 1	76,583	65,946	55,848	45,695
Total, level 2	6,270	3,980	3,567	2,485
Total, Regulatory Capital	82,853	69,926	59,415	48,180
Total, Risk-weighted assets	633,118	540,912	445,121	360,756
Regulatory capital as a percentage of risk-weighted assets	13.1%	12.9%	13.3%	13.3%

(In thousands of USD's except percentages)

	December 31,		
Banco Atlántida Nicaragua:	2021	2020	2019
Total, level 1	534,237	427,848	400,491
Total, level 2	(57,441)	(64,015)	(34,280)
Total, Regulatory Capital	476,796	363,833	366,211
Total, Risk-weighted assets	983,314	663,952	253,194
Regulatory capital as a percentage of risk-weighted assets	48.5%	54.8%	144.6%

(In thousands of Córdova's except percentages)

Commitments and contractual obligations

The Group assumes a series of commitments and contractual obligations that may require future payments in cash. The following table summarizes our contractual commitments and obligations as of December 31, 2021.

(L in thousands, except percentages)	Less than 30 days	From 31 to 90 days	From 91 days to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits	28,144,755	22,596,529	19,518,145	28,092,520	18,213,356	116,565,305
Bank loans	3,913,689	1,128,619	2,984,760	4,134,440	4,163,326	16,324,834
Bonds and guaranteed notes	-	-	847,220	10,869,248	-	11,716,468
Total	32,058,444	23,725,148	23,350,125	43,096,208	22,376,682	144,606,607
% of Total	22.2%	16.4%	16.2%	29.8%	15.5%	100.0%

(In thousands of HNL's except percentages)

Capital expenditures

Consolidated capital expenditures increased to L2,265,449 thousand for the year ended December 31, 2021 compared to L1,220,666 thousand for the year ended December 31, 2020, mainly due to an increase in investments in the development of intangibles such as software, licenses, among others.

Off-balance sheet agreements

In the normal course of business, the Group engages in various off-balance sheet activities that carry credit, market and operating risk and are not reflected in our financial statements. These activities include commitments to extend credit that would not otherwise be accounted for as contingent loans, such as guarantees, letters of credit and loans under standby contracts, including lines of credit and syndicated loans. We provide our clients with services related to the issuance and confirmation of commercial and stand-by letters of credit and the issuance of bank guarantees. These contingent liabilities are detailed below:

		As of December, 31	
		2021	2020
Letters of credit and idle credit documents	L	796,497	458,550
Securities and bank guarantees issued		6,271,148	5,503,169
Acceptance debtors		243,274	451,251
Idle credits		5,532,658	4,396,235
Other responsibilities		286,703	108,477
	L	<u>13,130,280</u>	<u>10,917,682</u>

The credit risk of both on-and off-balance sheet financial instruments changes based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific requirements for covenants, guarantees and guarantees on a case-by-case basis, depending on the nature of the financial instrument and the solvency of the client. We may also require letters of commitment and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory, and accounts receivable, as well as cash on deposit, stocks, bonds, and other marketable securities that are generally held in our possession or by another appropriate custodian or depository. This guarantee is periodically assessed and inspected to ensure both its existence and its adequacy. Additional collateral is required where appropriate as determined by the credit committee of our subsidiaries.

Qualitative and quantitative disclosure on market risks

We are exposed to risks in the ordinary course of business, particularly credit risk, liquidity risk, exchange rate risk and interest rate risk. For a discussion of how we regularly assess and manage our exposures to these risks, please see Note 4 of our consolidated financial statements as of December 31, 2021.