



**MANAGEMENT'S DISCUSSION
AND ANALYSIS OF OUR
FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
AS OF SEPTEMBER 30, 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 interim financial statements and other financial information related to this. Our interim 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 3.6 million clients as of September 30, 2021. We were recognized as a Financial Group by the National Banking and Insurance Commission (CNBS by its acronym in Spanish) 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 six segments: (i) *banking*, through our subsidiaries Banco Atlántida, one of the largest banks in Honduras based on total assets as of September 30, 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 September 30, 2021, according to CNBS data, and Atlántida Vida, Seguros de Personas; and (iii) pension fund management, through our subsidiary AFP Atlántida, Honduras largest private pension fund administrator based on assets under management as of September 30, 2021, according to data published by our competitors, and AFP Confía, El Salvador's largest private pension fund administrator based on assets under management as of September 30, 2021, according to data from the Superintendency of the Financial System of El Salvador (SSF).

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 CNBS data. As of September 30, 2021, and 2020, Banco Atlántida had a net profit of L801,137 thousands and L621,098 thousands and an ROAE of 9.6% and 8.4%; Seguros Atlántida had a net profit of L194,145 thousands and L227,167 thousands and an ROAE of 18.3% and 24.8% and AFP Atlántida had net profit L176,785 thousands and L120,988 thousands and an ROAE of 13.2% and 18.7%, 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 20.0%, 20.9% and 21.7%, respectively, as of September 30, 2021, according to data from the CNBS. Seguros Atlántida is one of the largest insurers in terms of gross premiums written, with a market share of 15.4% and 17.4% as of September 30, 2021 and 2020, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund administrator in Honduras with a market share of 58.1% in terms of assets under management as of September 30, 2021.

We have one of the largest bank distribution networks in Honduras. As of September 30, 2021, we had 3,114 service points in Honduras, which together with our insurance distribution network and operations in El Salvador and Nicaragua totaled 3,219 service points as follows:

- 264 branches (148 agencies, 62 ATM windows integrated into the corporate offices of customers, 23 drive thru and 31 branches related to the other lines of business that make up INVATLAN);
- 1,158 ATMs (424 proprietary ATMs and 734 third-party network ATMs); and
- 1,797 non-correspondent bank agents

As of September 30, 2021 and 2020, Banco Atlántida El Salvador had a net profit of L136,956 thousands and L16,053 thousands and an ROAE of 9.7% and 2.1%, respectively. Banco Atlántida El Salvador remains a relatively small Bank in El Salvador with a market share of 4.1% and 3.5%, in total assets and deposits, respectively, as of September 30, 2021, according to SSF data. As of September 30, 2021, AFP Confía had a market share of 52.3% in terms of total assets under management and 47.8% in terms of total number of customers according to SSF data. In terms of our operations in Nicaragua, Banco Atlántida Nicaragua is a recently created entity that 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 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, institutions in the financial system at large 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 by each institution according to the person of 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, your 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), that 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.

This resolution established March 31, 2021 as the maximum date for the credit financial institution to formalize the refinancing and readjustment of the debtor's credit obligations under this relief mechanism. The debtor's credit obligations under this credit mechanism will retain the risk category they had as of October 31, 2020, after this period, the debtor's credit obligations must be evaluated and classified in the risk category in accordance with the criteria established in the current rules of classification of credit portfolios issued by the CNBS.

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 September 30, 2021, the percentages of loans in our portfolio that were deferred, restructured, or refinanced pursuant to the government relief order were as follows:

(L in thousands)

Business and commercial banking		Portfolio	%	Interests	Total
With the relief of Covid-19:	L	19,165,521	25.5%	213,082	19,378,603
With deferred installments		733,100	1.0%	23,030	756,130
Adjusted		13,812,528	18.4%	128,401	13,940,929
Refinanced		4,619,893	6.1%	61,651	4,681,544
With Eta & Iota relief		64,551	0.1%	423	64,974
Without relief:		55,928,963	74.4%	655,154	56,584,117
Total	L	75,159,035	100.0%	868,659	75,159,034

Retail Banking		Portfolio	%	Interests	Total
With the relief of Covid-19:	L	1,729,631	10.2%	22,039	1,751,670
With deferred installments		27,811	0.2%	344	28,155
Adjusted		1,455,466	8.5%	18,849	1,474,315
Refinanced		246,354	1.5%	2,846	249,200
Without relief:		15,232,820	89.8%	188,691	15,421,511
Total	L	16,962,451	100.0%	210,730	17,173,181

