



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF DECEMBER 31, 2023**

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 4.2 million clients as of December 31, 2023. 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, 2023, according to data from the CNBS, Banco Atlántida El Salvador, Banco Atlántida Nicaragua and Pacific Bank in Panama, (ii) insurance, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of December 31, 2023, according to data from CNBS, Atlántida Vida, Seguros de Personas and Seguros Atlantida El Salvador, the last one was acquired as part of our expansion plans in December 2023; 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, 2023, 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 April 30, 2023, according to data from the Superintendence of the Financial System of El Salvador (SSF by its acronym in Spanish). (Data as of December 31, 2023, 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 December 31, 2023, and 2022, Banco Atlántida had a net income of L1,302,109 thousand and L1,612,348 thousand and a ROAE of 9.6% and 12.6%; Seguros Atlántida had a net profit of L160,735 thousand and L97,027 thousand and a ROAE of 13.7% and 7.3% and AFP Atlántida had a net profit of L226,386 thousand and L231,345 thousand and a ROAE of 25.9% and 26.4%, respectively. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits, with market shares of 19.8%, 20.5% and 20.5%, respectively, as of December 31, 2023, 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 15.3% and 16.7% as of December 31, 2023, and 2022, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 59.0% market share in terms of assets under management as of December 31, 2023.

The Group has one of the largest banking distribution networks in Honduras. As of December 30, 2023, we had 5,604 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, Panama and Ecuador added 5,776 service points as follows:

- 279 branches (152 agencies, 61 teller windows embedded within corporate client offices, 23 drive thru and 43 branches related to the other business lines of the Group);
- 1,257 ATMs (443 proprietary ATMs and 814 third-party network ATMs); and
- 4,240 non-correspondent banking agents.

As of December 31, 2023, and 2022, Banco Atlántida El Salvador had net income of L223,991 thousand and L64,689 thousand and an ROAE of 8.4% and 2.7%, respectively. Banco Atlántida El Salvador's market share of 5.2%, 5.0% and 4.4%, in total assets, loans and deposits, respectively, as of December 31, 2023, according to SSF data. As of April 30, 2023, AFP CONFIA had a 51.9% market share in terms of total assets under management and 47.9% in terms of total number of clients according to SSF data. Furthermore, we have two small operations in Nicaragua (Banco Atlántida Nicaragua) and Panama (Pacific Bank).

Key factors affecting our financial condition and results of operations.

Effects of COVID-19 pandemic and ETA & IOTA tropical storms on loan portfolio

As of December 31, 2023, the Group has not defaulted on principal and interest payments of its financial obligations. As a result of the regulatory responses, that the Central Bank and the Regulatory Agencies implemented to mitigate the macroeconomic and financial impacts generated by the COVID-19 pandemic, the contractual commitments associated with the specific financial indicators are monitored which may be impacted by such implementations.

As of December 31, 2023, the loan portfolio without debt forgiveness has a balance L127,084,468 thousand, representing 92.0% of total commercial and personal loans. The portfolio also has debt relief mechanisms for covid-19 and Tropical storms Eta and Iota with balance of L11,492,468 thousand, representing 8.0% of the total portfolio, divided into refinanced with L3,061,036 thousand, readjusted L8,282,430 thousand and deferred in installments L149,394 thousand.

As of December 31, 2023, loans without debt forgiveness are accrue interest with a balance of L1,460,270 thousand, representing an 87% of total loans, commercial and personal loans. The interests generated by debt relief mechanisms to covid-19 and Eta and Iota with a balance of L222,063 thousand represent 13% of the total portfolio, interest is divided into in refinanced with balance L152,945 readjusted L67,468 thousand and deferred payments L1,650 thousand.

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 77.8% of our consolidated interest income for the year ended December 31, 2023, 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 December 31, 2023, December 31, 2022, and 2021, 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:

	2023	2022	2021
Assets (loans-BASA)	9.9%	10.1%	10.9%
System Average Assets Rate	11.4%	11.2%	12.1%
Liabilities (deposits-BASA)	3.1%	2.2%	3.2%
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 9.9% as of December 31, 2023, compared to 10.1% as of December 31, 2022. For the year ended December 31, 2023, the loan portfolio denominated in lempiras grew 19.1% while the local financial system grew 15.4% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) increased to 3.1% as of December 31, 2023, compared to 2.2% as of December 31, 2022. As of December 31, 2023, deposits denominated in lempiras grew 26.0%, while the local financial system grew 16.0% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	2023	2022	2021
Assets (loans-BASA)	7.5%	6.9%	6.5%
System Average Assets Rate	9.4%(p)	8.2%	7.3%
Liabilities (Deposits-BASA)	2.3%	1.9%	2.2%
System Average Liabilities Rate	2.4%(p)	1.6%	1.5%

