



**MANAGEMENT'S DISCUSSION
AND ANALYSIS OF OUR
FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
as of March 31, 2021**

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

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements, and with the other financial information included in this offering memorandum. Our consolidated financial statements included in this offering memorandum have been prepared in accordance with Honduran Banking GAAP. Our future results may vary substantially from those discussed herein because of various factors that affect our business, including, but not limited to, those discussed under "Forward-Looking Statements" and "Risk Factors" and other factors discussed in this offering memorandum.

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 services, insurance, pension fund management and other financial services to more than 3.4 million clients as of March 31, 2021. We were recognized as a financial group by the Comisión Nacional de Bancos y Seguros (CNBS) in 2012 and our main subsidiary, Banco Atlántida was founded in 1913. We believe that our businesses benefit from significant synergies from 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 March 31, 2021, according to data of the CNBS, Banco Atlántida El Salvador and Banco Atlántida Nicaragua, which 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 March 31, 2021, according to data of the CNBS, and Atlántida Vida, Seguros de Personas; and (iii) *pension fund management*, through our subsidiary AFP Atlántida, the largest private pension fund administrator in Honduras based on assets under management as of March 31, 2021, based on data published by our competitors, and our subsidiary, AFP Confia, the largest private pension fund administrator in El Salvador based on assets under management as of March 31, 2021, according to data of the Superintendencia del Sistema Financiero (SSF).

As of March 31, 2021 and 2020, Banco Atlántida had net income of L240,657 thousands and L230,690 thousands and an ROAE of 8.9% and 9.2%; Seguros Atlántida had net income of L49,466 thousands and L52,277 thousands and an ROAE of 14.2% and 16.0% and AFP Atlántida had net income L59,356 thousands and L45,386 thousands and an ROAE of 22.0% and 19.1%, respectively. Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida and these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to data from the CNBS. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits from clients and other banks, with market shares of 19.8%, 20.0% and 21.6%, respectively, as of March 31, 2021, according to data from the CNBS. Seguros Atlántida is one of the largest insurance companies in terms of gross written premiums, with a market share of 19.1% and 17.1% as of March 31, 2021 and 2020, respectively, according to data from the CNBS, AFP Atlántida is the largest pension fund manager in the Honduran market with a 61.8% share in terms of managed funds.

We have one of the largest banking distribution networks in Honduras. As of March 31, 2021, we had 2,418 points of service in Honduras, which together with our insurance distribution network and operations in El Salvador and Nicaragua totaled 2,522 points of service as follows:

- 266 branches (147 branches, 63 teller windows embedded within corporate client offices, 23 drive thru and 33 branches related to the other lines of business that make up INVATLAN;
- 1,135 ATMs (407 proprietary ATMs and 728 third-party network ATMs); and
- 1,121 non-correspondent banking agents.

As of March 31, 2021, and 2020, Banco Atlántida El Salvador had a net income of L19,034 thousands and L8,250 thousands and an ROAE of 4.3% and 2.2%, respectively. Our operations in El Salvador include Banco Atlántida El Salvador and AFP Confia. Banco Atlántida El Salvador is still a relatively small bank in El Salvador with its total assets, loans and interest receivable, and deposits from clients and other banks, comprising 3.8%, 3.9% and 3.4%, respectively, of the El Salvador banking industry's total assets, loans and interest receivable and deposits from clients and other banks as of March 31, 2021, according to data from the SSF. As of March 31, 2021, AFP Confia had a market share of 52.2% in terms of total assets under management and 47.7% in terms of total number of clients, in each case according to data from the SSF. In terms of our operations in Nicaragua, Banco Atlántida Nicaragua is a recently created entity which began operating 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 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 deferral on the payment of principal (not interest) financial obligations owed by their debtors, through June 30, 2020. During the period of the deferral, payments of all principal, interest, and fees were suspended. Once the period of the deferral ends, debtors can request refinancing if necessary. Debtors and financial institutions had up to September 30, 2020 to agree on debt refinancing plans. Furthermore, financial system institutions in general were urged to establish updated plans to assure the continuity of their operations. Subsequently, on June 25, 2020, the CNBS issued resolution GES No 278/25-06-2020 allowing supervised institutions (banks, financial companies, private development organizations, insurers) to grant additional grace periods or to permit their debtors to restructure their loans, beginning in July 2020 to debtors whose economic activities have been negatively impacted by the COVID-19 pandemic, which would be determined on a case by case basis by each institution based on each debtor's individual situation. This analysis should consider the debtor's ability to pay and financial condition. If an institution determined that the severity was minor, their payments could be deferred for shorter periods of time. For other debtors whose economic activities have been less impacted by the pandemic, their payments were only deferred through July 31, 2020. Furthermore, on October 19, 2020, the Honduran Government, represented by the Central Bank, the CNBS and BANHPROVI reached an agreement with the Asociación Hondureña de Instituciones Bancarias (AHIBA) to provide additional financial assistance, including the prolonging of grace periods for payment, to micro, small and medium-sized companies negatively affected by the COVID-19 pandemic.