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 82.0% of our consolidated interest income for the nine months ended September 30, 2021 is derived from Banco Atlántida, the tables below set forth the weighted average interest rates on assets and liabilities on lempiras and USD of Banco Atlántida as of September 30, 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	September-21
Assets (loans-BASA)	12.5%	12.1%	11.0%
System Average Assets Rate	13.9%	13.7%	12.9%
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 reference rate; however, the weighted average interest rates of the assets (loans) and liabilities (deposits) are slightly influenced by the minimum supply rate that the Central Bank allows for its Treasury notes. As of September 30, 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 Honduras Government to mitigate the effects of the COVID-19 pandemic on the national economy.

Banco Atlántida's average interest rate on lempiras-denominated assets (loans) was 11.0% as of September 30, 2021, compared to 12.1% as of December 31, 2020. For the nine months ended September 30, 2021, Banco Atlántida's lempiras-denominated loan portfolio grew 9.9% while the local financial system grew 4.7% according to CNBS data during the same period.

Banco Atlántida's average interest rate on liabilities denominated in lempiras (deposits) decreased to 3.4% as of September 30, 2021 compared to 4.6% as of December 31, 2020. As of September 30, 2021, compared to December 2020, Banco Atlántida's lempiras-denominated deposits have grown 9.0%, while the local financial system grew 7.5% during the same period, according to CNBS data.

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

	2019	2020	September-21
Assets (loans-BASA)	7.1%	7.2%	6.6%
System Average Assets Rate	8.2%	7.7%	7.4%
Liabilities (Deposits-BASA)	2.6%	2.6%	2.2%
System Average Liabilities Rate	2.2%	1.9%	1.5%

As of September 30, 2021, Banco Atlántida's average interest rate on assets (loans) denominated in U. S. dollars was 6.6%, compared to 7.2% as of December 31, 2020. Banco Atlántida's loan portfolio denominated in USD increased 1.6% between September 30, 2021 and December 31, 2020, while the local financial system increased 1.9% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 2.2% as of September 30, 2021 and 2.6% as of December 31, 2020. Banco Atlántida's USD-denominated deposits grew at a rate of 8.0% as of September 30, 2021, while deposits for the local financial system grew at a rate of 4.5% during the same period, according to CNBS data.

Effect of Family Remittances

As of September 30, 2021, family remittances that entered Honduras were USD5,384.8 million, which represented an increase of 32.6% compared to the corresponding period in 2020, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*		Change %
30/09/2021	5,384.8	(p)	32.6%
30/09/2020	4,060.7	(r)	0.0%
30/09/2019	4,061.6	(r)	12.8%
27/09/2018	3,600.5	(r)	9.9%

*expressed in millions of USD

(p) preliminary data

(r) revised data

The income recognized 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 USD1,572.7 million in family remittances during the period ended September 30, 2021, 35.2% more than the corresponding period of 2020, during which USD1,163.3 million were processed. As of September 30, 2021, Banco Atlántida's market share was 29.2%, while for the corresponding period of 2020 it was 28.6%.

Competition

We face intense competition in all our segments, which can materially affect our growth, market share, margins, and profitability.

Inflation

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

The Honduran economy has been characterized by moderate inflation in recent years. As of September 30, 2021, the inflation rate was 4.6% higher than the 3.4% obtained in September 2020. This result is mainly explained by the increase in the prices of food, furniture and household conservation items, clothing, footwear, accommodation, water, electricity, gas and other Fuels, according to the Central Bank, the inflation target was achieved, as it remained within the range of 4.0% (± 1.0 pp) according to the 2021-2022 monetary program established by the Central Bank.

Exchange rates

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

In addition, any devaluation or depreciation of the Lempira compared to the USD 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 products and the high demand for foreign currency to pay for imported goods. As of September 30, 2021, the exchange rate was L24.0813 for USD1.00 compared to L24.4482 for USD1.00 as of September 30, 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	PIB * (USD)	% Change	Poverty rate	% Change	Unemployment rate	% Change
2020	9.3	1.1%	2,563	-6.6%	N/A	N/A	9.4%	68.6%
2019	9.2	2.2%	2,743	2.8%	48.0%	-4.8%	5.6%	-1.4%
2018	9.0	1.1%	2,669	2.1%	50.4%	1.2%	5.7%	2.2%
2017	8.9	2.3%	2,614	5.1%	49.8%	-18.2%	5.5%	-17.8%

*GDP per capita

Bank loans

The growth rate of Banco Atlántida's loan portfolio, specifically for its retail banking segment, can be attributed to low bank penetration. In terms of bank penetration, the ratio 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 September 30, 2021, the growth rate of bank loans to the private sector was 7.0%, compared to the growth rate of 5.9% and 10.4% from 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 operate partially or be completely closed due to the pandemic.

