



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF SEPTEMBER 30, 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 September 30, 2022. We were recognized as a Financial Group by the National Banking and Insurance Commission (CNBS) in 2012 and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from important synergies of being part of a Financial Group.

Our businesses are mainly focused on three segments: (i) banks, through our subsidiaries Banco Atlántida, one of the largest banks in Honduras based on total assets as of September 30, 2022, 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, 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 September 30, 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 February 28, 2022, according to data from the Superintendence of the Financial System of El Salvador (SSF) (data as of September 30, 2022 is not available yet).

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 September 30, 2022 and 2021, Banco Atlántida had a net income of L1,185,011 thousand and L801,137 thousand and a ROAE of 12.6% and 9.6%; Seguros Atlántida had a net profit of L155,802 thousand and L194,145 thousand and a ROAE of 15.6% and 18.3% and AFP Atlántida had a net profit of L179,896 thousand and L176,785 thousand and a ROAE of 27.3% and 13.2 %, 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 17.4%, 20.4% and 20.8%, respectively, as of September 30, 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 14.8% and 15.4% as of September 30, 2022 and 2021, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 58.4% market share in terms of assets under management as of September 30, 2022.

The Group has one of the largest banking distribution networks in Honduras. As of September 30, 2022, we had 3,984 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador and Nicaragua added 4,099 service points as follows:

- 262 branches (146 agencies, 61 teller windows embedded within corporate client offices, 23 drive thru and 32 branches related to the other business lines of the Group);
- 1,185 ATMs (423 proprietary ATMs and 762 third-party network ATMs); and
- 2,652 non-correspondent banking agents.

As of September 30, 2022 and 2021, Banco Atlántida El Salvador had a net income of L80,870 thousand and L136,956 thousand and a ROAE of 4.6% and 9.7%, respectively. Banco Atlántida El Salvador remains a relatively small bank in El Salvador with a market share of 4.4% and 3.2%, 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 47.8% in terms of total number of clients according to SSF data. Regarding our operations in Nicaragua, Banco Atlántida Nicaragua is a recently created entity that began operations on November 1, 2019, and as a result, is not yet relevant in the Nicaraguan market.

Key factors affecting our financial condition and results of operations

Effects of the COVID-19 pandemic on 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 September 30, 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 as of September 30, 2022

Business and commercial banking		Portfolio	%	Interests	Total
With relief:	L	14,593,013	15.4%	159,980	14,752,993
With deferred installments		479,168	0.5%	5,939	485,107
Adjusted		10,140,932	10.7%	67,445	10,208,377
Refinanced		3,972,913	4.2%	86,596	4,059,509
Without relief:	L	79,735,971	84.5%	924,530	80,660,501
Total		94,328,984	99.9%⁽¹⁾	1,084,510	95,413,494

Retail banking		Portfolio	%	Interests	Total
With relief:	L	1,097,006	5.3%	11,030	1,108,036
With deferred installments		13,565	0.1%	36	13,601
Adjusted		930,845	4.5%	9,512	940,357
Refinanced		152,596	0.7%	1,482	154,078
Without relief:		19,711,042	94.7%	207,965	19,919,007
Total	L	20,808,048	100.0%	218,995	21,027,043
		115,137,032		1,303,505	116,440,537

⁽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 September 30, 2022, these relief represent 0.1% of the gross loans and interest's portfolio with a balance of L52,210 thousand and L241 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 81.4% of our consolidated interest income for the nine months ended September 30, 2022, comes from Banco Atlántida, our analysis is focused on the behavior of Banco Atlántida's interest rates. The following tables establish the weighted average interest rates of assets and liabilities in lempiras and USD as of September 30, 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-BASA)	10.2%	10.9%	12.1%
System Average Assets Rate	11.3%	12.1%	13.7%
Liabilities (deposits-BASA)	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 10.2% as of September 30, 2022, compared to 10.9% as of December 31, 2021. For the nine months ended September 30, 2022, the loan portfolio denominated in lempiras grew 14.5% while the local financial system grew 15.6% 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 September 30, 2022, compared to 3.4% as of December 31, 2021. As of September 30, 2022, deposits denominated in lempiras in lempiras grew 5.1%, while the local financial system grew 6.8% 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	7.8%	7.3%	7.7%
Assets (loans-BASA)	7.0%	6.5%	7.2%
System Average Liabilities Rate	1.5%	1.5%	1.9%
Liabilities (Deposits-BASA)	3.4%	2.2%	2.6%