(p) preliminary data

As of December 31, 2023 and 2022, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 7.5%, and 6.9%, respectively. The loan portfolio denominated in USD grew 2.7% as of December 31, 2023, while the local financial system increased 7.2% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 2.3% as of December 30, 2023, and 1.6% as of December 31, 2022. Deposits denominated in USD decreased by 1.7% as of December 31, 2023, while deposits for the local financial system grew 2.3% during the same period, according to CNBS data.

Effect of family remittances

As of December 28, 2023, family remittances that entered Honduras were USD9,133.6 million, which represented an increase of 5.8% compared to the corresponding period in 2022, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*	Change %
28/12/2023	9,133.6	(p) 5.8%
28/12/2022	8,636.6	(r) 18.0%
28/12/2021	7,313.0	(r) 28.0%
29/12/2020	5,711.5	(r) 0.4%

* Expressed in millions of USD

(p) preliminary data

(r) revised data

The income obtained by Banco Atlántida as a result of handling family remittances consisted mainly of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD2,379.5 million in family remittances during the period ended December 31, 2023, 3.3% more than the corresponding period of 2022, during which USD2,313.3 million were processed. As of December 31, 2023, Banco Atlántida's market share was 25.9%, while for the corresponding period of 2022 it was 26.7%.

Competition

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

Inflation

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

The Honduran economy was characterized by having moderate levels of inflation, however, this changed in 2022, due to various external shocks that influenced the growth rate in the price index. During 2023, it has been observed that inflation has begun to return to previously experienced levels. As of December 31, 2023, the inflation rate was 5.2%, lower 4.6% (pp) compared to 9.8% as of December 31, 2022. This result is mainly explained by Food and Non-Alcoholic Beverages, hotels and restaurants, education, Clothing and Footwear, health, and furniture.

According to the Central Bank, the inflation rate for 2023 was 5.2% which is slightly above the target established by Central Bank of Honduras (4.0% +/- 1.0%). For 2022 the inflation rate was below than target (10.3%), as it did not reach by 0.50 pp the forecast agreed with the International Monetary Fund (IMF), nevertheless, this reflects the economic growth experienced by the country during the last quarter of the year.

Exchange rates

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

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

The Lempira exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras' main agricultural commodities and the high demand for foreign currency to pay for imported goods. The exchange rate was L24.6513 per US\$1.00 on December 31, 2023, compared to L24.5978 per US\$1.00 on December 31, 2022, 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
2023	9.7	1.0%	3,538	7.1%	N/A	N/A	6.8%	-4.2%
2022	9.6	1.1%	3,303	9.7%	52.4%	-1.7%	7.1%	-10.1%
2021	9.5	2.2%	3,010	17.4%	53.3%	-7.6%	7.9%	-26.2%
2020	9.3	1.1%	2,564	-6.6%	57.7%	16.6%	10.7%	91.1%

Bank loans.

The growth rate of the loan portfolio of Banco Atlántida, specifically for its retail banking segment, can be attributed to low bank penetration. In terms of bank penetration, the proportion of loans (as published by the Commission) to GDP (as published by the Central Bank) was 65.2%, as of December 31, 2023.

According to the Central Bank, as of December 28, 2023. the growth rate of bank loans to the private sector was 18.1%, compared to the growth rate of 18.9% in the same period 2022. It should be noted that the total credit granted to the companies reported a year-on-year growth of 14.5% and households 22.5%. Meanwhile, the credit in foreign currency to companies increased by 8.5% and was reduced in households by 0.7%.

Results of operations for the years ended December 31, 2023, compared to the same period ended December 31, 2022.