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

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

Corporate and commercial loans		Total		
(L in thousands)	%	Outstanding	Interests	Total
With relief:	33.4%	23,578,940	353,550	23,932,490
With deferral payments	2.8%	1,968,528	51,574	2,020,102
Restructured	24.8%	17,517,928	253,546	17,771,474
Refinanced	5.8%	4,092,484	48,430	4,140,914
Without relief:	66.6%	47,047,277	645,427	47,692,704
	100.0%	70,626,217	998,977	71,625,194
Retail loans:				
With relief:	16.5%	2,518,385	39,730	2,558,115
With deferral payments	3.2%	490,834	12,607	503,441
Restructured	11.3%	1,732,454	22,959	1,755,413
Refinanced	2.0%	295,097	4,164	299,261
Without relief:	83.5%	12,783,828	272,697	13,056,525
Total	100.0%	15,302,213	312,427	15,614,640

Effects of Changes in Interest Rates

Changes in interest rates usually 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, comprising most of our revenue. 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 interests earned on assets do 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 as compared to prior periods.

Increases in interest rates may reduce the value of our financial assets. The Company holds 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 impact our results) as our subsidiaries implement strategies to reduce and mitigate 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 U.S. Dollars). Domestic operations include *lempira* (local currency of our operations in Honduras) and U.S. Dollar-denominated assets and liabilities. Foreign operations include U.S. Dollar-denominated assets and liabilities. U.S. 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, U.S. Dollars-denominated assets and liabilities include: (i) Domestic U.S. Dollar, which includes all transactions conducted in Honduras or on behalf of Honduran residents in U.S. Dollar and (ii) Foreign U.S. Dollar, which includes all transactions performed with entities outside Honduras, such as multilateral and correspondent banks.

Assets and Liabilities Rates in Lempiras

Given that 82.7% of our consolidated interest income for the year ended March 31, 2021 is derived from Banco Atlántida, the table below sets forth the weighted average interest rates of assets and liabilities on *lempiras* of Banco Atlántida as of March 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 assets and liabilities rates in *lempiras* are as follows:

	December		March
	2019	2020	2021
Assets (loans-BASA)	12.5%	12.1%	11.8%
System Average Assets Rate	13.9%	13.7%	13.1%
Liabilities (deposits-BASA)	4.5%	4.6%	3.9%
Monetary Policy Rate	5.5%	3.0%	3.0%

The Honduran banking industry generally does not set interest rates by reference to a reference rate; however, the weighted average interest rates of the assets (loans) and liabilities (deposits) denominated in *lempiras* of the Honduran banking industry are slightly influenced by the minimum offer rate that the Central Bank allows for its treasury notes. As of March 31, 2021, this rate was 3.0% as a result of several reductions made by the Central Bank of Honduras during 2020. Those reductions were the result of measures adopted by the Honduran Government to mitigate the effects of the COVID-19 pandemic on the national economy.

The average interest rate of Banco Atlántida on *lempira*-denominated assets (loans) was 11.8% as of March 31, 2021, compared to 12.1% as of December 31, 2020. For the three months ended March 31, 2021, Banco Atlántida's *Lempiras*-denominated loan portfolio grew 1.2% above the 0.6% growth according to data from the CNBS during the same period.

Banco Atlántida's average interest rate on *lempira*-denominated liabilities (deposits) decreased to 3.9% as of March 31, 2021 compared to 4.6% as of December 31, 2020. As of March 31, 2021, compared to December 2020, Banco Atlántida's *lempira*-denominated deposits have grown 5.1%, while the local financial system grew by 2.4% during the same period, according to data from the CNBS.