Results of operations for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020.

The following table shows the main components of our consolidated statement of comprehensive income for the nine months ended September 30, 2021 and 2020:

	September 30,		Change	
	2021	2020	HNL	%
Interest income	7,300,475	7,228,689	71,786	1.0%
Interest expense	3,641,294	3,608,541	32,753	0.9%
Financial profit	3,659,181	3,620,148	39,033	1.1%
Loan impairment charges	580,743	794,111	(213,368)	-26.9%
Financial profit, net of impairment charges	3,078,438	2,826,037	252,401	8.9%
Income from insurance activities	3,249,580	2,416,022	833,558	34.5%
Expenses from insurance activities	2,878,468	2,020,699	857,769	42.4%
Profit from insurance activities	371,112	395,323	(24,211)	-6.1%
Services	68,282	75,231	(6,949)	-9.2%
Commissions	2,759,692	2,198,944	560,748	25.5%
Leases	11,244	175,477	(164,233)	-93.6%
Other income	578,186	409,445	168,741	41.2%
Total Proceeds from services	3,417,404	2,859,097	558,307	19.5%
Staff-expenses	1,975,549	1,705,115	270,434	15.9%
General and administrative expenses	3,321,193	2,666,313	654,880	24.6%
Depreciation and amortization	582,450	504,648	77,802	15.4%
Total operating expenses	5,879,192	4,876,076	1,003,116	20.6%
Operating income	987,762	1,204,381	(216,619)	-18.0%
Income from dividends	2,004	1,512	492	32.5%
Gain on sale of assets available for sale	153,828	56,826	97,002	170.7%
Gain on sale of fixed assets	119,808	11,977	107,831	900.3%
Other income, net	207,235	(11,319)	218,554	1931%
Total non-operating income	482,875	58,996	423,879	718.5%
Income before income tax	1,470,637	1,263,377	207,260	16.4%
Income tax/capital gain/net assets tax	644,068	505,845	138,223	27.3%
Income before non-controlling interest	826,569	757,532	69,037	9.1%
Net income attributable to noncontrolling interests	133,724	112,514	21,210	18.9%
Net Income	692,845	645,018	47,827	7.4%

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 nine months ended September 30, 2021 and 2020:

Interest income on:	September 30,		Change	
	2021	2020	HNL's	%
Loans	6,241,607	6,456,855	(215,248)	-3.3%
Certificates, bonds and others	855,445	742,472	112,973	15.2%
Leasing	176,410	-	176,410	100.0%
Deposits	27,013	29,362	(2,349)	-8.0%
Total	7,300,475	7,228,689	71,786	1.0%

(In Thousands of HNLS except percentages)

Interest income increased 1.0%, or L71,786 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to an increase in interest income on financial leases of 100%, a 15.2% increase in interest income on investments, and a 3.3% decrease in interest income on loans, as explained below.

Interest income from loans decreased by 3.3%, or L215,248 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, as a result of the reduction in interest rates that led to a decrease of L419,617 thousands in interest income, partially offset by an increase of L284,369 thousands due to a higher volume of loans in local and foreign currency, with an average increase in the balance of 4.4% and 5.4%, respectively.

Interest income on certificates, bonds and others increased by 15.2%, or L112,973 thousands, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, due to a higher volume of local and foreign currency investments that resulted an increase of L293,637 thousands. This increase was partially offset by a decrease in interest rates that led to a decrease in revenue by L180,664 thousands.

Interest income on financial leases increased by 100%, or L176,410 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to a change in accounting treatment that began in December 2020, under which Leasing Atlántida began recognizing all contracts as financial leases.

Interest income on deposits decreased by 8.0%, or L2,349 thousands, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to a decrease in average interest rate which caused a decrease of L22,956 thousands in interest income, as a result of the effects of the COVID-19 pandemic on market interest rates. This decrease was partially offset by a 78.9% increase in the average balance of such deposits that led to an increase in interest income by L20,607 thousands.

