



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF MARCH 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 4.1 million clients as of March 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 March 31, 2023, 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 2023; (ii) insurance, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of March 31, 2023, 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 March 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 March 31, 2023, 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 March 31, 2023 and 2022, Banco Atlántida had a net income of L284,625 thousand and L419,511 thousand and a ROAE of 8.3% and 13.8%; Seguros Atlántida had a net profit of L19,083 thousand and L85,639 thousand and a ROAE of 6.3% and 20.5% and AFP Atlántida had a net profit of L51,859 thousand and L65,743 thousand and a ROAE of 22.7% and 27.2 %, 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 17.7%, 20.0% and 19.5%, respectively, as of March 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 14.3% and 16.6% as of March 31, 2023 and 2022, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 58.7% market share in terms of assets under management as of March 31, 2023.

The Group has one of the largest banking distribution networks in Honduras. As of March 31, 2023, we had 4,390 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, México and Panama added 4,519 service points as follows:

- 266 branches (150 agencies, 60 teller windows embedded within corporate client offices, 23 drive thru and 33 branches related to the other business lines of the Group);
- 1,190 ATMs (441 proprietary ATMs and 749 third-party network ATMs); and
- 3,063 non-correspondent banking agents.

As of March 31, 2023 and 2022, Banco Atlántida El Salvador had net income of L41,111 thousand and L19,716 thousand and an ROAE of 1.6% and 3.7%, respectively. Banco Atlántida El Salvador remains a relatively small bank in El Salvador with a market share of 4.8%, 4.8% and 4.0%, in total assets, loans and deposits, respectively, as of March 31, 2023, according to SSF data. As of March 31, 2023, AFP Confía had a 51.9% market share in terms of total assets under management and 47.5% in terms of total number of clients according to SSF data. Regarding our operations in Nicaragua and Panama, Banco Atlántida Nicaragua is not yet relevant in the Nicaraguan market and Pacific Bank is a relatively small bank in Panama, 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 March 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 March 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 March 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 March 31, 2023, the percentages of loans in our portfolio that were deferred, restructured, or refinanced pursuant to the government relief order were as follows:

Consolidated Effects of COVID-19 pandemic on loan portfolio

Consolidated COVID-19 pandemic effects as of March 31,2023

Business and commercial banking		Portfolio	%	Interests	Total
With relief:	L	11,989,089	11.6%	158,206	12,147,295
With deferred installments		161,604	0.1%	2,428	485,107
Adjusted		8,691,720	8.5%	53,209	8,744,929
Refinanced		3,135,765	3.0%	102,569	3,238,334
Without relief:	L	90,662,896	88.3%	1,067,012	91,729,907
Total		102,651,985	99.9%(1)	1,225,218	103,877,202

Retail banking		Portfolio	%	Interests	Total
With relief:	L	841,407	3.6%	8,320	849,727
With deferred installments		12,347	0.1%	39	13,601
Adjusted		721,408	3.1%	7,268	728,676
Refinanced		107,652	0.5%	1,013	108,665
Without relief:		22,097,446	96.3%	231,110	22,328,556
Total	L	22,938,853	100.0%	239,430	23,178,283
		125,590,838		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 March 31, 2023, these relief represent approximately 0.1% of the gross loans and interest's portfolio with a balance of L42,159 thousand and L209 thousand and L45,408 thousand and L536 thousand, as of December 31, 2022, 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 79.0% of our consolidated interest income for the three months ended March 31, 2023, 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 March 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:

	March 31, 2023	December 31, 2022 2021	
Assets (loans)	9.8%	10.1%	10.9%
System Average Assets Rate	11.1%	11.2%	12.1%
Liabilities (deposits)	2.5%	2.2%	3.4%
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 9.8% as of March 31, 2023, compared to 10.1% as of December 31, 2022. For the three months ended March 31, 2023, the loan portfolio denominated in lempiras grew 4.8% while the local financial system grew 5.2% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) increased to 2.5% as of March 31, 2023, compared to 2.2% as of December 31, 2022. As of March 31, 2023, deposits denominated in lempiras grew 6.2%, while the local financial system grew 1.9% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	March 31, 2023	December 31, 2022 2021	
System Average Assets Rate	8.4%	7.7%	7.3%
Assets (loans-BASA)	7.0%	7.2%	6.5%
System Average Liabilities Rate	1.8%	1.9%	1.5%
Liabilities (Deposits-BASA)	2.0%	2.6%	2.2%

As of March 31, 2023, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 8.4%, compared to 7.7% as of December 31, 2022. The loan portfolio denominated in USD increased 2.6% as of March 31, 2023, while the local financial system increased 4.9% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 1.8% as of March 31, 2023 and 1.9% as of December 31, 2022. Deposits denominated in USD grew at a rate of 0.7% as of March 31, 2022, while deposits for the local financial system grew at a rate of 4.4% during the same period, according to CNBS data.