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

	December		March
	2019	2020	2021
System Average Assets Rate	8.2%	7.7%	7.6%
Assets (loans-BASA)	7.1%	7.2%	6.3%
System Average Liabilities Rate	2.2%	1.9%	1.9%
Liabilities (Deposits-BASA)	2.6%	2.6%	2.3%

As of March 31, 2021, Banco Atlántida's average interest rate on assets (loans) denominated in foreign currency was 6.3%, compared to 7.2% as of December 31, 2020. Banco Atlántida's loan portfolio denominated in U.S. Dollars decreased 0.2% between March 31, 2021 and December 31, 2020, while the local financial system increased 3.2% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in foreign currency was 2.3% as of March 31, 2021 and 2.6% as of December 31, 2020. Banco Atlántida's foreign currency-denominated deposits grew at a rate of 0.9% as of March 31, 2021, while deposits for the local financial system as a whole grew at a rate of 0.2% during the same period, according to data from the CNBS.

Effect of family remittances

As of March 25th, 2021, family remittances that entered Honduras were USD1,459.4 million, which represented an increase of 23.8% compared to the corresponding period in 2020, while for the previous immediate periods, they were as shown in the following table:

Period	Amount (million USD)	Change %
25/03/2021	1,459.4	23.8%
25/03/2020	1,179.0	4.9%
25/03/2019	1,124.2	8.2%
26/03/2018	1,039.3	8.1%

The income obtained by Banco Atlántida from family remittances mainly consisted of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD458.5 million in family remittances during the period ended March 31st, 2021, 45.0% more than the corresponding period of 2020, during which USD316.1 million were processed. As of March 31st, 2021, Banco Atlántida's market share was 31.4%, while for the corresponding period of 2020 it was 26.8%.

Competition

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

Inflation

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

The Honduran economy has been characterized by a moderate inflation in recent years. As of March 31, 2021 and 2020, the inflation rate was 3.9%, respectively. The main drivers of inflation were food and non-alcoholic beverages followed by transportation, furniture and articles for home, health, clothing and footwear, accommodation, gas and other fuels. According to the Central Bank, the inflation target was achieved, as it remained within the range of 4.0% (± 1 bp) agreed with the Monetary Program 2021-2022 established by the Central Bank.

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.

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. On the first quarter of 2021, the exchange rate of the lempira compared to the U.S. dollar continuous to appreciate at a stable rate. The exchange rate was L24.0275 per US\$1.00 on March 31, 2021, compared to L24.7540 per US\$1.00 on March 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%	N/A	N/A	5.6%	-1.4%
2018	9.0	1.8%	2,669	2.1%	48.3%	-3.01%	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 59.6%, as of December 31, 2020.

According to the Central Bank, as of March 31, 2021, the growth rate of bank loans to the private sector was 4.0%, compared to the growth rate of 7.8% and 7.3% as of 2020 and 2019 respectively. It is important to note that preliminary data indicate that the accumulated flow of new loans during 2020 were allocated to Consumption (32.8%), Commerce (22.2%), Industry (15.6%), Services (12.5%), Real Estate (11.0%) and Agricultural (5.9%).

Results of Operations for the Three Months Ended March 31, 2021 Compared to the Three Months Ended March 31, 2020.

The following table shows the principal components of our consolidated statement of comprehensive income for the three months ended March 31, 2021 and 2020:

	March 31,		Change	
	2021	2020	HNL	%
Interest income	2,430,096	2,404,581	25,515	1.1%
Interest expense	1,199,016	1,150,758	48,258	4.2%
Financial profit	1,231,080	1,253,823	(22,743)	-1.8%
Loan impairment charges	201,452	225,793	(24,341)	-10.8%
Financial profit, net of impairment charges	1,029,628	1,028,030	1,598	0.2%
Income from insurance activities	1,260,211	946,766	313,445	33.1%
Expenses from insurance activities	1,101,949	823,729	278,220	33.8%
Profit from insurance activities	158,262	123,037	35,225	28.6%
Services	25,307	40,658	(15,351)	-37.8%
Commissions	874,639	776,585	98,054	12.6%
Leases	3,249	57,916	(54,667)	-94.4%
Other income	145,293	142,714	2,579	1.8%
Total Proceeds from services	1,048,488	1,017,873	30,615	3.0%
Staff-expenses	626,304	618,392	7,912	1.3%
General and administrative expenses	959,749	927,623	32,126	3.5%
Depreciation and amortization	193,495	155,884	37,611	24.1%
Total operating expenses	1,779,548	1,701,899	77,649	4.6%
Operating income	456,830	467,041	(10,211)	-2.2%
Income from dividends	846	112	734	655.4%
Gain on assets available for sale	37,152	23,651	13,501	57.1%
Gain on sale of fixed assets	3,306	3,012	294	9.8%
Other income, net	62,396	17,267	45,129	261.4%
Total non-operating income (expenses)	103,700	44,042	59,658	135.5%
Income before income tax	560,530	511,083	49,446	9.7%
Income tax/capital gain/net assets tax	238,830	213,016	25,814	12.1%
Income before minority interest	321,700	298,067	23,633	7.9%
Net income attributable to noncontrolling interests	39,044	45,115	(6,071)	-13.5%
Net income	282,656	252,952	29,704	11.7%
In thousands of HNL's except percentages				