As of September 30, 2022, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 7.0%, compared to 6.5% as of December 31, 2021. The loan portfolio denominated in USD decreased 0.2% as of September 30, 2022, while the local financial system decreased 4.2% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 3.4% as of September 30, 2022 and 2.2% as of December 31, 2021. Deposits denominated in USD grew at a rate of 15.8% as of September 30, 2022, while deposits for the local financial system grew at a rate of 8.9% during the same period, according to CNBS data.

Effect of family remittances

As of September 29, 2022, family remittances entering Honduras were USD 6,456.7 million, which represented an increase of 20.4% compared to the corresponding period in 2021, while, for the previous comparative periods, they were as shown in the following table:

Period	Amount*	Change %
29/09/2022	6,456.7	(p) 20.4%
29/09/2021	5,364.0	(r) 32.7%
29/09/2020	4,042.0	(r) -0.48%
30/09/2019	4,061.6	(r) 12.4%

* Expressed in millions of USD

(p) preliminary data

(r) revised data

The income obtained by Banco Atlántida as a result of handing 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 USD 1,909.2 million in family remittances during the period ended September 30, 2022, 21.4% more than the corresponding period of 2021, during which USD 1,572.7 million were processed. As of September 30, 2022, Banco Atlántida's market share was 29.6%, while for the corresponding period of 2021 it was 29.2%.

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 September 30, 2022, according to the Central Bank of Honduras, the inflation rate was 10.0%, of which 4.7% corresponds to imported inflation. This result is mainly explained by the increase in the prices of food and non-alcoholic beverages; accommodation, utilities, gas and other fuels; furniture items for home maintenance, among others. As of December 31, 2021, the inflation rate was 5.3% according to the Central Bank, which exceeded the established target of 4.0% (± 1 pp) by 30bp, as agreed with the International Monetary Fund (IMF).

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 L24.6359 per USD1.00 on September 30, 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 the Commission) to GDP (as published by the Central Bank) was 57.1%, as of September 30, 2022.

According to the Central Bank, as of September 30, 2022, the growth rate of bank loans to the private sector was 18.6%, compared to 7.2% as of September 30, 2021. The change is explained by the increase in demand of credits from the private sector, as a consequence of the reactivation of economic activities that were partially or totally suspended during the pandemic.

Results of operations for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021.

	September 30,		Change	
	2022	2021	HNL	%
Interest income	8,694,118	7,300,475	1,393,643	19.1%
Interest expense	3,193,065	3,641,294	(448,229)	-12.3%
Financial profit	5,501,053	3,659,181	1,841,872	50.3%
Loan impairment charges	1,005,915	580,743	425,172	73.2%
Financial profit, net of impairment charges	4,495,138	3,078,438	1,416,700	46.0%
Income from insurance activities	3,845,947	3,249,580	596,367	18.4%
Expenses from insurance activities	3,487,399	2,878,468	608,931	21.2%
Profit from insurance activities	358,548	371,112	(12,564)	-3.4%
Services	53,432	68,282	(14,850)	-21.7%
Commissions	3,341,394	2,759,692	581,702	21.1%
Leases	5,097	11,244	(6,147)	-54.7%
Other income	576,085	578,186	(2,101)	-0.4%
Total proceeds from services	3,976,008	3,417,404	558,604	16.3%
Staff-expenses	2,215,234	1,975,549	239,685	12.1%
General and administrative expenses	4,078,693	3,321,193	757,500	22.8%
Depreciation and amortization	611,204	582,450	28,754	4.9%
Total operating expenses	6,905,131	5,879,192	1,025,939	17.5%
Operating income	1,924,563	987,762	936,801	94.8%
Income from dividends	4,451	2,004	2,447	122.1%
Gain on sale of assets available for sale	159,914	153,828	6,086	4.0%
Gain on sale of property, plant and equipment	20,334	119,808	(99,474)	-83.0%
Other income, net	136,885	207,235	(70,350)	-33.9%
Total non-operating income	321,584	482,875	(161,291)	-33.4%
Income before income taxes and non-controlling interest	2,246,147	1,470,637	775,510	52.7%
Income tax/capital gain/net assets tax	875,836	644,068	231,768	36.0%
Income before non-controlling interest	1,370,311	826,569	543,742	65.8%
Net income attributable to noncontrolling interest	176,179	133,724	42,455	31.7%
Net income	1,194,132	692,845	501,287	72.4%