Effect of family remittances

As of March 30, 2023, family remittances that entered Honduras were USD2,087.2 million, which represented an increase of 8.8% compared to the corresponding period in 2022, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*	Change %
30/03/2023	2,087.2	(p) 8.8%
30/03/2022	1,918.2	(r) 21.9%
30/03/2021	1,574.2	(r) 33.5%
25/03/2020	1,179.0	(r) 4.9%

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 USD519.1 million in family remittances during the period ended March 31, 2023, -7.7% less than the corresponding period of 2022, during which USD562.7 million were processed. As of March 31, 2023, Banco Atlántida's market share was 24.9%, while for the corresponding period of 2022 it was 31.7%.

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

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 March 31, 2023, according to the Central Bank of Honduras, the inflation rate was 9.1%, of which 4.4% corresponds to imported inflation. This result is mainly explained by the increase in the prices of food and non-alcoholic beverages, transportation, hotel cafeteria and restaurants, utilities, gas and other fuels, 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 10.3%, 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 L24.5805 per USD1.00 on March 31, 2023, compared to L24.5978 per USD1.00 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
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%
2019	9.2	2.2%	2,744	5.0%	49.5%	-0.6%	5.6%	0.9%

* GDP per capita

Bank loans

The growth rate of Banco Atlántida's loan portfolio, specifically for its retail banking segment, can be attributed to low banking penetration. In terms of banking penetration, the ratio of loans (as published by CNBS) to GDP (as published by the Central Bank) was 59.4%, as of December 31, 2022.

According to the Central Bank, as of March 31, 2023, the growth rate of bank loans to the private sector was 18.3%, compared to 14.8% as of March 31, 2022. The change is mainly explained by the increase in demand of loans from the private sector, due to an increase of economic activities experienced in the second half of 2022.

Results of operations for the three months ended March 31, 2023, compared to the same period ended March 31, 2022.

	March 31,		Change	
	2023	2022	HNL	%
Interest income	3,277,048	2,889,267	387,781	13.4%
Interest expense	1,395,979	1,032,921	363,058	35.1%
Financial profit	1,881,069	1,856,346	24,723	1.3%
Loan impairment charges	282,173	385,570	(103,397)	-26.8%
Financial profit, net of impairment charges	1,598,896	1,470,776	128,120	8.7%
Income from insurance activities	1,135,133	1,134,910	223	0.0%
Expenses from insurance activities	1,053,666	960,036	93,630	9.8%
Profit from insurance activities	81,466	174,874	(93,408)	-53.4%
Services	27,099	31,157	(4,058)	-13.0%
Commissions	1,028,302	1,050,876	(22,574)	-2.1%
Leases	1,393	1,631	(238)	-14.6%
Other income	109,006	234,073	(125,067)	-53.4%
Total Proceeds From services	1,165,800	1,317,737	(151,937)	-11.5%
Staff-expenses	839,119	712,335	126,784	17.8%
General and administrative expenses	1,346,483	1,271,815	74,668	5.9%
Depreciation and amortization	233,213	202,948	30,265	14.9%
Total operating expenses	2,418,815	2,187,098	231,717	10.6%
Operating income	427,347	776,289	(348,942)	-45.0%
Income from dividends	2,149	803	1,346	167.6%
Gain on sale of assets available for sale	143,043	29,771	113,272	380.5%
Gain on sale of fixed assets	7,337	7,091	246	3.5%
Other income (expenses), net	39,669	40,689	(1,020)	-2.5%
Total non-operating income	192,198	78,354	113,844	145.3%
Income before income tax	619,545	854,643	(235,098)	-27.5%
Income tax/capital gain/net assets tax	243,839	329,755	(85,916)	-26.1%
Income before non-controlling interest	375,706	524,888	(149,182)	-28.4%
Net income attributable to noncontrolling interest	53,727	61,856	(8,129)	-13.1%
Net Income	321,979	463,032	(141,053)	-30.5%

In thousands of HNL's except percentages

Below is an analysis of the components of our consolidated statement of comprehensive results set out in the table above:

