



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF DECEMBER 31, 2022**

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

The following discussion of our financial position and results of operations should be read in conjunction with our consolidated financial statements and other financial information related to this. Our consolidated financial statements have been prepared in accordance with Honduran banking GAAP. Our future results may vary materially from those discussed in this document due to various factors that affect 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 3.9 million clients as of December 31, 2022. 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 three segments: (i) banks, through our subsidiaries Banco Atlántida, one of the largest banks in Honduras based on total assets as of December 31, 2022, according to data from the CNBS, Banco Atlántida El Salvador Banco Atlántida Nicaragua and Pacific Bank in Panama, the last one was acquired organically as part of our expansion plans in December 2022; (ii) insurance, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of December 31, 2022, according to data from CNBS, and Atlántida Vida, Seguros de Personas; and (iii) pension fund management, through our subsidiary AFP Atlántida, the largest private pension fund manager in Honduras based on assets under management as of December 31, 2022, according to data published by our competitors, and AFP Confia, El Salvador's largest private pension fund manager based on assets under management, as of December 31, 2022, according to data from the Superintendence of the Financial System of El Salvador (SSF by its acronym in Spanish).

Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida, these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to CNBS data. As of December 31, 2022 and 2021, Banco Atlántida had a net income of L1,612,348 thousand and L1,258,015 thousand and a ROAE of 12.6% and 11.2%; Seguros Atlántida had a net profit of L97,028 thousand and L234,344 thousand and a ROAE of 7.3% and 16.7% and AFP Atlántida had a net profit of L231,345 thousand and L233,974 thousand and a ROAE of 26.4% and 22.3 %, 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 18.0%, 21.1% and 19.4%, respectively, as of December 31, 2022, according to data from the CNBS. Seguros Atlántida is one of the largest insurers in terms of gross written premiums, with a market share of 16.7% and 16.6% as of December 30, 2022 and 2021, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 58.5% market share in terms of assets under management as of December 31, 2022.

The Group has one of the largest banking distribution networks in Honduras. As of December 31, 2022, we had 4,130 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, México and Panama added 4,256 service points as follows:

- 266 branches (150 agencies, 61 teller windows embedded within corporate client offices, 23 drive thru and 32 branches related to the other business lines of the Group);
- 1,188 ATMs (430 proprietary ATMs and 758 third-party network ATMs); and
- 2,802 non-correspondent banking agents.

As of December 31, 2022 and 2021, Banco Atlántida El Salvador had a net income of L64,689 thousand and L158,667 thousand and a ROAE of 2.7% and 8.2%, respectively. Banco Atlántida El Salvador remains a relatively small bank in El Salvador with a market share of 4.4% and 4.0%, in total assets and deposits, respectively, as of September 30, 2022, according to SSF data. As of February 28, 2022, AFP Confía had a market share of 52.0% in terms of total assets under management and 47.9% in terms of total number of clients according to SSF data. Regarding our operations in Nicaragua and Panamá, Banco Atlántida Nicaragua is not yet relevant in the Nicaraguan market and Pacific Bank is a relatively small bank in Panamá, recently acquired by the Group.

Key factors affecting our financial condition and results of operations

Effects of the COVID-19 pandemic on the 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 its debtors, until June 30, 2020. During the deferral period, payments on all principal, interest and fees were suspended. Once the deferral period has ended, debtors can request refinancing if necessary. Debtors and financial institutions had until September 30, 2020 to agree on debt refinancing plans. In addition, financial system institution were urged to establish updated plans to ensure the continuity of their operations. Subsequently, on June 25, 2020, the CNBS issued resolution GES No. 278/25-06-2020, that allows supervised institutions (banks, financial companies, private development organizations, insurers) to grant additional grace periods or allow their debtors to restructure their loans, starting in July 2020, to debtors whose economic activities have been negatively affected by the COVID-19 pandemic, which would be determined on a case-by-case basis for each institution according to each debtor situation. This analysis should consider the debtor's ability to pay and their financial situation. If an institution determines that severity is less, their payments could be deferred for shorter periods of time. For other debtors whose economic activities have been less affected by the pandemic, their payments were only deferred until July 31, 2020. In addition, on October 19, 2020, the Honduran Government, represented by the Central Bank, the CNBS and the Honduran Bank for Production and Housing (BANHPROVI) reached an agreement with the Honduran Association of Banking Institutions (AHIBA) to provide additional financial assistance, including the extension of grace periods for payment, micro, small and medium-sized enterprises adversely affected by the COVID-19 pandemic. On December 2, 2020, the CNBS issued resolution GES No.601/02-12-2020 by which it extended the deadline until March 31, 2021 for the credit institution to formalize the refinancing or adjustment of the debtor's credit obligations. under these relief mechanisms.