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 the nine months ended, September 30, 2022 and 2021:

	September 30,		Change	
	2022	2021	HNL	%
Loans	7,553,958	6,241,607	1,312,351	21.0%
Certificates, bonds and others	887,380	855,445	31,935	3.7%
Finance leasing	208,466	176,410	32,056	18.2%
Deposits	44,314	27,013	17,301	64.0%
Total	8,694,118	7,300,475	1,393,643	19.1%

(In thousands of HNL except percentages)

Interest income increased 19.1%, or L1,393,643 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly due to a 21.0% increase in income from interest on loans; a 3.7% increase in income from interest on certificates, bonds and others and 18.2% on interest from finance leasing.

Interest income on loans increased by 21.0%, or L1,312,351 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, as a result of an increase in loans' volume in local and foreign currency by 37.0% and 14.4%, respectively, which led to an increase of L1,729,687 thousand in interest income. This increase was partially offset by a decrease of L417,336 thousand in interest income because of the downward trend in interest rates.

Interest income on investments in certificates, bonds and others increased by 3.7%, or L31,935 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, due to a higher volume of local and foreign investments that resulted in an increase of L115,606 thousand, partially offset by a decrease of L83,671 thousand because of the downward trend in interest rates.

Interest income from finance leases increased by 18.2%, or L32,056 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, due to an increase of L46,573 thousand as a result of a 28.8% increase in the volume of finance leases, partially offset by a decrease of L14,517 thousand as a result of the downward trend in interest rate.

Interest expense

	September 30,		Change	
	2022	2021	HNL	%
Deposits	2,072,511	2,587,892	(515,381)	-19.9%
Loans obtained from banks	483,346	391,511	91,835	23.5%
Bonds and guaranteed notes	637,208	661,891	(24,683)	-3.7%
Total,	3,193,065	3,641,294	(448,229)	- 12.3%

(In thousands of HNL except percentages)

Interest expense decreased by 12.3%, or L448,229 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, primarily due to a decrease in expenses by interest on deposits by 19.9%, partially offset by an increase by 23.5% in interest expenses on loans obtained from banks, as explained below.

Interest expense on deposits decreased 19.9% or L515,381 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly due to the downward trend of the interest rates, which led to a decrease in interest expense of L632,803 thousand, partially offset by an increase of L117,422 thousand due to a 10.2% increase in the volume of deposits.

Interest expense on loans obtained from banks increased by 23.5% or L91,835 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly as a result of the increase in the volume of loans obtained from banks, which led to an increase in interest expense of L133,243 thousand, partially offset by the decrease of L41,408 thousand due to the downward trend of the interest rates.

Interest expense on bonds and secured notes decreased by 3.7% or L24,683 thousand, mainly due to (i) an increase in interest expenses by L109,489 thousand due to an increase of 26.3% in the volume of bonds and notes in foreign currency, partially offset by a decrease of L9,505 thousand due to a decrease of 16.3% in the volume of bonds in local currency and (ii) a decrease of L134,172 thousand in expenses, as a result of the downward trend of the interest rates.

Loan impairment charges

	September 30,		Change	
	2022	2021	HNL	%
Loan impairment charges	1,005,915	580,743	425,172	73.2%
NPL ratio ⁽¹⁾	2.5%	2.3%	-	-
Coverage ratio ⁽²⁾	123.5%	131.2%	-	-
Provision for loan losses	3,510,186	3,038,643	471,543	15.5%

(In thousands of HNL's except percentages)

Comparative data for 2021 corresponds to December 31, 2021, except for loan impairment charges which corresponds to September 30, 2021.