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

Interest income

The following table presents the components of our interest income for the three months ended March 31, 2021 and 2020:

Interest Income on:	March 31,		Change	
	2021	2020	HNL	%
Loans	2,103,905	2,137,320	(33,415)	-1.6%
Investments Securities	255,751	249,834	5,917	2.4%
Financial leasing	58,953	-	58,953	100.0%
Interest earning Deposits	11,487	17,427	(5,940)	-34.1%
Total, interest Income	2,430,096	2,404,581	25,515	1.1%

(In Thousands of HNL's except percentages)

Interest income increased by 1.1%, or L25,515 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to an increase in interest income on financial leasing of 100% as further explained below.

Interest income on loans decreased by 1.6%, or L33,415 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, which is a result of a decrease in interest rates which led a L177,173 thousands decrease in interest income, partially offset by an increase of L143,758 thousands due to higher volume of loans in local and foreign currency, with an average balance increase of 7.8% in terms of our local currency loans and 4.5% in terms of our foreign currency loans.

Interest income on leasing increased by 100%, or L58,953 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to a change in accounting treatment that began in December 2020, pursuant to which Leasing Atlántida began recognizing all contracts as financial leases, as agreed upon with the CNBS.

Interest income on investment securities increased by 2.4%, or L5,917 thousands, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020 due to higher volume of investment securities in local and foreign currency which led to an increase of L36,849 thousands. This increase was partially offset by a decrease in interest rates which led to a decrease in income of L30,932 thousands.

Interest income on interest earning deposits decreased by 34.1%, or L5,940 thousands, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020, primarily due to a decrease in average interest rates that led to a decrease in income of L14,306 thousands, resulting from the effects of the COVID-19 pandemic on market interest rates. This decrease was partially offset by a 59.6% increase in the average balance of such deposits which led to an increase in income of L8,366 thousands.

Interest expense

The following table presents the components of our interest expense for the three months ended March 31, 2021 and 2020:

Interest expense on:	March 31,		Change	
	2021	2020	HNL	%
Deposits from clients and other banks	926,436	864,521	61,915	7.2%
Financial obligations	127,917	152,687	(24,770)	-16.2%
Bonds and guaranteed notes	144,663	133,550	11,113	8.3%
Total, interest Income	1,199,016	1,150,758	48,258	4.2%

(In Thousands of HNL's except percentages)

Interest expense increased by 4.2%, or L48,258 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, primarily as a result of a 7.2% increase in interest expense on deposits from clients and other banks and 16.2% decrease in interest expense on financial obligations, as further explained below.

Interest expense on deposits from clients and other banks increased by 7.2%, or L61,915 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, primarily due to an increase in the volume of deposits from clients and other banks which led to an increase of L163,972 thousands, as well as a decrease in the interest rates paid, which led to a decrease in interest expense of L102,057 thousands.

Interest expense on financial obligations decreased by 16.2%, L24,770 thousands, for the three months ended March, 2021, as compared to the three months ended March 31, 2020, primarily as a result of the decrease in market interest rates that was a part of the measures adopted by the governments in the countries in which the Group operate in response to the COVID-19 pandemic, which led to a decrease in expense of L26,509 thousands. This decrease was partially offset by an increase in loans from financial institutions which led to an increase in interest expense of L1,740 thousands.