Effects of tropical storms ETA and IOTA on the 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, consisting of supervised institutions that carry out credit operations. credit, prior identification and evaluation, being able to grant grace periods to debtors (individuals or legal entities) who have been affected by the effects caused by tropical storms ETA and IOTA. The grace periods may not exceed three (3) months, corresponding to the installments for 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 clients. affected, regardless of the risk category in which the debtor is classified.

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

As of December 31, 2022, the percentages of loans in our portfolio that were deferred, restructured, or refinanced pursuant to the government relief order were as follows:

Consolidated COVID-19 pandemic effects

Business and commercial banking		Portfolio	%	Interests	Total
With relief:	L	13,837,032	13.9%	178,370	14,015,402
With deferred installments		467,255	0.5%	4,612	471,867
Adjusted		9,450,006	9.4%	59,716	9,509,722
Refinanced		3,919,771	4.0%	114,042	4,033,813
Without relief:		<u>85,348,535</u>	<u>86.0%</u>	<u>976,556</u>	<u>86,325,091</u>
Total	L	<u>99,185,567</u>	<u>99.9%*</u>	<u>1,154,926</u>	<u>100,340,493</u>

Retail banking		Portfolio	%	Interests	Total
With relief:	L	976,065	4.5%	9,210	985,275
With deferred installments		12,873	0.1%	36	12,909
Adjusted		835,045	3.9%	7,985	843,030
Refinanced		128,147	0.5%	1,189	129,336
Without relief:		<u>20,674,202</u>	<u>95.5%</u>	<u>219,575</u>	<u>20,893,777</u>
Total	L	<u>21,650,267</u>	<u>100.0%</u>	<u>228,785</u>	<u>21,879,052</u>

	L	<u>120,835,834</u>		<u>1,383,711</u>	<u>122,219,545</u>
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(1) The difference (0.1%) corresponds to the loan portfolio with relief measures ETA and IOTA tropical storms.

Relief measures ETA and IOTA tropical storms

Through GES resolution No. 602/02-12-2020, the Commission extends the term until March 31, 2021, for debtors to be able to avail themselves of the Tropical Storms ETA and IOTA relief mechanisms, as of December 31, 2022, these relief represent approximately 0.1% of the gross loans and interest's portfolio with a balance of L45,408 thousand and L536 thousand and L61,381 thousand and L422 thousand, as of December 31, 2021, respectively.

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 USD-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.

Asset and Liability Rates

Given that 80.2% of our consolidated interest income for the year ended December 31, 2022, comes from Banco Atlántida, our analysis is focused on the behavior of Banco Atlantida's interest rates. The following tables establish the weighted average interest rates of assets and liabilities in lempiras and USD as of December 31, 2022, December 31, 2021 and 2020, compared to the average rates of the Honduran Financial System published by the Central Bank of Honduras.

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

	2022	2021	2020
Assets (loans)	10.1%	10.9%	12.1%
System Average Assets Rate	11.2%	12.1%	13.7%
Liabilities (deposits)	2.2%	3.4%	4.6%
Monetary Policy Rate	3.0%	3.0%	3.0%

The Honduran banking industry generally does not set interest rates by reference to a benchmark rate; however, the weighted average interest rates on Lempira-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum bid rate that the Central Bank allows for its treasury notes. This reference rate was reduced to 3.0% on November 27, 2020 and has not changed since that date.

Banco Atlántida's average interest rate on assets (loans) denominated in lempiras was 10.1% as of December 31, 2022, compared to 10.9% as of December 31, 2021. For the year ended December 31, 2022, the loan portfolio denominated in lempiras grew 18.0% while the local financial system grew 23.6% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) decreased to 2.2% as of December 31, 2022, compared to 3.4% as of December 31, 2021. As of December 31, 2022, deposits denominated in lempiras grew 1.4%, while the local financial system grew 11.7% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	2022	2021	2020
System Average Assets Rate	7.7%	7.3%	7.7%
Assets (loans)	7.2%	6.5%	7.2%
System Average Liabilities Rate	1.9%	1.5%	1.9%
Liabilities (deposits)	2.6%	2.2%	2.6%

As of December 31, 2022, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 7.2%, compared to 6.5% as of December 31, 2021. The loan portfolio denominated in USD increased 6.8% as of December 31, 2022, while the local financial system decreased 0.2% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 2.6% as of December 31, 2022 and 2.2% as of December 31, 2021. Deposits denominated in USD grew at a rate of 1.9% as of December 31, 2022, while deposits for the local financial system grew at a rate of 7.4% during the same period, according to CNBS data.