	December 31,		Change	
	2023	2022	HNL	%
Interest income	14,306,425	11,769,670	2,536,755	21.6%
Interest expense	6,659,075	4,387,678	2,271,397	51.8%
Financial profit	7,647,350	7,381,992	265,358	3.6%
Loan impairment charges	1,242,022	1,359,314	(117,292)	-8.6%
Financial profit, net of impairment charges	6,405,328	6,022,678	382,650	6.4%
Income from insurance activities	4,686,596	5,291,120	(604,524)	-11.4%
Expenses from insurance activities	4,259,742	4,905,160	(645,418)	-13.2%
Profit from insurance activities	426,854	385,960	40,894	10.6%
Services	302,054	76,041	226,013	297.2%
Commissions	4,665,103	4,462,201	202,902	4.5%
Leases	16,059	9,471	6,588	69.6%
Other income	526,186	674,705	(148,519)	-22.0%
Total proceeds from services	5,509,402	5,222,418	286,984	5.5%
Staff-expenses	3,670,026	3,003,386	666,640	22.2%
General and administrative expenses	6,107,998	5,636,364	471,634	8.4%
Depreciation and amortization	926,367	827,684	98,683	11.9%
Total operating expenses	10,704,391	9,467,434	1,236,957	13.1%
Operating income	1,637,193	2,163,622	(526,429)	-24.3%
Income from dividends	7,353	11,982	(4,629)	-38.6%
Gain on sale of assets available for sale	711,826	388,450	323,376	83.2%
Gain on sale of property, plant and equipment	95,714	13,441	82,273	612.1%
Other income, net	342,543	241,817	100,726	41.7%
Total non-operating income	1,157,436	655,690	501,746	76.5%
Income before income tax	2,794,629	2,819,312	(24,683)	-0.9%
Income tax/capital gain/net assets tax	1,104,402	1,146,684	(42,282)	-3.7%
Income before non-controlling interest	1,690,227	1,672,628	17,599	1.1%
Net income attributable to noncontrolling interest	230,912	239,475	(8,563)	-3.6%
Net income	1,459,315	1,433,153	26,162	1.8%

(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 shows the components of the interest income for the years ended, December 31, 2023, and 2022:

	December 31,		Change	
	2023	2022	HNL	%
Loans	11,934,634	10,173,702	1,760,932	17.3%
Certificates, bonds and others	1,664,507	1,192,825	471,682	39.5%
Finance leasing	403,276	288,825	114,451	39.6%
Deposits	304,008	114,318	189,690	165.9%
Total	14,306,425	11,769,670	2,536,755	21.6%

(In thousands of HNL except percentages)

Interest income increased 21.6%, or L2,536,755 thousand, for the year ended December 31, 2023, compared to same period of 2022, mainly due to a 17.3% increase in income from interest on loans, 39.5% increase in income from interest on certificates, bonds and others, 39.6% increase in interest income on finance leasing and 165.9% increase in income from interest on deposits.

Interest income on loans increased by 17.3%, or L1,760,932 thousand, for the year ended December 31, 2023, compared to the same period of 2022, as a result of an increase in loans volume in local and foreign currency by 17.5% and 13.9%, respectively, which led to an increase of L1,708,546 thousand in interest income, and an increase of L52,386 thousand in interest income because a slight upward trend in interest rates.

Interest income on certificates, bonds and others increased by 39.5%, or L471,682 thousand, for the year ended December 31, 2023, compared to the same period of 2022, due to the upward trend in interest rates of local and foreign investments and an increase in the volume of investments which led to an increase in interest income by L287,979 thousand and L183,703 thousand, respectively.

Interest income from financial leases increased by 39.6%, or L114,451 thousand, for the year ended December 31, 2023, compared to the same period, December 31, 2022, due to an increase of L126,678 thousand as a result of a 46.6% increase in the volume of financial leases, partially offset by a decrease of L17,241 thousand as a result of the downward trend in interest rate.

Interest income on deposits increased by 165.9%, or L189,690 thousand, for the year ended December 31, 2023, compared to the same period ended December 31, 2022, due to an increase of L212,358 thousand, as a result of the upward trend in the interest rates, partially offset by a decrease of L22,668 thousand in interest income due to a 21.8% decrease in deposits volume.

Interest expense

	December 31,		Change	
	2023	2022	HNL	%
Deposits	4,171,291	2,766,921	1,404,370	50.8%
Loans obtained from banks	1,267,086	726,254	540,832	74.5%
Bonds and guaranteed notes	1,220,698	894,503	326,195	36.5%
Total,	6,659,075	4,387,678	2,271,397	51.8%

(In thousands of HNL except percentages)

Interest expense increased by 51.8%, or L2,271,397 thousand, for the year ended December 31, 2023, compared to the same period ended December 31, 2022, primarily due to an increase in interest expenses on deposits by 50.8%, an increase by 74.5% in interest expenses on loans from banks and an increase by 36.5% in interest expense on bonds and guaranteed notes, as explained below.