Interest expense on bonds and guaranteed notes increased by 8.3%, or L11,113 thousands, mainly due to an (i) increase in interest paid on our outstanding guaranteed notes in local currency of L8,605 thousands, which was primarily due to a new local bond issuance by Banco Atlántida in the aggregate amount of L500,000 thousands in September 2020, (ii) increase in interest paid on our outstanding bonds of L1,115 thousands, which was primarily due to an increase in the average balance of bonds outstanding in foreign currency and (iii) an increase of L1,390 thousands mainly due to an increase in the average interest rate on bonds in foreign currency.

Loan impairment charges

The following table presents the loan impairment charges, NPL ratio, the coverage ratio and provision for loan losses for the three months ended March 31, 2021 and 2020:

(L in thousands, except percentages)	March 31,			
	2021	2020	Change	%
Loan impairment charges	201,452	225,793	(24,341)	(10.8%)
NPL ratio(1)	2.6%	2.8%	—	—
Coverage ratio(2)	129.7%	137.2%	—	—
Provision for loan losses (3)	2,844,860	2,774,028	70,832	2.6%

(1) NPL ratio is calculated by dividing non-performing loans (including refinanced non-performing loans) by our gross portfolio of loans.

(2) Coverage ratio is calculated by dividing provision for loan losses by non-performing loans (including refinanced non-performing loans).

(3) provision for loan losses is compared to December 31, 2020.

Loan impairment charges decreased by 10.8%, or L24,341 thousands, for the three months ended March 31, 2021, as compared to the three ended March 31, 2020, meanwhile our delinquency rate decreased to 2.6% as of March 31, 2021 as compared to 2.8% as of March 31, 2020 and our coverage ratio decreased to 129.7% as of March 31, 2021 as compared to 137.2% as of March 31, 2020.

During the three months ended March 31, 2021, loan impairment charges attributable to the retail banking portfolio decreased by 35.7%, or L56,501 thousands, as compared to the three months ended March 31, 2020, when management decided to record more impairment charges that actually required.

During the three months ended March 31, 2021, loan impairment charges attributable to the SME banking portfolio decreased by 47.0%, or L16,493 thousands, as compared to the three months ended March 31, 2020, when management decided to record more impairment charges that actually required.

During the three months ended March 31, 2021, loan impairment charges attributable to the corporate portfolio increased by 149.8% or L48,653 thousands, as compared to the three months ended March 31, 2020. This segment has been affected by the economic crisis, especially those cases that at the start of the sanitary crisis already showed signs of deterioration.

Provision for loan losses increased by L70,832 thousands to L2,844,860 thousands as of March 31, 2021, compared to December 31, 2020. This increase was mainly due to the recognition on loan impairment charges by L201,452 thousands, write-offs of loans by L99,650 thousands and release of reserves by L30,420 thousands.

Proceeds from services

The following table presents the components of proceeds from services for the three months ended March 31, 2021 and 2020:

(L in thousands)	March 31,		Change	
	2021	2020	HNL	%
Services	25,307	40,658	(15,351)	-37.8%
Commissions	874,639	776,585	98,054	12.6%
Leases	3,249	57,916	(54,667)	-94.4%
Other income ⁽¹⁾	145,293	142,714	2,579	1.8%
Total Proceeds from services	1,048,488	1,017,873	30,615	3.0%

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

Proceeds from services increased by 3.0%, or L30,615 thousands, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020, mainly due to a 12.6% increase in commission income, partially offset by a decrease in leases income of 94.4%, as further explained below.

The decrease in service income of 37.8%, or L15,351 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, was primarily due to a decrease of L6,824 thousands as a consequence of a decrease in stock exchange operations of Atlántida Securities (67.2% less transactions and 87.8% less in traded amounts) and a decrease in warehouse services of L5,122 thousands of COALSA, as a result of the COVID-19 pandemic.

The increase in commission income of 12.6%, or L98,054 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to the increase of L86,977 thousands in Banco Atlántida's commissions income caused by an increase in commissions on loans (L5,379 thousands), commissions on bank guarantees (L19,490 thousands), credit/debit cards (L9,477 thousands), commissions on family remittances (L15,694 thousands), commission on fund transfers (L10,700 thousands), withdrawal fees ATMS (L6,000 thousands) and other commissions (L17,535 thousands) among others; an increase of L18,019 thousands in AFP Atlántida's commissions income for affiliation due the increase in new affiliation contracts, partially offset by a decrease of L13,782 thousands in AFP CONFIA's commission income, due to lower collection and therefore lower accreditation that generates commissions.