Effect of family remittances

As of December 29, 2022, family remittances entering Honduras were USD8,660.7 million, which represented an increase of 18.1% compared to the corresponding period in 2021, while, for the previous comparative periods, they were as shown in the following table:

Period	Amount*	Change %	
29/12/2022	8,660.7	(p)	18.1%
29/12/2021	7,333.9	(r)	28.4%
29/12/2020	5,711.5	(r)	3.6%
31/12/2019	5,514.7	(r)	13.0%

* Expressed in millions of USD

(p) preliminary data

(r) revised data

The income obtained by Banco Atlántida as a result of handling of family remittances consisted mainly of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD2,313.3 million in family remittances during the period ended December 31, 2022, 6.8% more than the corresponding period of 2021, during which USD2,165.0 million were processed. As of December 31, 2022, Banco Atlántida's market share was 26.7%, while for the corresponding period of 2021 it was 29.4%.

Competition

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

Inflation

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

The Honduran economy has been characterized by moderate inflation in recent years. As of December 31, 2022, according to the Central Bank of Honduras, the inflation rate was 9.8%, of which 4.9% corresponds to imported inflation. This result is mainly explained by the increase in the prices of food and non-alcoholic beverages, transportation, utilities, gas and other fuels, hotel cafeteria and restaurants, among others.

According to the Central Bank, the inflation for 2022 was below target, as it did not reach by 50 bp the forecast agreed with the International Monetary Fund (IMF) of 10.30%, nevertheless, this reflects the economic growth experienced by the country during the last quarter of the year and it is a good indicator of post-pandemic economic recovery. For 2023, the inflation target is set to 5.6%, according to the review made by the IMF to the Monetary Program.

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 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

In 2020, the exchange rate of the Lempira compared to the USD appreciated at a stable rate due to Covid-19 pandemic's effects on the entry flows of foreign currency. During 2021, the Lempira experienced a slight depreciation due to the post pandemic economic recovery. The Lempira exchange rate is characterized by cyclical fluctuations according to the export seasons of Honduras' main agricultural commodities and the high demand for foreign currency to pay for imported goods. The exchange rate was L24.5978 per USD1.00 on December 31, 2022, compared to L24.3454 per USD1.00 on December 31, 2021, 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
2021	9.5	2.2%	3,010	17.4%	N/A	N/A	8.5%	1.7%
2020	9.3	1.1%	2,563	-6.6%	N/A	N/A	8.4%	46.9%
2019	9.2	2.2%	2,743	2.8%	48.0%	-4.8%	5.7%	0.9%
2018	9.0	1.1%	2,669	2.0%	50.4%	1.2%	5.7%	2.2%

* GDP per capita
N/A not available

Bank loans

The growth rate of Banco Atlántida's loan portfolio, specifically for its retail banking segment, can be attributed to low banking penetration. In terms of banking penetration, the ratio of loans (as published by CNBS) to GDP (as published by the Central Bank) was 57.7%, as of December 31, 2022.

According to the Central Bank, as of December 31, 2022, the growth rate of bank loans to the private sector was 18.3%, compared to 11.9% as of December 31, 2021. The change is explained by the increase in demand of credits from the private sector, because of the reactivation of economic activities that were partially or totally suspended during the pandemic.

Results of operations for the year ended December 31, 2022, compared to the year ended December 31, 2021.