Interest expense on deposits increased 50.8% or L1,404,370 thousand, for the year ended December 31, 2023, compared to the same period 2022, mainly due to the upward trend of the interest rates, which led an increase in interest expense of L1,524,682 thousand, partially offset by a decrease in interest expense of L120,313 thousand due to a decrease in the volume of deposits.

Interest expense on loans from banks increased by 74.5% or L540,832 thousand, for the year ended December 31, 2023, compared to the same period ended December 31, 2022, mainly as a result of the upward trend of interest rate and an increase in the volume of loans from banks, which led to an increase in interest expense of L470,700 thousand and L70,132 thousand, respectively.

Interest expense on bonds and secured notes increased by 36.5% or L326,195 thousand, mainly due to: (i) an increase in the volume of bonds and notes which led to an increase in interest expenses of L206,890 thousand in foreign currency and L15,090 thousand in local currency and (ii) an increase of L104,213 thousand in interest expenses, due to the upward trend in interest rates.

Loan impairment charges

	December 31,		Change	
	2023	2022		%
Loan impairment charges	1,242,022	1,359,314	(117,292)	-8.6%
NPL ratio (1)	2.4%	2.4%	-	-
Coverage ratio (2)	111.1%	124.3%	-	-
Provision for loan losses	3,764,394	3,584,536	179,858	4.8%

(In thousands of HNL except percentages)

(1) The NPL ratio is calculated dividing NPLs (including refinanced NPLs) by our gross loan portfolio. (2) The coverage ratio is calculated dividing the provision for loan losses by NPLs (including refinanced NPLs).

Loan impairment charges decreased by 8.6%, or L117,292 thousand, for the year ended December 31, 2023, compared to the same period ended December 31, 2022, while the delinquency ratio as of December 31, 2023, and 2022 was 2.4% respectively, on the other hand, the NPL coverage ratio as of December 31, 2023 and 2022 was 111.1%, and 124.3%, respectively.

For the year ended December 31, 2023, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L667,953 thousand.
- b) Attributable to SME banking L77,937 thousand.
- c) Attributable to corporate banking L496,132 thousand.

The provision for credit losses decreased by L179,858 thousand as of December 31, 2023, mainly due to the recognition of loan impairment charges by L1,242,022 thousand, and an increase by L515 thousand due to exchange fluctuation effect, partially offset by a decrease in interest included in loans by L10,806 thousand, transfer to retained earnings by L10,780 thousand, portfolio charge-offs by L987,986 thousand, release of reserves by L52,039 thousand and transfer to retained earnings by L1,068 thousand.

Proceeds from services.

The following table presents the components of income from services for the years ended, December 31, 2023, and 2022:

	December 31,		Change	
	2023	2022	HNL	%
Services	302,054	76,041	226,013	297.2%
Commissions	4,665,103	4,462,201	202,902	4.5%
Leases	16,059	9,470	6,589	69.6%
Other income ⁽¹⁾	526,186	674,705	(148,519)	-22.0%
Total	5,509,402	5,222,418	286,984	5.5%

(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 services increased by 5.5%, or L286,984 thousand, for the year ended December 31, 2023, compared to the same period 2022, primarily due to an increase in services and commissions by 297.2% and 4.5%, respectively, and a decrease of 22.0% in other income, as explained below.

The increase in proceeds from service of 297.2% or L226,013 thousand, for the year ended December 31, 2023, compared to the same period 2022, is due to the incorporation of Grupo Sur Atlantida and Subsidiaries and LynxLabs which led to an increase in other services by L165,675 thousand, and L6,784 thousand respectively, an increase of other services from INFATLAN Mexico and COALSA by L24,756 thousand and L4,340 thousand, respectively, and an increase in storage by L9,600 thousand mainly due to the increase in volume of clients.