The decrease in lease income of 94.4%, or L54,667 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020; due to a change in accounting treatment that began in December 2020, pursuant to which Leasing Atlántida began recognizing all contracts as financial leases, as agreed upon with the CNBS.

Profit from insurance activities

The following table presents the components of profit from insurance activities for the three months ended March 31, 2021 and 2020:

(L in thousands)	March 31,		Change	
	2021	2020	(HNL)	%
Income from insurance activities	1,260,211	946,766	313,445	33.1%
Expenses from insurance activities	1,101,949	823,729	278,220	33.8%
Profit from insurance activities	158,262	123,037	35,225	28.6%

Profit from insurance activities increased by 28.6%, or L35,225 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, primarily due to the income and expense movements discussed below.

Income from insurance activities increased by 33.1%, or L313,445 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to recovered settlement expenses of L37,332 thousands as a consequence of claims for damages caused by tropical storms ETA and IOTA, an increase in net premiums for L103,480 thousands, increase in the variations in the reserves for risk in progress for L87,081 thousands, increase by L63,152 thousands in the variations in the reserves for claims pending settlement, increase by L11,188 thousands in salvages and recoveries of claims and an increase of L14,229 thousands due to release of premiums receivable reserve, partially offset by a decrease of commissions for ceded reinsurance for L2,565 thousands.

Expenses for insurance activities increased by 33.8%, or L278,220 thousands, for the three months ended March 31, 2021, as compared to three months ended March 31, 2020, mainly due to an increase of L65,594 thousands in expenses for claims as a result of damages caused by the tropical storms ETA and IOTA, an increase of L108,583 thousands in variations in reserves, an increase of L66,352 thousands in other technical expenses, an increase of L22,639 thousands in returns and cancellations of Insurance premiums and an increase of L11,194 thousands in commissions for insurance.

Operating expenses

The following table presents the components of other expenses for the three months ended March 31, 2021 and 2020.

(L in thousands)	March 31,		Change	
	2021	2020	HNL	%
Staff expenses	626,304	618,392	7,912	1.3%
General and administrative expenses	959,749	927,623	32,126	3.5%
Depreciation and amortization	193,495	155,884	37,611	24.1%
Total, operating expenses	1,779,548	1,701,899	77,649	4.6%

Operating expenses increased by 4.6%, or L77,649 thousands, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020, mainly due to an increase of 3.5% in general and administrative expenses and an increase of 24.1% in depreciation and amortization expenses, as further explained below.

Staff expenses increased by 1.3% or L7,912 thousands, for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020, mainly due to an increase of L13,365 thousands in salaries of which L5,731 thousands corresponds to INFATLAN for new projects of Banco Atlántida, an increase bonuses expense of L8,501 thousands, partially offset by a decrease of L13,696 thousands in other staff expenses (trainings, travel expenses and others).

General and administrative expenses increased by 3.5%, or L32,126 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to an increase of L22,834 thousands in insurance premiums on managed fund of AFP CONFIA, an increase of L11,123 thousands in contributions expenses of Banco Atlántida, an increase of L8,974 thousands in other expenses and an increase of L3,052 thousands in municipal taxes of Banco Atlántida, as well a decrease of L15,088 thousands in outsourced services of Banco Atlántida.

Depreciation and amortization increased by 24.1%, or L37,611 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to a higher capitalization of software and applications, the acquisition of vehicles, computer equipment and amortization of improvements to the leased properties of Banco Atlántida.

Non-operating income (expenses)

The following table presents the components of the non-operating income (expenses) for the three months ended March 31, 2021 and 2020:

(L in thousands)	March 31,		Change	
	2021	2020	HNL	%
Income from dividends	846	112	734	655.4%
Gain on sale of assets available for sale	37,152	23,651	13,501	57.1%
Gain on sale of fixed assets	3,306	3,012	294	9.8%
Other income (expense), net	62,396	17,267	45,129	261.4%
Total non-operating income (expenses)	103,700	44,042	59,658	135.5%

Non-operating income increased by 135.5%, or L59,658 thousands, during the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to the increase in other income (expenses), net by 261.4% and an increase in gain on sale of assets held for sale by 57.1%, as further explained below.