Interest expense

The following table presents the components of our interest expense for the nine months ended September 30, 2021 and 2020:

Interest expense on:	September 30,		Change	
	2021	2020	HNL's	%
Deposits	2,587,892	2,764,024	(176,132)	-6.4%
Loans obtained from banks	391,511	439,622	(48,111)	-10.9%
Bonds and guaranteed notes	661,891	404,895	256,996	63.5%
Total	3,641,294	3,608,541	32,753	0.9%

(In Thousands of HNL's except percentages)

Interest expense increased 0.9%, or L32,753 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily as a result of the 63.5% increase in interest expense on bonds and guaranteed notes, partially offset by a 10.9% decrease in interest expense on loans obtained from banks and a 6.4% decrease in interest expenses on deposits, as explained below.

Interest expense on deposits decreased 6.4%, or L176,132 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to a decrease in interest rates paid, which led to a decrease in interest expense of L552,031 thousands, partially offset by an increase of L375,899 thousands due to a 19.9% increase in the volume of deposits.

Interest expense on loans obtained from banks decreased by 10.9% or L48,111 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily as a result of the decrease in market interest rates that led to a decrease in interest expense of L75,605 thousands, this decrease was partially offset by an increase in the volume of loans obtained from banks, which led to an increase in interest expense by L27,494 thousands.

Interest expense on bonds and guaranteed notes increased by 63.5%, or L256,996 thousands, mainly due to (i) an increase in interest paid on outstanding local currency bonds of L14,924 thousands, (ii) increase in interest paid on bonds and guaranteed notes of L187,292 thousands, which corresponds primarily to interest caused by Invatlan's new USD300,000 thousands foreign currency guaranteed notes issued in May 2021 and (iii) an increase of L54,759 thousands due to the increase in the average rate of foreign currency bonds.

Loan impairment charges

The following table presents the loan impairment charges, delinquency rate, coverage rate, and loan loss provision for the nine months ended September 30, 2021 and 2020:

(L in thousands, except percentages)	September 30,		Change	%
	2021	2020		
Loan impairment charges	580,743	794,111	(213,369)	-26.9%
NPL ratio ⁽¹⁾	2.6%	2.7%	-	-
Coverage ratio ⁽²⁾	126.9%	113.8%	-	-
Provision for loan losses ⁽³⁾	3,041,247	2,774,028	267,219	9.6%

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

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

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

Loan impairment charges decreased by 26.9%, or L213,369 thousands, for the nine months ended September 30, 2021, compared to the nine ended September 30, 2020, while our delinquency rate decreased to 2.6% as of September 30, 2021 from 2.7% as of September 30, 2020, while the NPL coverage ratio increased to 126.9% as of September 30, 2021 from 113.8% as of September 30, 2020.

For the nine months ended September 30, 2021, loan impairment charges were assigned as follows:

- a) Attributable to retail banking L358,231 thousands;
- b) Attributable to the SME banking L158,396 thousands; and
- c) Attributable to corporate banking L64,116 thousands.

Last year, the Group's senior management decided to create additional reserves to protect against the potential negative effects of the COVID-19 pandemic on the loan portfolio, which explains why impairment charges have decreased this period.

The provision for loan losses increased by L267,219 thousands to L3,041,247 thousands as of September 30, 2021, compared to December 31, 2020. This increase was primarily due to the recognition of loan impairment charges at L580,743 thousands, loan write-offs at L254,032 thousands, and reserve release at L59,855 thousands.

Proceeds from services

The following table presents the components of proceeds from services for the nine months ended September 30, 2021 and 2020:

	September 30,		Change	
	2021	2020	HNL's	%
Services	68,282	75,231	(6,949)	-9.2%
Commissions	2,759,692	2,198,944	560,748	25.5%
Leases	11,244	175,477	(164,233)	-93.6%
Other income ⁽¹⁾	578,186	409,445	168,741	41.2%
Total	3,417,404	2,859,097	558,307	19.5%

(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 services increased by 19.5%, or L558,307 thousands, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to a 25.5% increase in commission income, an increase in other income of 41.2%, partially offset by a decrease in lease income of 93.6%, as explained below.