	December 31,		Change	
	2022	2021	HNL	%
Interest income	11,769,670	9,994,080	1,775,590	17.8%
Interest expense	4,387,678	4,681,605	(293,927)	-6.3%
Financial profit	7,381,992	5,312,475	2,069,517	39.0%
Loan impairment charges	1,359,314	825,852	533,462	64.6%
Financial profit, net of impairment charges	6,022,678	4,486,623	1,536,055	34.2%
Income from insurance activities	5,291,120	4,734,483	556,637	11.8%
Expenses from insurance activities	4,905,160	4,224,478	680,682	16.1%
Profit from insurance activities	385,960	510,005	(124,045)	-24.3%
Services	76,041	81,288	(5,247)	-6.5%
Commissions	4,462,201	3,819,165	643,036	16.8%
Leases	9,471	11,408	(1,937)	-17.0%
Other income	674,705	819,632	(144,927)	-17.7%
Total proceeds from services	5,222,418	4,731,493	490,925	10.4%
Staff-expenses	3,003,386	2,886,286	117,100	4.1%
General and administrative expenses	5,636,364	4,591,798	1,044,566	22.7%
Depreciation and amortization	827,684	788,725	38,959	4.9%
Total operating expenses	9,467,434	8,266,809	1,200,625	14.5%
Operating income	2,163,622	1,461,312	702,310	48.1%
Income from dividends	11,982	2,308	9,674	419.2%
Gain on sale of assets available for sale	388,450	192,259	196,191	102.0%
Gain on sale of property, plant and equipment	13,441	158,678	(145,237)	-91.5%
Other income, net	241,817	422,837	(181,280)	-42.8%
Total non-operating income	655,690	776,082	(120,392)	-15.5%
Income before income taxes and non-controlling interest	2,819,312	2,237,394	581,918	26.0%
Income tax/capital gain/net assets tax	1,146,684	904,911	241,773	26.7%
Income before non-controlling interest	1,672,628	1,332,483	340,135	25.5%
Net income attributable to noncontrolling interest	239,475	204,729	34,746	17.0%
Net income	1,433,153	1,127,754	305,399	27.1%

In thousands of HNL 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 the interest income for years ended, December 31, 2022 and 2021:

	December 30,		Change	
	2022	2021	HNL	%
Loans	10,173,702	8,533,034	1,640,668	19.2%
Certificates, bonds and others	1,192,825	1,187,303	5,522	0.5%
Financial leasing	288,825	239,641	49,184	20.5%
Deposits	114,318	34,102	80,216	235.2%
Total	11,769,670	9,994,080	1,775,590	17.8%

(In thousands of HNL except percentages)

Interest income increased 17.8%, or L1,775,590 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, mainly due to a 19.2% increase in income from interest on loans; a 235.2% increase in income from interest on Deposits, and 20.5% on interest from financial leasing.

Interest income on loans increased by 19.2%, or L1,640,668 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, as a result of an increase in loans volume in local and foreign currency by 33.9% and 15.1%, respectively, which led to an increase of L2,214,487 thousand in interest income, partially offset by a decrease of L573,819 thousand in interest income because of the downward trend in interest rates.

Deposit interest income increased by 235.2%, or L80,216 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, due to upward trend in the interest rate that led an increase of L94,216 thousand, partially offset by a decrease of L14,000 thousand in interest income due to a 13.5% decrease in deposits volume.

Interest income from financial leases increased by 20.5%, or L49,184 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, due to an increase of L69,239 thousand as a result of a 31.5% increase in the volume of financial leases, partially offset by a decrease of L20,055 thousand as a result of the downward trend in interest rate.

Interest income on investments in certificates, bonds and others increased by 0.5%, or L5,522 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, due to a higher volume of local and foreign investments that resulted in an increase of L71,728 thousand, partially offset by a decrease of L66,206 thousand because of the downward trend in interest rates.

Interest expense

	December 31,		Change	
	2022	2021	HNL	%
Deposits	2,766,921	3,293,313	(526,392)	-16.0%
Loans from banks	726,254	531,310	194,944	36.7%
Bonds and guaranteed notes	894,503	856,982	37,521	4.4%
Total	4,387,678	4,681,605	(293,927)	-6.3%

(In thousands of HNL except percentages)

Interest expense decreased by 6.3%, or L293,927 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, primarily due to a decrease in expenses by interest on deposits by 16.0%, partially offset by an increase by 36.7% in interest expenses on loans from banks, as explained below.

Interest expense on deposits decreased 16.0% or L526,392 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, mainly due to the downward trend of the interest rates, which led to a decrease in interest expense of L658,013 thousand, partially offset by an increase of L131,621 thousand due to an 8.2% increase in the volume of deposits.

Interest expense on loans from banks increased by 36.7% or L194,944 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, mainly as a result of the increase in the volume of loans from banks, which led to an increase in interest expense of L213,063 thousand, partially offset by the decrease of L18,120 thousand due to the downward trend of the interest rates.