Income gain on sale of assets held for sale increased by 57.1%, or L13,501 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, attributed to an increase in the country's economic activity, as a consequence of the lifting of the restrictions adopted in 2020 by the government to face the effects of the Covid19 pandemic.

Other income (expenses), net increased by 261.4%, or L45,129 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020, mainly due to the following: (i) a decrease in earnings due to exchange rate fluctuations (L25,355 thousands); (ii) an increase in income from recoveries of assets written off L5,706 thousands; (iii) an increase in income from fluctuation in the value of financial assets held for sale L15,707 thousands; (iv) an increase in other income L49,191 thousands; (v) an increase in the expense of financial assets and liabilities held for sale (L14,340 thousands); (vi) an increase in losses due to theft, and fraud (L1,156 thousands); (vii) an increase in other financial income L19,863 thousands and (viii) an increase in other expenses (L4,408 thousands).

Income before tax and non-controlling interest

Income before tax and non-controlling interest increased by 9.7% to L560,530 thousand for the three months ended March 31, 2021 from L511,083 thousands for the corresponding period in 2020 as a result of the factors discussed above.

Income tax

Income tax expense decreased by 12.1%, or L25,814 thousands, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020. The effective income tax rate was 40.3% at March 31, 2021 and 2020, respectively.

Net income

As a result of the foregoing, our net income increased by 11.7% to L282,656 thousands for the three months ended March 31, 2021 from L252,952 thousands for the three months ended March 31, 2020.

Average shareholders' equity increased by 8.7% to L13,810,130 thousands for the three months ended March 31, 2021, from L12,706,355 thousands for the three months ended March 31, 2020. Our ROAE was 8.2% for the three months ended March 31, 2021, as compared to 8.0% for the three months ended March 31, 2020.

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.

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

The following table sets forth our primary sources of funding on a consolidated basis as of March 31, 2021 and December 2020:

(L in thousands)	March 31, 2021	December 31,2020	Variación	%
Demand deposits	17,309,159	16,887,212	421,947	2.5%
Saving deposits	50,194,961	46,779,158	3,415,803	7.3%
Term deposits	40,318,198	39,735,678	582,520	1.5%
Others	158,035	133,424	24,611	18.4%
Total deposits from clients and other banks	107,980,353	103,535,472	4,444,881	4.3%
Financial obligations	10,267,003	10,363,087	(96,084)	-0.9%
Bonds and guaranteed notes	7,516,761	7,329,106	187,655	2.6%
Total	125,764,117	121,227,665	4,536,452	3.7%

Deposits from clients and other banks increased by 4.3% to L107,980,353 thousands as of March 31, 2021, as compared to L103,535,472 thousands as of December 31, 2020, primarily as a result of the uncertainties caused by the COVID-19 pandemic, which has caused clients to increase their savings deposits in Banco Atlántida due to its perceived financial strength.

Financial obligations were L10,267,003 thousands as of March 31, 2021, compared to L10,363,087 thousands as of December 31, 2020. Banco Atlántida has lines of credit with 17 global financial institutions with which it has had longstanding correspondent relationships. Some of its main providers of credit facilities include IFC, PROPARCO, CABEL, Global Climate Partnership Fund, Banco Central de Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AG. As of March 31, 2021, we had an aggregate amount of US\$373,921 thousands (L8,981,540 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US\$246,428 thousands (L5,919,185 thousands) was available to draw upon.

Bonds and guaranteed notes issued were L7,516,761 thousands as of March 31, 2021, compared to L7,329,106 thousands as of December 31, 2020, representing an increase of 2.6%, which was primarily the result of a new issuance by Banco Atlántida of foreign currency bonds in an aggregate principal amount of US\$8,200 thousands (L196,973 thousands). Bonds and guaranteed notes issued consisted of corporate bond issuances in the local market with a fixed maturity date and variable interest payments.

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

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 11.0% or above. As of March 31, 2021, and December 31, 2020, Banco Atlántida's capital adequacy ratio was 12.8% and 12.8%, respectively.