The decrease in proceeds from services of 9.2%, or L6,949 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, was primarily due to a decrease in warehouse services of L18,434 thousands from COALSA, and a decrease in other income from services of Banco Atlántida El Salvador by L8,761 thousands due to a reclassification of this income to other income in order to get a better presentation of financial information, partially offset by an increase of L18,763 thousands in other services of INFATLAN and an increase of L1,240 thousands in other services of Atlántida Securities.

The increase in commission income of 25.5%, or L560,748 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020 is mainly explained as follows:

Banco Atlántida commissions:

Loan commissions	L 102,584
Commissions on products and services	71,755
Credit/debit card fees	26,807
Other commissions	111,170
Subtotal	312,316
AFP Atlántida commission income	106,897
AFP Confía commission income	104,546
Banco Atlántida El Salvador commissions on loans and services	23,481
Total, Commissions	L 547,240

The decrease in lease income of 93.6%, or L164,233 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020; is due to a change in accounting treatment that began in December 2020, under which Leasing Atlántida began to recognize all contracts as financial leases.

The increase in other income of 41.2% or L168,741 thousands for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, is mainly due to the increase in other income of Banco Atlántida such as: (i) an increase of L52,605 thousands in profits from purchase and sale of foreign currency as a result of higher economic activity in the country, (ii) an increase in income by L128,180 thousands derived from sale of financial instruments at amortized cost, (iii) a decrease of L14,005 thousands in financial assets and liabilities available for sale, (iv) a decrease of L4,918 thousands in other income due to a reclassification to operating leases, and (v) an increase of L8,922 thousands of account management charges, the increase in Banco Atlántida's income was partially offset by a decrease of L9,725 thousands in other income of COALSA.

Profit from insurance activities

The following table presents the components of profit in insurance activities for the nine months ended September 30, 2021 and 2020:

	September 30,		Change	
	2021	2020	(HNL)	%
Income from Insurance Activities	3,249,580	2,416,022	833,558	34.5%
Expenditure on insurance activities	2,878,468	2,020,699	857,769	42.4%
Profit from insurance activities	371,112	395,323	(24,211)	-6.1%

Profit from insurance activities decreased by 6.1%, or L24,211 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to income and expense movements as discussed below.

Income from insurance activities increased by 34.5%, or L833,558 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, mainly due to an increase in written premiums of L398,701 thousands as a result of the increase of Atlántida Vida's operations, partially offset by a decrease of L36,494 in written premiums of Seguros Atlántida; an increase in reinsurance commissions assigned by L12,434 thousands, an increase in variation in reserves of risk in progress for L195,072 thousands, of which L171,583 thousands correspond to the increase in operations of Atlántida Vida; an increase in the income from claims recovered from reinsurers by L145,082 thousands; an increase in income from changes in reserves pending settlement by L66,375 thousands and an increase in recoveries and salvage income of L38,963 thousands and an increase of L12,810 thousands due to a release of provision for impairment of premiums receivable.

Expenses for insurance activities increased by 42.4%, or L857,769 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to an increase of L374,123 thousands in personal insurance claims expenses because of the effects of the COVID-19 pandemic, an increase of L376,171 thousands in changes in reserves and an increase of L81,831 thousands in other technical expenses.

Operating expenses

The following table presents the components of operating expenses for the nine months ended September 30, 2021 and 2020.

	September 30,		Change	
	2021	2020	HNL's	%
Staff expenses	1,975,549	1,705,115	270,434	15.9%
General and administrative expenses	3,321,193	2,666,313	654,880	24.6%
Depreciation and amortization	582,450	504,648	77,802	15.4%
Total	5,879,192	4,876,076	1,003,116	20.6%

Operating expenses increased by 20.6%, or L1,003,116 thousands, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to a 15.9% increase in staff expenses, a 24.6% increase in general and administrative expenses, and a 15.4% increase in depreciation and amortization expenses, as explained below.

Staff expenses increased by 15.9% or L270,434 thousands, for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to an increase in Banco Atlántida salaries by L89,304 thousands; an increase of L11,166 thousands due to the incorporation of GUIP, an increase of L16,473 thousands due to the hiring of more programmers by INFATLAN to execute new projects of Banco Atlántida, an increase of L11,534 thousands due to a new requirements of auxiliary staff by Banco Atlántida to SESA, an increase of L7,496 thousands due to an increase in staff of Confia, Atlántida Vida and AFP Atlántida; in addition there was an increase in the expenses of provision for bonuses in L58,805 thousands and an increase in L61,983 thousands in medical assistance of Group's employees, partially offset by a decrease in training expenses by L1,163 thousands.