The increase in commission income of 4.5%, or L202,902 thousand, for the year ended December 31, 2023, compared to the same period December 31, 2022, is mainly explained as a follow:

Banco Atlántida's commissions:	
Loan commissions	2,505
Product and service commissions	84,272
Credit/debit card fees	387,513
other commissions	244,105
Subtotal	718,395
AFP Atlántida's commission income	(1,779)
AFP Confia's commission income	(598,871)
Banco Atlántida El Salvador's commissions for loans and services, credit/debit cards	(23,047)
Atlántida Capital's other Commissions	26,003
Atlántida Securities' other Commissions	9,208
Pacific Bank's other commissions	11,127
Atlántida Casa de Valore's other commissions	4,289
Fiduciaria Atlántida's commissions on products and services	50,804
Capital Prime's commissions on products and services	7,356
Banco Atlántida Nicaragua's commissions for loans and services, credit/debit cards	(937)
Total Commissions	202,548

(In thousands of HNL)

The decrease in other income of 22.0% or L148,519 thousand for the year ended December 31, 2023, compared to the same period December 31, 2022, mainly due to a decrease in other income from Banco Atlantida S.A; as a follow: (i) a decrease of L120,017 thousand in profits from the purchase and sale of foreign currency, (ii) a decrease of L 30,076 thousand, in income from account management charges and (iii) a decrease of L53,422 thousand in other income; partially offset by an increase in other income of COALSA, Grupo Sur Atlantida, CONFIA, INFATLAN, Banco Atlantida El Salvador, Banco Atlantida Nicaragua and Pacific Bank by L20,116 thousand, L27,744 thousand, L2,854 thousand, L2,147 thousand, L1,897 thousand, L100 thousand and L139 thousand respectively.

Profit from insurance activities.

The following table presents the components of income from insurance activities for the years ended December 31, 2023, and 2022:

	December 31,		Change	
	2023	2022	(HNL)	%
Income from insurance activities	4,686,596	5,291,120	(604,524)	-11.4%
Expenses from insurance activities	4,259,742	4,905,160	(645,418)	-13.2%
Profit from insurance activities	426,854	385,960	40,894	10.6%

(In thousands of HNL except percentages)

Income from insurance activities increased by 10.6%, or L40,894 thousand, for the year ended December 31, 2023, compared to same period December 31, 2022, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities decreased L604,524 thousand, for the year ended December 31, 2023, compared to the same period of 2022, primarily due to a decrease in premiums issued by Atlántida Vida by L757,181 thousand; partially offset by an increase of L65,678 thousand in premiums issued of Seguros Atlantida and an increase of L98,188 thousand due to the incorporation of premiums issued by Seguros Atlantida El Salvador, a decrease in the variation of reserves for risk in progress by L147,198 thousand, a decrease in salvage and claims recovery by L3,717 thousand, partially offset by an increase of L117,353 thousand in Recovered claims from reinsurers, L13,882 thousand in ceded reinsurance commissions, L4,529 thousand in recoveries for sureties paid and L4,116 thousand in the release of reserve for impairment of premiums receivable.

Expenses from insurance activities decrease by 13.2%, or L645,418 thousand, for the year ended December 31, 2023, compared to the same period of 2022, primarily due to a decrease in variation of reserve for risk in progress by L438,467 thousand, a decrease in ceded claims by L152,828 thousand, a decrease in cancellations of insurance premium by L60,810 thousand, a decrease in premiums for excess loss contracts by L3,785 thousand and a decrease in premiums ceded to foreign reinsurers by L8,217 thousand; partially offset by an increase in claims settlement expenses by L4,602 thousand, in insurance bonuses for intermediaries by L5,041 thousand, an increase of allowance for impairment of premiums receivable by L4,597 thousand, incurred but not reported claims by L3,526 thousand and an increase in other technical expenses by L1,297 thousand.

Operating expenses

The following table presents the components of operating expenses for the year ended December 31, 2023, and 2022

	December 31,		Change	
	2023	2022	HNL's	%
Staff expenses	3,670,026	3,003,386	666,640	22.2%
General and administrative expenses	6,107,998	5,636,364	471,634	8.4%
Depreciations and amortizations	926,367	827,684	98,683	11.9%
Total	10,704,391	9,467,434	1,236,957	13.1%

(In thousands of HNL except percentages)

Operating expenses increased by 13.1%, or L1,236,957 thousand, for year ended December 31, 2023, compared same period of 2022, primarily due to an increase by 22.2% in staff expenses and increase in general and administrative expenses by 8.4%, as explained below.

Staff expenses increased by 22.2% or L666,640 thousand, for the year ended December 31, 2023, compared same period of 2022, mainly due to an increase in salary adjustments and headcount by L271,461 thousand and L96,101 thousand as a consequence of the incorporation Grupo Sur Atlantida and Subsidiaries; an increase by L181,672 thousand in expenses for bonuses; an increase by L24,641 thousand in travel expenses and an increase by L72,312 thousand in medical care for Group's employees.