The following table sets forth Banco Atlántida's capital as compared to the minimum capital requirements as of the dates indicated:

(L in thousands)	March 31,	December 31,		
	2021	2020	2019	2018
Total, Tier 1	8,681,729	8,680,524	7,988,863	7,488,863
Total, Tier 2	2,209,781	1,958,843	1,894,418	1,361,627
Total, Regulatory Capital	10,891,510	10,639,367	9,883,281	8,850,490
Total, Risk weighted assets	85,441,097	83,072,295	81,437,715	71,545,025
Regulatory Capital as percentage of risk weighted assets	12.8%	12.8%	12.1%	12.4%

In addition, pursuant to Salvadoran capitalization requirements, Banco Atlántida El Salvador is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 12.0%. As of March 31, 2021, and December 31, 2020, Banco Atlántida El Salvador's capital adequacy ratio was 12.9%, respectively.

The following table sets forth Banco Atlántida El Salvador's capital as compared to the minimum capital requirements as of the dates indicated:

(US\$ in thousands)	March 31,	December 31,		
	2021	2020	2019	2018
Total, Tier 1	65,947	65,946	55,848	45,695
Total, Tier 2	3,301	3,980	3,567	2,485
Total, Regulatory Capital	69,248	69,926	59,415	48,180
Total, Risk weighted assets	536,727	540,912	445,121	360,756
Regulatory Capital as percentage of risk weighted assets	12.9%	12.9%	13.3%	13.3%

Under Nicaraguan capitalization requirements, Banco Atlántida Nicaragua is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 10.0%. As of March 31, 2021, and December 31, 2020, Banco Atlántida Nicaragua's capital adequacy ratio was 54.3% and 54.8%, respectively.

The following table sets forth Banco Atlántida Nicaragua's capital as compared to the minimum capital requirements as of the dates indicated:

(Córdobas in thousands)	March 31,	December 31,	
	2021	2020	2019
Total, Tier 1	363,477	427,848	400,491
Total, Tier 2	(13,726)	(64,015)	(34,280)
Total, Regulatory Capital	349,751	363,833	366,211
Total, Risk weighted assets	643,983	663,952	253,194
Regulatory Capital as percentage of risk weighted assets	54.3%	54.8%	144.6%

Commitments and contractual obligations

On May 2021, we issued US\$300,000 thousands 7.50% Senior Secured Notes due on May 2026, part of the proceed of this issue (US\$156,187.5 thousands) will be used to repay our currently outstanding US\$150,000 thousand 8.25% Senior Secured Notes due 2022 plus accrued and unpaid interest thereon to (but excluding) the redemption date for the Existing Notes, due to favorable market conditions. The redemption date for the Existing Notes, is expected to take place on July 28, 2021.

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, 2021.

(L in thousands, except rates)	Less than 30 days	31 to 90 days	91 days to 1 year	Between 1 and 5 years	Total
Deposits for clients and other banks	21,040,054	20,804,705	19,599,303	27,996,133	107,980,353
Financial obligations	742,899	539,809	2,352,981	3,238,174	10,267,003
Bonds and guaranteed notes	-	1,080,255	3,601,784	2,943,616	7,625,655
Total	21,782,953	22,424,769	25,554,068	34,177,922	125,873,011
% of Total	17.3%	17.8%	20.2%	27.2%	100%

Capital expenditures

The consolidated capital expenditures was L293,398 thousands for the three months ended March 31, 2021 compared to L1,147,644 thousands for the three months ended March 31, 2020, primarily due to a decrease in investment in the development of intangibles (such as licensing programs, among others) on March 2020.

Off-Balance sheet arrangements

In the normal course of business, the Group takes part in a number of off-balance sheet activities that have credit, market and operational risk and are not reflected in our financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as guarantees, letters of credit and loans under contract pending disbursement, including credit lines and syndicated loans. We provide our clients with services related to the issuance and confirmation of commercial and stand-by letters of credit and to the issuance of guarantees. These contingent liabilities are detailed as follows:

		March 2021	December 2020
Letters of credit and idle credit documents	L	764,590	458,550
Securities and bank guarantees issued		6,257,157	5,503,169
Acceptance debtors		580,831	451,251
Idle credits		5,418,721	4,396,235
Other responsibilities		93,631	108,477
	L	<u>13,114,930</u>	<u>10,917,682</u>

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, we generally determine the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the client's creditworthiness. We may also require commitment letters 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 collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when appropriate as determined by the credit committee of our subsidiaries.

Qualitative and Quantitative Disclosure about 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 on how we regularly assess and manage our exposures to these risks, see Note 4 to our interim consolidated financial statements as of March 31, 2021.