(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 73.2%, or L425,172 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, while the delinquency ratio was of 2.5% as of September 30, 2022 and 2.3% as of December 31, 2021, on the other hand, the NPL coverage ratio was 123.5% as of September 30, 2022, and 131.2% as of December 31, 2021.

For the nine months ended September 30, 2022, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L539,896 thousand;
- b) Attributable to SME banking L90,470 thousand;
- c) Attributable to corporate banking L375,548 thousand.

The provision for credit losses increased by L471,543 thousand as of September 30, 2022. This increase is mainly due to the recognition of loan impairment charges by L1,005,915 thousand, as well as the transfer of reserve for lease receivable for L900 thousand, interest included in loans by L344 thousand, exchange fluctuation effect by L2,422 thousand, partially offset by portfolio write-offs by L406,223 thousand, release of reserves by L125,801 thousand and transfer to reserves for amortization of assets available for sale by L6,014 thousand.

Proceeds from services

The following table presents the components of income from services for the nine months ended September 30, 2022, and 2021:

	September 30,		Change	
	2022	2021	HNL	%
Services	53,432	68,282	(14,850)	-21.7%
Commissions	3,341,394	2,759,692	581,702	21.1%
Leases	5,097	11,244	(6,147)	-54.7%
Other income ⁽¹⁾	576,085	578,186	(2,101)	-0.4%
Total	3,976,008	3,417,404	558,604	16.3%

(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 16.3%, or L558,604 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, primarily due to a 21.1% increase in commission income, as explained by the following variations:

Banco Atlántida's commissions income:

Loan Commissions	58,504
Commissions on products and services	38,230
Credit/debit card fees	22,424
Other Commissions	145,358
Subtotal	264,516
AFP Atlántida's commissions	21,167
AFP Confía's commissions	178,584
Banco Atlántida El Salvador commissions on loans and services	15,075
Atlántida Capital's commissions income	68,514
Atlántida Securities's commissions income	32,811
Total commissions	580,668

(In thousands of HNL)

Profit from insurance activities

The following table presents the components of income from insurance activities for the nine months ended September 30, 2022 and 2021:

	September 30,		Change	
	2022	2021	(HNL)	%
Income from insurance activities	3,845,947	3,249,580	596,367	18.4%
Expenses from insurance activities	3,487,399	2,878,468	608,931	21.2%
Profit from insurance activities	358,548	371,112	(12,564)	-3.4%

Income from insurance activities decreased by 3.4%, or L12,564 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities increased 18.4% or L596,367 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, primarily due to an increase in premiums issued by Atlántida Vida and Seguros Atlántida by L275,746 thousand and L270,967 thousand, respectively; an increase of L103,373 thousand in the variation of reserves for risk in progress; an increase of L42,037 thousand in in ceded reinsurance commissions, partially offset by a decrease of L69,762 in claims recovered from reinsurers caused by movements in the 2021 estimate, due to adjustments for hurricanes Eta / Iota; a decrease of L18,217 thousand in the release of reserves for impairment of premiums receivable and a decrease of L8,142 thousand in salvage and claim recovery.

Expenses from insurance activities increased by 21.2%, or L608,931 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, primarily due to an increase by L 367,437 thousand in claims, an increase by L148,652 thousand in ceded premiums, an increase by L204,200 thousand in cancellations of insurance premiums, an increase of L13,672 thousand in insurance commissions, an increase by L19,740 thousand occurred and unreported claims, an increase of L5,657 thousand in premiums for excess loss contracts; partially offset by a decrease of L84,413 thousand in the variation of reserves, a decrease by L68,067 thousand in other technical expenses, and a decrease of L3,123 thousand due to allowance for impairment of premiums receivable.

Operating expenses

The following table presents the components of operating expenses for the nine months ended September 30, 2022 and 2021.

	September 30,		Change	
	2022	2021	HNL's	%
Staff expenses	2,215,234	1,975,549	239,685	12.1%
General and administrative expenses	4,078,693	3,321,193	757,500	22.8%
Depreciations and amortizations	611,204	582,450	28,754	4.9%
Total	6,905,131	5,879,192	1,025,939	17.5%

(In thousands of HNL except percentages)

Operating expenses increased by 17.5%, or L1,025,939 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, primarily due to a 12.1% increase in staff expenses and a 22.8% increase in general and administrative expenses, as explained below.