General and administrative expenses increased 8.4%, or L471,634 thousand, for the year ended December 31, 2023, compared same period of 2022, mainly due to: (i) an increase by L387,541 thousand in various expenses of Banco Atlántida because of increases in commission expenses by L408,754 thousand; loyalty programs expenses by L14,516 thousand; and a decrease miscellaneous expenses by L65,025 thousand; (ii) an increase by L486,030 thousand in other expense for services of Banco Atlántida, mainly due to the following increases: in license subscriptions expenses by L250,888 thousand, die-cutting of credit and debit card expenses by L9,907 thousand and international assistance plan expenses by L22,646 thousand, L54,832 thousand in advertising and marketing expenses, L51,288 thousand in maintenance of furniture and office equipment, L5,501 thousand in real estate maintenance, L51,898 in miscellaneous expenses, L20,207 thousand in security expenses (iii) an increase by L201,467 thousand in other administrative expenses; (iv) a decrease in expenses for outsourced services CONFIA by L903,483 thousand; (v) an increase in expenses for professional fees by L138,635 thousand, (vi) an increase in expenses for taxes and contributions to the local governments by L150,423 thousand, (vii) an increase in expenses for contributions to regulators by L5,133 thousand.

Non-operating income (expenses)

	December 31,		Change	
	2023	2022	HNL	%
Dividend income	7,353	11,982	(4,629)	-38.6%
profit on sale of assets available for sale	711,826	388,450	323,376	83.2%
Profit on sale of property, plant and equipment	95,714	13,441	82,273	612.2%
Other income (expenses), net	342,543	241,817	100,726	41.7%
Total	1,157,436	655,690	501,746	76.5%

(In thousands of HNL except percentages)

Non-operating income (expenses) increased by 76.5% or L501,746 thousand, for the year ended December 31, 2023, compared same period of 2022, mainly due to an increase in profit on sale of assets available for sale by 83.2%, or L323,376 thousand, due to a high volume of sale of properties.

Other income (expense), net, increased 41.7%, or L100,726 thousand, for the year ended December 31, 2023, compared to the year ended December 31, 2022, mainly due to: (i) an increase in net income from valuation of financial assets held for sale by L178,939 thousand, (ii) an increase in other financial income/expenses (net) by L157,954 thousand, (iii) an increase in recoveries of written off by L16,860 thousand, (iv) an increase in losses due to theft, assault and fraud by L10,740 thousand; (v) a decrease in other income/(expenses) net by L208,721 thousand, mainly due to a decrease in a release of reserves in 2022 as follow: to decreased in release of reserve of financial assets by L81,978 thousand, a decreased in extraordinary assets reserves by L89,267 thousand, a decreased in reserves in investment losses by L4,180 thousand, besides a decrease by L27,695 thousand of other miscellaneous income/(expense) net, (vi) a decrease in income/(expense) net, due to the fluctuation in exchange rates by L27,264 thousand; and (vii) an increase in interest tax by L6,305 thousand .

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest decreased 0.9% to L2,794,629 thousand for the year ended December 31, 2023, compared to L2,819,312 thousand for the same period ended December 31, 2022, as a result of the factors discussed above.

Income tax

Income tax expense decreased by 3.7%, or L42,282 thousand, for the year ended December 31, 2023, compared to the year ended December 31, 2022. The effective rate of income tax was 34.8% as of December 31, 2023, compared to 36.3% as of same period ended December 31, 2022.

Net income

Net income increased 1.8% for the year ended December 31, 2023, compared to the year ended December 31, 2022. Average shareholders' equity increased 12.5% to L16,940,604 thousand, for the year ended December 31, 2023, compared to the year ended December 31, 2022. ROAE was 8.6% and 9.5% for years ended December 31, 2023, and 2022, 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, 2023, and December 31, 2022:

	<u>December 31</u>			
	2023	2022	Change	%
Demand deposits	28,545,724	23,707,141	4,838,583	20.4%
Savings deposits	55,723,694	53,218,617	2,505,077	4.7%
Term deposits	57,680,409	41,553,483	16,126,926	38.8%
Other	1,445,325	1,070,761	374,564	35.0%
Total, Deposits	143,395,152	119,550,002	23,845,150	5.9%
Banks loans	26,642,433	22,405,253	4,237,180	18.9%
Bonds and guaranteed notes	13,413,611	12,729,459	684,152	5.4%
	183,451,196	154,684,714	28,766,482	18.6%

(In thousands of HNL except percentages)

Deposits increased 5.9% to L143,395,152 thousand as of December 31, 2023, compared to L119,550,002 thousand as of December 31, 2022, mainly as a result of the recovery of the dynamism of the economies of the countries where the Group operates.