Interest expense on bonds and secured notes increased by 4.4% or L37,521 thousand, mainly due to (i) an increase in interest expenses by L164,338 thousand due to an increase of 25.9% in the volume of bonds and notes in foreign currency, partially offset by a decrease of L606 thousand due to a decrease of 0.8% in the volume of bonds in local currency and (ii) a decrease of L126,211 thousand in expenses, as a result of the downward trend of the interest rates.

Loan impairment charges

	December 31,		Change	
	2022	2021	HNL	%
Loan impairment charges	1,359,314	825,852	533,462	64.6%
NPL ratio ⁽¹⁾	2.4%	2.3%	-	-
Coverage ratio ⁽²⁾	124.3%	131.2%	-	-
Provision for loan losses	3,584,536	3,038,643	545,893	18.0%

(In thousands of HNL's except percentages)

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

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

Loan impairment charges increased by 64.6%, or L533,462 thousand, for year ended December 31, 2022, compared to the year ended December 31, 2021, while the delinquency ratio was of 2.4% and 2.3% as of December 31, 2022 and 2021, respectively, on the other hand, the NPL coverage ratio was 124.3% and 131.2% as of December 31, 2022 and 2021 respectively.

For the year ended December 31, 2022, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L627,007 thousand;
- b) Attributable to SME banking L124,813 thousand;
- c) Attributable to corporate banking L607,494 thousand.

The provision for credit losses increased by L545,893 thousand as of December 31, 2022. This increase is mainly due to the recognition of loan impairment charges by L1,359,314 thousand, as well as the transfer of reserve for lease receivable for L900 thousand, interest included in loans by L1,844 thousand, exchange fluctuation effect by L2,414 thousand, transfer from retained earnings by L11,517 and an increased by L56,651 as a result of acquisition of Pacific Bank of Panama, partially offset by portfolio write-offs by L746,286 thousand, release of reserves by L134,016 thousand and transfer to reserves for amortization of assets available for sale by L6,445 thousand.

Proceeds from services

The following table presents the components of income from services for years ended December 31, 2022, and 2021:

	December 31,		Change	
	2022	2021	HNL	%
Services	76,041	81,288	(5,247)	-6.5%
Commissions	4,462,201	3,819,165	643,036	16.8%
Leases	9,471	11,408	(1,937)	-17.0%
Other income ⁽¹⁾	674,705	819,632	(144,927)	-17.7%
Total	5,222,418	4,731,493	490,925	10.4%

(In thousands of HNL except percentages)

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

Proceeds from Service increased by 10.4%, or L490,925 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, primarily due to a 16.8% increase in commission income, partiality offset by a decrease of 17.7% in other income.

The increase in commission income of 16.8%, or L643,036 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, is mainly explained as a follows:

Banco Atlantida's commissions income:

Loan Commissions	71,180
Commissions on products and services	12,987
Credit/debit card fees	34,069
Other Commissions	151,345
Subtotal	269,581
AFP Atlántida's commissions	(6,496)
AFP Confía's commissions	219,110
Banco Atlántida El Salvador commissions on loans and services	28,272
Atlántida Capital's commissions income	82,639
Atlántida Securities's commissions income	45,153
Total commissions	638,529

(In thousands of HNL)

The decrease in other income of 17.7% or L144,927 thousand for the year ended December 31, 2022, compared to the year ended December 31, 2021, is mainly due to the decrease in other income of Banco Atlántida due as a follow : (i) a decrease of L14,133 thousand in profits from the purchase and sale of foreign currency, (ii) a decrease in income from account management charges of L74,019, (iii) a decrease in other income of L60,284 thousands. This decrease was partially offset by an increase of L3,804 thousand in other diverse services of COALSA.