Staff expenses increased by 12.1% or L239,685 thousand, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, mainly due to an increase in salaries expense by L142,840 thousand due to salary adjustments and increase in the headcount; in addition, an increase by L55,652 thousand in provision expenses for bonuses, an increase by L2,433 thousand in employer contributions; an increase by L30,018 thousand in travel expenses and an increase by L12,434 thousand in training expenses, partially offset by a decrease by L5,793 thousand in medical care for Group's employees.

General and administrative expenses increased 22.8%, or L757,500 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly due to: (i) an increase by L141,460 thousand in various expenses of Banco Atlántida mainly due to increases in commission expenses by L57,929 thousand; loyalty programs expenses by L31,670 thousands; security contribution expenses by L20,443 thousand; incoming fees expenses by L33,264 thousand; partially offset by a decrease in grant expenses by L6,874 thousand (ii) an increase by L247,142 thousand in other expense for services, mainly due to the following increases L112,548 thousand in other expenses for services (mainly due to an increase in license subscriptions expenses by L70,499 thousand; die-cutting of credit and debit card expenses by L6,000 thousand and international assistance plan expenses by L27,581 thousand), L32,998 thousand in maintenance of vehicles, L14,812 thousand in maintenance of furniture and office equipment, L19,180 thousand in advertising and marketing expenses, L20,301 thousand in software and computer equipment maintenance, L3,463 thousand in real estate maintenance, L11,044 in valuables transportation expenses, (iii) an increase by L18,509 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 L216,116 thousand and L46,726 thousand, respectively; (v) an increase in expenses for professional fees by L39,903 thousands and (vi) an increase in expenses for contributions to regulators by L35,171 thousand.

Non-operating income (expenses)

	September 30,		Change	
	2022	2021	HNL	%
Dividend income	4,451	2,004	2,447	122.1%
profit on sale of assets available for sale	159,914	153,828	6,086	4.0%
Profit on the sale of property, plant and equipment	20,334	119,808	(99,474)	-83.0%
Other income (expenses), net	136,885	207,235	(70,350)	-33.9%
Total	321,584	482,875	(161,291)	-33.4%

(In thousands of HNL except percentages)

Non-operating income (expenses) decreased by 33.4%, or L161,291 thousand, during the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly due to a decrease in other income (expenses) net by 33.9%, a decrease in profit on the sale of property, plant and equipment by 83.0% and partiality offset by an increase in profit on sale of assets available for sale by a 4.0%.

Profit from the sale of property, plant and equipment decreased by 83.0%, or L99,474 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly due to a decrease of L96,296 thousand, corresponding to an extraordinary transaction carried out by Banco Atlántida El Salvador in 2021.

Other income (expense), net, decreased 33.9%, or L70,350 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, mainly due to: (i) a decrease in other financial income by L33,322 thousand, (ii) a decrease in net losses from valuation of financial assets held for sale by L126,044 thousand, (iii) a decrease in recoveries of written off by L2,174 thousand; partially offset by (iv) an increase in income due to the fluctuation in exchange rates by L64,427 thousand, and (v) an increase in other income/expenses (net) by L29,033 thousand.

Income before taxes and non-controlling interest

Profit before taxes and non-controlling interest increased 52.7% to L2,246,147 thousand for the nine months ended September 30, 2022, compared to L1,470,637 thousand for the corresponding period in 2021, as a result of the factors discussed above.

Income tax

Income tax expense increased by 36.0%, or L231,768 thousand, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021. The effective rate of income tax was 35.5% as of September 30, 2022, compared to 37.7% as of September 30, 2021.