General and administrative expenses increased 24.6%, or L654,880 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to an increase of L202,518 thousands in miscellaneous expenses of Banco Atlántida; an increase of L42,008 thousands due to the resignation of Confia employees; an increase of L17,312 thousands in other administrative expenses of Banco Atlántida El Salvador; an increase in the outsourced services of Banco Atlántida and Confia by L127,852 thousands and L114,748 thousands, respectively; an increase in professional fees by L44,854 thousands and an increase in contributions to regulators by L36,220 thousands.

Depreciation and amortization expenses increased by 15.4%, or L77,802 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to increased software and application capitalization, the acquisition of vehicles, computer equipment, and amortization of improvements to Banco Atlántida's leased properties.

Non-operating income (expenses)

The following table presents the components of non-operating income (expenses) for the nine months ended September 30, 2021 and 2020:

	September 30,		Change	
	2021	2020	HNL's	%
Dividend income	2,004	1,512	492	32.5%
Profit on sale of assets available for sale	153,828	56,826	97,002	170.7%
Profit on the sale of fixed assets	119,808	11,977	107,831	900.3%
Other net income (expenses) net	207,235	(11,319)	218,554	1930.9%
Total	482,875	58,996	423,879	718.5%

Non-operating income (expense) increased by 718.5%, or L423,879 thousands, during the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to an increase in net other income (expense) by 1930.9%; an increase in profit from sale of fixed assets by 900.3% and an increase in gain on sale of assets available for sale by 170.7%, as explained below.

Profit from sale of assets available for sale increased by 170.7%, or L97,002 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, attributed to an increase in the country's economic activity, as a result of the suspension of 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 900.3% or L107,831 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to an increase of L96,915 thousands in Banco Atlántida El Salvador's revenue, because of the sale of land and buildings.

Other income (expense) net increased 1930.9%, or L218,553 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to the following: (i) an increase in other income of L177,282 thousands; (ii) an increase in expenses of financial assets and liabilities available for sale by L6,789 thousands; (iii) an increase in other financial income by L29,590 thousands; (iv) an increase in other expenses by L13,382 thousands; (v) an increase in gains from exchange rate fluctuations by L9,195 thousands; (vi) an increase in income from the recovery of financial assets by L46,330 thousands and (vii) a decrease in income on assets and liabilities available for sale by L34,493 thousands.

Profit before tax and non-controlling interest

Profit before tax and non-controlling interest increased by 16.4% to L1,470,635 thousands for the nine months ended September 30, 2021 from L1,263,376 thousands for the corresponding period in 2020, as a result of the factors discussed above.

Income tax

Income tax expense increased by 27.3%, or L138,223 thousands, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020. The effective income tax rate was 37.7% on September 30, 2021 compared to September 30, 2020 was 39.1%.

Net Income

As a result, net income increased by 7.4% to L692,845 thousands for the nine months ended September 30, 2021 from L645,018 thousands for the nine months ended September 30, 2020. Average shareholder net worth increased by 8.7% to L14,459,506 thousands for the nine months ended September 30, 2021, from L13,299,938 thousands for the nine months ended September 30, 2020. The ROAE was 6.4% for the nine months ended September 30, 2021, compared to 6.5% for the nine months ended September 30, 2020.

Liquidity and funding

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

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

The following table establishes the main sources of funding of the Group on a consolidated basis as of September 30, 2021 and December 2020:

	September 30	December 31		
	2021	2020	Variation	%
Demand deposits	18,662,688	16,887,212	1,775,476	10.5%
Savings deposits	52,578,975	46,779,158	5,799,817	12.4%
Term deposits	40,675,369	39,735,678	939,691	2.4%
Other	162,048	133,424	28,624	21.5%
Total, deposits	112,079,080	103,535,472	8,543,608	8.3%
Bank loans	11,582,851	10,363,087	1,219,764	11.8%
Bonds and guaranteed notes	10,231,262	7,329,106	2,902,156	39.6%
	133,893,193	121,227,665	12,665,528	10.4%

Deposits increased by 8.3% to L112,079,080 thousands as of September 30, 2021, compared to L103,535,472 thousands as of December 31, 2020, primarily as a result of uncertainties caused by the COVID-19 pandemic, which has caused customers to increase their savings deposits at Banco Atlántida due to its perceived financial strength.