Profit from insurance activities

The following table presents the components of income from insurance activities for the years ended December 31, 2022 and 2021:

	December 31,		Change	
	2022	2021	(HNL)	%
Income from insurance activities	5,291,120	4,734,483	556,637	11.8%
Expenses from insurance activities	4,905,160	4,224,478	680,682	16.1%
Profit from insurance activities	385,960	510,005	(124,045)	-24.3%

Income from insurance activities decreased by 24.3%, or L124,045 thousand, for the year ended December 31, 2022, compared to year ended December 31, 2021, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities increased 11.8% or L556,367 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, primarily due to an increase in premiums issued by Atlántida Vida and Seguros Atlántida by L202,236 thousand and L319,863 thousand, respectively; an increase of L231,321 thousand in the variation of reserves for risk in progress; an increase of L59,070 thousand in ceded reinsurance commissions, partially offset by a decrease of L53,153 in recovered claims from reinsurers because of movements in the 2021 estimate, due to adjustments for hurricanes Eta/Iota; a decrease of L23,604 thousand in the release of reserves for impairment of premiums receivable and a decrease of L7,583 thousand in salvage and claim recovery, a decrease of L110,036 thousand in the variation of reserves for claims pending liquidation, a decrease of L58,653 thousand in variation in the reserves for catastrophic risks, and a decrease of L3,885 thousand in ceded reinsurance.

Expenses from insurance activities increased by 16.1%, or L680,682 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, primarily due to an increase by L444,862 thousand in claims, an increase by L203,746 thousand in ceded premiums, an increase by L104,799 thousand in cancellations of insurance premiums, an increase by L80,370 thousand incurred but not reported claims, an increase of L24,553 thousand in insurance commissions; partially offset by a decrease of L59,263 thousand in the variation of reserves, a decrease by L118,068 thousand in other technical expenses, and a decrease of L2,824 thousand due to allowance for impairment of premiums receivable.

Operating expenses

The following table presents the components of operating expenses for years ended December 31, 2022 and 2021.

	December 31,		Change	
	2022	2021	HNL's	%
Staff expenses	3,003,386	2,886,286	117,100	4.1%
General and administrative expenses	5,636,364	4,591,798	1,044,566	22.7%
Depreciations and amortizations	827,684	788,725	38,551	4.9%
Total	9,467,434	8,266,809	1,200,625	14.5%

(In thousands of HNL except percentages)

Operating expenses increased by 14.5%, or L1,200,625 thousand, for year ended December 31, 2022, compared to the year ended December 31, 2021, primarily due to a 22.7% increase in general and administrative expenses and 4.1% increase in staff expenses, as explained below.

Staff expenses increased by 4.1% or L117,100 thousand, for the year ended December 31, 2022 compared to the year ended December 31, 2021, mainly due to an increase in salaries expense by L189,963 thousand due to salary adjustments and increase in the headcount; an increase by L6,250 thousand in employer contributions; an increase by L37,590 thousand in travel expenses and an increase by L12,004 thousand in training expenses, partially offset by a decreased by L134,187 thousand in provision expenses for bonuses.

General and administrative expenses increased 22.7%, or L1,044,556 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, mainly due to: (i) an increase by L201,861 thousand in various expenses of Banco Atlántida mainly due to increases in commission expenses by L66,607 thousand; loyalty programs expenses by L36,847 thousands; security contribution expenses by L17,148 thousand; incoming fees expenses by L44,734 thousand; miscellaneous expenses by L25,569 thousand and special provision expenses by L12,432 thousand; partially offset by a decrease in grant expenses by L10,158 thousand (ii) an increase by L375,248 thousand in other expense for services of Banco Atlántida, mainly due to the following increases L148,151 thousand in other expenses for services (mainly due to an increase in license subscriptions expenses by L116,051 thousand; and international assistance plan expenses by L27,186 thousand), L38,167 thousand in maintenance of vehicles, L24,278 thousand in maintenance of furniture and office equipment, L48,880 thousand in advertising and marketing expenses, L4,907 thousand in software and computer equipment maintenance, L16,588 thousand in real estate maintenance, L18,975 in valuables transportation expenses, utilities L13,103 thousand (iii) an increase by L21,187 thousand in other administrative expenses of Banco Atlántida El Salvador; (iv) an increase in expenses for outsourced services of CONFIA and Banco Atlántida El Salvador by L260,677 thousand and L53,647 thousand, respectively; (v) an increase in expenses for professional fees by L49,701 thousands and (vi) an increase in expenses for contributions to regulators by L30,473 thousand.

Non-operating income (expenses)

	December 31,		Change	
	2022	2021	HNL	%
Dividend income	11,982	2,308	9,674	419.2%
profit on sale of assets available for sale	388,450	192,259	196,191	102.0%
Profit on sale of property, plant and equipment	13,441	158,678	(145,237)	-91.5%
Other income (expenses), net	241,817	422,837	(181,820)	-42.8%
Total	655,690	776,082	(120,392)	-15.5%

(In thousands of HNL except percentages)

Non-operating income (expenses) decreased by 15.5% or L120,392 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, mainly due to a decrease in other income (expenses) net by 42.8%, a decrease in profit on sale of property, plant and equipment by 91.5% and partiality offset by an increase in profit on sale of assets available for sale by a 102.0%.