Bank loans were L26,642,433 thousand as of December 31, 2023, compared to L22,405,253 thousand as of December 31, 2022. Banco Atlántida has lines of credit with 20 global financial institutions with which it has had correspondent relationships. Some of its main credit line providers include IFC, PROPARCO, BCIE, Global Climate Partnership Fund, Banco Central de Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. y Commerzbank AG. As of December 31, 2023, Banco Atlántida had a total amount of USD473,213 thousand (L11,665,316 thousand) in uncommitted credit lines from foreign institutions, of which USD291,062 thousand (L7,175,068 thousand) were available for use.

Bonds, and secured notes issued were L13,413,611 thousand as of December 31, 2023, compared to L12,729,459 thousand as of December 31, 2022, which represents an increase of L684,152 thousand of which L627,956 thousand correspond to a net increase of new issuances and cancellations of bonds, an increase due to the application of the amortized cost method of L20,640 thousand and an increase due to the variation in the exchange rate of L35,556 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, Panamanian capitalization requirements, Banco Atlántida S.A, 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, 2023, the required capital adequacy ratio for Honduras, Nicaragua and Panama was 11.75%, 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,		
	2023	2022	2021
Total, level 1	9,873,988	9,177,071	8,677,567
Total, level 2	5,633,360	5,971,962	3,035,703
Total, Regulatory Capital	15,507,348	15,149,033	11,713,270
Total, Risk-weighted assets	126,123,669	111,361,967	98,852,163
Regulatory capital as a percentage of risk-weighted assets	12.3%	13.6%	11.8%
(In thousands of L except percentages)			

Banco Atlántida El Salvador	December 31,		
	2023	2022	2021
Total, level 1	92,933	91,922	76,583
Total, level 2	16,362	9,207	6,270
Total, Regulatory Capital	109,295	101,129	82,853
Total, Rick-weighted assets	844,220	752,368	633,118
Regulatory capital as a percentage of risk-weighted assets	12.9%	13.4%	13.1%
(In thousands of USD except percentages)			

Banco Atlántida Nicaragua	December 31,		
	2023	2022	2021
Total, level 1	863,784	555,636	534,237
Total, level 2	(57,138)	(48,276)	(57,441)
Total, Regulatory Capital	806,646	507,360	476,796
Total, Risk-weighted assets	2,026,662	1,389,478	983,314
Regulatory capital as a percentage of risk-weighted assets	39.8%	36.5%	48.5%
(In thousands of córdobas except percentages)			

Pacific Bank (Panamá)	December 31	
	2023	2022
Total, level 1	29,250	18,250
Total, level 2	(3,286)	(4,635)
Total, Regulatory Capital	25,964	13,615
Total, Risk-weighted assets	87,420	64,225
Regulatory capital as a percentage of risk-weighted assets	29.7%	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, 2023.

	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	29,409,762	30,277,758	31,135,534	40,954,701	11,617,398	143,395,152
Bank loans	7,550,977	2,968,600	4,840,236	5,922,540	5,360,080	26,642,433
Bonds and guaranteed notes	-	-	1,031,041	11,679,100	912,098	13,622,239
Total	36,960,739	33,246,358	37,006,811	58,556,341	17,889,576	183,659,824
% del Total	20.1%	18.1%	20.1%	31.9%	9.7%	100.0%

(In thousands of HNL except percentages)

Capital expenditures.

Consolidated capital expenditures increased to L4,027,403 thousand for year ended December 31, 2023, compared to L1,381,897 thousand for same period ended December 2022, 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:

		As of December 31,	
		2023	2022
Letters of credit and idle credit documents	L	673,875	795,550
Securities and bank guarantees issued		6,479,459	5,717,421
Acceptance debtors		-	4,070
Idle credits		7,592,212	5,774,296
Other responsibilities		296,108	274,497
	L	<u>15,041,654</u>	<u>12,565,834</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, 2023.