Net income

Net income increased 72.4% for the nine months ended September 30, 2022, compared to the corresponding period of 2021. Average shareholders' equity increased 4.0% to L15,044,336 thousand, for the nine months ended September 30, 2022, compared to the corresponding period of 2021. ROAE was 10.6% and 6.4% for the nine months ended September 30, 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 September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021	Change	%
Demand deposits	23,077,485	20,798,239	2,279,246	11.0%
Savings deposits	60,118,094	56,752,094	3,366,000	5.9%
Term deposits	38,731,963	38,830,579	(98,616)	-0.3%
Other	763,641	184,393	579,248	314.1%
Total, deposits	122,691,183	116,565,305	6,125,878	5.3%
Banks loans	15,165,195	16,324,834	(1,159,639)	-7.1%
Bonds and guaranteed notes	12,439,926	11,396,531	1,043,395	9.2%
	150,296,304	144,286,670	6,009,634	4.2%
(In thousands of HNL except percentages)				

Deposits increased 5.3% to L122,691,183 thousand as of September 30, 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 L15,165,195 thousand as of September 30, 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, CABEL, Global Climate Partnership Fund, Banco Central de Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AG. As of September 30, 2022, the Group had a total amount of USD \$412,620 thousand (L10,165,261 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US\$308,379 thousand (L7,597,184 thousand) were available for use.

Bonds and secured notes issued were L12,439,926 thousand as of September 30, 2022, compared to L11,396,531 thousand as of December 31, 2021, which represents an increase of L1,043,395 thousand of which L930,007 thousand correspond to new issuances net of bond cancellations, an increase due to the application of the amortized cost method of L16,713 thousand and a decrease due to the variation in the exchange rate of L96,675 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 and Nicaraguan capitalization requirements, Banco Atlántida, Banco Atlántida El Salvador and Banco Atlántida Nicaragua are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras and Nicaragua and capital fund for El Salvador). As of September 30, 2022, the required capital adequacy ratio for Honduras and Nicaragua was 11.25% and 10.0%, 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) and Banco Atlántida Nicaragua (capital adequacy ratio), according to regulatory requirements:

Banco Atlántida	September 30,		December 31,	
	2022	2021	2020	2019
Total, level 1	9,173,852	8,677,567	8,680,524	7,988,863
Total, level 2	3,607,216	3,035,703	1,958,843	1,894,418
Total, Regulatory Capital	12,781,068	11,713,270	10,639,367	9,883,281
Total, Risk-weighted assets	107,304,155	98,852,163	83,072,295	81,437,715
Regulatory capital as a percentage of risk-weighted assets	11.9%	11.8%	12.8%	12.1%
(In thousands of HNL except percentages)				

Banco Atlántida El Salvador	September 30,		December 31,	
	2022	2021	2020	2019
Total, level 1	101,154	76,583	65,946	55,848
Total, level 2	1,268	6,270	3,980	3,567
Total, Regulatory Capital	102,422	82,853	69,926	59,415
Total, Risk-weighted assets	724,466	633,118	540,912	445,121
Regulatory capital as a percentage of risk-weighted assets	14.1%	13.1%	12.9%	13.3%
(In thousands of USD except percentages)				

Banco Atlántida Nicaragua	September 30,		December 31,	
	2022	2021	2020	2019
Total, level 1	486,695	534,237	427,848	400,491
Total, level 2	(36,575)	(57,441)	(64,015)	(34,280)
Total, Regulatory Capital	450,120	476,796	363,833	366,211
Total, Risk-weighted assets	956,396	983,314	663,952	253,194
Regulatory capital as a percentage of risk-weighted assets	47.1%	48.5%	54.8%	144.6%
(In thousands of córdobas 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 September 30, 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	27,701,852	24,854,494	21,602,674	29,543,071	18,989,092	122,691,183
Bank loans	2,841,708	1,384,025	2,321,048	4,323,086	4,295,328	15,165,195
Bonds and guaranteed notes	-	875,806	740,102	11,074,395	-	12,690,303
Total	30,543,560	27,114,325	24,663,824	44,940,552	23,284,420	150,546,681
% of Total	20.3%	18.0%	16.4%	29.9%	15.5%	100.0%
(In thousands of HNL except percentages)						

Capital expenditures

Consolidated capital expenditures increased to L1,596,686 thousand for the nine months ended September 30, 2022, compared to L1,330,754 thousand for the nine months ended September 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:

		September 30, 2022	December 31, 2021
Letters of credit and idle credit documents	L	491,852	796,496
Securities and bank guarantees issued		5,560,293	6,271,148
Acceptance debtors		13,126	243,274
Idle credits		6,329,880	5,532,658
Other responsibilities		220,782	286,703
	L	<u>12,615,933</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 September 30, 2022.