Profit on sale of assets available for sale increased by 102%; o L196,191 thousand mainly due to an extraordinary sale made by Banco Atlántida, which led a profit from sale by L113,755 thousand, and an increase in the volume of this transactions due to a major economic activity in the country.

Profit on sale of property, plant and equipment decreased by 91.5%, or L145,237 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021, mainly due to a decrease of L95,589 thousand and L35,544 thousand, corresponding to an extraordinary transaction carried out by Banco Atlántida El Salvador and AFP CONFIA in 2021, respectively.

Other income (expense), net, decreased 42.8%, or L181,820 thousand, for year ended December 31, 2022, compared to year ended December 31, 2021, mainly due to: (i) a decrease in other financial income by L41,627 thousand, (ii) a decrease in net losses from valuation of financial assets held for sale by L68,356 thousand, (iii) a decrease in recoveries of written off by L2,651 thousand, (iv) a decrease in other income/expenses (net) by L103,401 thousand, mainly due to a release of reserves in 2021 as follow: L59,792 thousand in reserve for investment losses, L59,526 thousand in reserves for contingencies and labor liabilities, and L27,430 thousand of extraordinary assets reserves, besides to these an increase by L18,780 thousand of other miscellaneous expenses partially offset by an increase of L70,900 thousand due to a release of reserve of financial assets, (v) an increase in income due to the fluctuation in exchange rates by L33,907 thousand and (vi) an increase by L1,392 thousand in interest tax.

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest increased 26.0% to L2,819,312 thousand for the year ended December 31, 2022, compared to L2,237,394 thousand for the year ended December 31, 2021, as a result of the factors discussed above.

Income tax

Income tax expense increased by 26.7%, or L241,773 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021. The effective rate of income tax was 36.3% as of December 31, 2022, compared to 33.8% as of the year ended December 31, 2021.

Net income

Net income increased 27.1% for the year ended December 31, 2022, compared to the year ended December 31, 2021. Average shareholders' equity increased 2.6% to L15,056,787 thousand, for the year ended December 31, 2022, compared to the year ended December 31, 2021. ROAE was 9.5% and 7.7% for the years ended December 31, 2022 and 2021, respectively.

Liquidity and financing

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

The following table shows the main sources of funds of the Group as of December 31, 2022 and December 31, 2021:

	December 31, 2022	December 31, 2021	Change	%
Demand deposits	23,707,141	20,798,239	2,908,902	14.0%
Savings deposits	53,218,617	56,752,094	-3,533,477	-6.2%
Term deposits	41,553,483	38,830,579	2,722,904	7.0%
Other	1,070,761	184,393	886,368	480.7%
Total, deposits	119,550,002	116,565,305	2,984,697	2.6%
Banks loans	22,405,254	16,324,834	6,080,419	37.2%
Bonds and guaranteed notes	12,729,459	11,396,531	1,332,928	11.7%
	154,684,715	144,286,670	10,398,045	7.2%

(In thousands of HNL except percentages)

Deposits increased 2.6% to L119,550,002 thousand as of December 31, 2022, compared to L116,565,305 thousand as of December 31, 2021, mainly as a result of the partial recovery of the dynamism of the economies of the countries where the Group operates, after the period of inactivity caused by the COVID-19 pandemic.

Bank loans were L22,405,254 thousand as of December 31, 2022, compared to L16,324,834 thousand as of December 31, 2021. Banco Atlántida has lines of credit with 19 global financial institutions with which it has had correspondent relationships. Some of its main credit line providers include IFC, PROPARCO, CABEI, 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 December 31, 2022, Banco Atlántida had a total amount of USD \$415,717 thousand (L10,225,714 thousand) in uncommitted credit lines from foreign institutions on a consolidated basis, of which US \$295,450 thousand (L7,267,411 thousand) were available for use.

Bonds and secured notes issued were L12,729,549 thousand as of December 31, 2022, compared to L11,396,531 thousand as of December 31, 2021, which represents an increase of L1,332,928 thousand of which L1,226,467 thousand correspond to new issuances net of bond cancellations, an increase due to the application of the amortized cost method of L23,597 thousand and a decrease due to the variation in the exchange rate of L82,753 thousand.