Bank loans were L11,582,851 thousands as of September 30, 2021, compared to L10,363,087 thousands as of December 31, 2020. Banco Atlántida has credit lines with 17 global financial institutions with which it has had long-standing correspondent relationships. Some of its major credit line providers include IFC, PROPARCO, CABEL, 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 September 30, 2021, we had a total amount of US\$396,518 thousands (L9,548,668 thousands) in uncommitted credit lines from foreign institutions on a consolidated basis, of which US\$292,629 thousands (L7,046,886 thousands) were available to use.

The bonds and guaranteed notes issued were L10,231,262 thousands as of September 30, 2021, compared to L7,329,106 thousands as of December 31, 2020, representing an increase of 39.6%, which was primarily the result of a new issuance by Invatlan of foreign currency secured notes by USD300,000 thousands (L7,224,390 thousands), as well as a redemption of L4,358,415 thousands.

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 its risk-weighted assets (capital adequacy ratio for Honduras and Nicaragua and equity fund for El Salvador). As of September 30, 2021, the capital adequacy ratio required for Honduras and Nicaragua was 11.0% and 10.0%, respectively, while de equity fund required 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:

Banco Atlántida	September 30,	December 31,		
(L in thousands)	2021	2020	2019	2018
Total, Level 1	8,680,943	8,680,524	7,988,863	7,488,863
Total, level 2	2,554,406	1,958,843	1,894,418	1,361,627
Total, Regulatory Capital	11,235,350	10,639,367	9,883,281	8,850,490
Total, Risk-weighted assets	90,088,634	83,072,295	81,437,715	71,545,025
Regulatory capital as a percentage of risk-weighted assets	12.5%	12.8%	12.1%	12.4%

Banco Atlántida El Salvador	September 30,	December 31,		
(US\$ in thousands)	2021	2020	2019	2018
Total, Level 1	75,947	65,946	55,848	45,695
Total, level 2	4,749	3,980	3,567	2,485
Total, Regulatory Capital	80,696	69,926	59,415	48,180
Total, Risk-weighted assets	582,513	540,912	445,121	360,756
Regulatory capital as a percentage of risk-weighted assets	13.9%	12.9%	13.3%	13.3%

Banco Atlántida Nicaragua	September 30,	December 31,	
(Córdobas in thousands)	2021	2020	2019
Total, Level 1	370,327	427,848	400,491
Total, level 2	(43,770)	(64,015)	(34,280)
Total, Regulatory Capital	326,556	363,833	366,211
Total, Risk-weighted assets	811,232	663,952	253,194
Regulatory capital as a percentage of risk-weighted assets	40.3%	54.8%	144.6%

Commitments and contractual obligations

The Group enters into a number of contractual commitments and obligations that may require future cash payments. The following table summarizes our contractual commitments and obligations as of September 30, 2021.

(L in millions, 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	24,365,714	21,796,552	20,179,990	27,717,724	18,019,100	112,079,080
Bank loans	432,983	655,737	2,423,591	4,266,414	3,804,126	11,582,851
Bonds and guaranteed notes	-	38,886	-	10,457,914	-	10,496,800
Total	24,798,697	22,491,175	22,603,581	42,442,052	21,823,226	134,158,731
% of Total	18.5%	16.8%	16.8%	31.6%	16.3%	100.0%

Capital expenditures

Consolidated capital expenditures decreased to L1,330,754 thousands for the nine months ended September 30, 2021 compared to L1,580,798 thousands for the nine months ended September 30, 2020, primarily due to a decrease in investments in development of intangibles such as licensing programs, among others.

Off-balance sheet agreements

In the normal course of business, the Group takes part of several off-balance activities that have credit, market and operational risk and are not reflected in our financial statements. These activities include commitments to extend credit that is not otherwise accounted for as contingent loans, such as guarantees, letters of credit and loans under contracts awaiting 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 the issuance of bank guarantees. These contingent liabilities are detailed below:

	September 2021	December 2020
Letters of credit and idle credit documents	L 448,787	458,550
Securities and bank guarantees issued	6,197,316	5,503,169
Acceptance debtors	586,889	451,251
Idle credits	6,010,332	4,396,235
Other responsibilities	224,002	108,477
	<u>L 13,467,326</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 interim consolidated financial statements as of September 30, 2021.