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, Nicaraguan, Panama capitalization requirements, Banco Atlántida, Banco Atlántida El Salvador, Banco Atlántida Nicaragua and Pacific Bank are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras, Nicaragua and Panamá and capital fund for El Salvador). As of December 31, 2022, the required capital adequacy ratio for Honduras, Nicaragua and Panama was 11.5%, 10.0% and 8.0%, respectively, while the required capital fund for El Salvador was 12.0%.

The following tables show the calculation of regulatory capital for Banco Atlántida (capital adequacy ratio), Banco Atlántida El Salvador (capital fund), Banco Atlántida Nicaragua (capital adequacy ratio) and Pacific Bank (capital adequacy ratio), according to regulatory requirements:

Banco Atlántida	December 31,		
	2022	2021	2020
Total, level 1	9,177,071	8,677,567	8,680,524
Total, level 2	5,971,962	3,035,703	1,958,843
Total, Regulatory Capital	15,149,033	11,713,270	10,639,367
Total, Risk-weighted assets	111,361,967	98,852,163	83,072,295
Regulatory capital as a percentage of risk-weighted assets	13.6%	11.8%	12.8%
(In thousands of HNL except percentages)			

Banco Atlántida El Salvador	December 31,		
	2022	2021	2020
Total, level 1	91,922	76,583	65,946
Total, level 2	9,207	6,270	3,980
Total, Regulatory Capital	101,129	82,853	69,926
Total, Risk-weighted assets	752,368	633,118	540,912
Regulatory capital as a percentage of risk-weighted assets	13.4%	13.1%	12.9%

(In thousands of USD except percentages)

Banco Atlántida Nicaragua

	December 31,		
	2022	2021	2020
Total, level 1	555,636	534,237	427,848
Total, level 2	(48,276)	(57,441)	(64,015)
Total, Regulatory Capital	507,360	476,796	363,833
Total, Risk-weighted assets	1,389,478	983,314	663,952
Regulatory capital as a percentage of risk-weighted assets	36.5%	48.5%	54.8%
(In thousands of córdobas except percentages)			

Pacific Bank (Panamá)

	December 31,
	2022
Total, level 1	18,250
Total, level 2	(4,635)
Total, Regulatory Capital	13,615
Total, Risk-weighted assets	64,225
Regulatory capital as a percentage of risk-weighted assets	21.2%
(In thousands of B/. except percentages)	

Commitments and contractual obligations

The Group assumes a several commitments and contractual obligations that may require future payments in cash. The following table summarizes our commitments and contractual obligations as of December 31, 2022.

	Less than 30 days	From 31 to 90 days	From 91 days to 1 year	between 1 and 5 years	More than 5 years	Total
Deposits	28,714,177	27,359,494	34,328,129	18,574,283	10,573,919	119,550,002
Bank loans	7,485,845	1,149,328	3,814,158	6,956,175	2,999,748	22,405,254
Bonds and guaranteed notes	-	-	1,775,951	11,196,743	-	12,972,424
Total	36,200,022	28,508,822	39,918,238	36,727,201	13,573,667	154,927,950
% of Total	23.3%	18.4%	25.8%	23.7%	8.8%	100.0%
(In thousands of HNL except percentages)						

Capital expenditures

Consolidated capital expenditures decreased to L1,381,897 thousand for year ended December 31, 2022, compared to L2,265,449 thousand for year ended December 2021, mainly due to an increase in development of intangibles assets such as software, licenses, among others and constructions in progress of property plant and equipment.

Off-balance sheet agreements

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

		December 31, 2022	December 31, 2021
Letters of credit and idle credit documents	L	795,550	796,496
Securities and bank guarantees issued		5,717,421	6,271,148
Acceptance debtors		4,070	243,274
Idle credits		5,774,296	5,532,658
Other responsibilities		274,497	286,703
	L	<u>12,565,834</u>	<u>13,130,279</u>

(In thousands of HNL)

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

Qualitative and quantitative disclosure on market risks

We are exposed to risks in the ordinary course of business, particularly credit risk, liquidity risk, exchange rate risk and interest rate risk. For a discussion of how we regularly assess and manage our exposures to these risks, please see Note 4 of our consolidated financial statements as of December 31, 2022.