Interest income

The following table shows the components of the interest income for the three months ended, March 31, 2023 and 2022:

Interest income on:	March 31,		Change	
	2023	2022	HNL's	%
Loans	2,768,980	2,501,855	267,125	10.7%
Certificates, bonds and others	350,330	315,509	34,821	11.0%
Leasing	85,762	64,334	21,428	33.3%
Deposits	71,976	7,569	64,407	850.9%
Total	3,277,048	2,889,267	387,781	13.4%

(In Thousands of HNL's except percentages)

Interest income increased 13.4%, or L387,781 thousand, for the three months ended March 31, 2023, compared to same period as of March 31, 2022, mainly due to a 10.7% increase in income from interest on loans and an 850.9% increase in income from interest on deposits.

Interest income on loans increased by 10.7%, or L267,125 thousand, for the three months ended March 31, 2023, compared to the same period, March 31, 2022, as a result of an increase in loans volume in local and foreign currency by 17.6% and 16.3%, respectively, which led to an increase of L415,042 thousand in interest income, partially offset by a decrease of L147,917 thousand in interest income because of the downward trend in interest rates.

Interest income on investments in certificates, bonds and others increased by 11.0%, or L34,821 thousand, for the three months ended March 31, 2023, compared to the same period, March 31, 2022, due to the upward trend in interest rates of local and foreign investments that resulted in an increase of L42,010 partially offset by a decrease in the volume of investments that led a decrease in interest income of L7,189.

Interest income from financial leases increased by 33.3%, or L21,428 thousand, for the three months ended March 31, 2023, compared to the same period, March 31, 2022, due to an increase of L27,481 thousand as a result of a 47.2% increase in the volume of financial leases, partially offset by a decrease of L6,053 thousand as a result of the downward trend in interest rate.

Deposit interest income increased by 850.9%, or L64,407 thousand, for the three months ended March 31, 2023, compared to the same period ended March 31, 2022, due to upward trend in the interest rate that led an increase of L94,810 thousand, partially offset by a decrease of L30,403 thousand in interest income due to a 26.9% decrease in deposits volume.

Interest expense

Interest expense on:	March 31,		Cambio	
	2023	2022	HNL's	%
Deposits	827,920	679,484	148,436	21.8%
Loans obtained from banks	275,837	147,234	128,603	87.3%
Bonds and guaranteed notes	292,222	206,203	86,019	41.7%
Total	1,395,979	1,032,921	363,058	35.1%

(In Thousands of HNL's except percentages)

Interest expense increased by 35.1%, or L363,058 thousand, for the three months ended March 31, 2023, compared to the same period ended March 31, 2022, primarily due to an increase in expenses by interest on deposits by 21.8%, and an increase by 87.3% in interest expenses on loans from banks, as explained below.

Interest expense on deposits decreased 21.8% or L148,436 thousand, for the three months ended March 31, 2023, compared to the same period ended March 31, 2022, mainly due to the upward trend of the interest rates and an increase in the volume of deposits, which led to an increase in interest expense of L70,784 thousand and L77,652 thousand, respectively.

Interest expense on loans from banks increased by 87.3% or L128,603 thousand, for the three months ended March 31, 2023, compared to the same period ended March 31, 2022, mainly as a result of the increase in upward trend of interest rate and an increase in the volume of loans from banks, which led to an increase in interest expense of L105,648 thousand and L22,955 thousand respectively.

Interest expense on bonds and secured notes increased by 41.7% or L86,019 thousand, mainly due to (i) an increase of 22.6% in the volume of bonds and notes in foreign currency and an increase of 76.6% in the volume of bonds in local currency, which led to an increase in expenses by L49,704 thousand and L11,187 thousand respectively (ii) an increase of L25,128 thousand in expenses, as a result of the upward trend of the interest rates.

Loan impairment charges

	March 31, 2023	March 31, 2022	Change	%
Loan impairment charges	282,173	385,570	(103,397)	-26.8%
NPL ratio (1)	2.3%	2.4%	-	-
Coverage ratio (2)	113.6%	124.3%	-	-
Provision for loan losses	3,338,933	3,584,536	(245,603)	-6.9%

(In thousands of HNL's except percentages)

Comparative data for 2022 corresponds to December 31, 2022, except for loan impairment charges which corresponds to March 31, 2022.

(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 26.8%, or L103,397 thousand, for the three months ended March 31, 2023, compared to the same period ended March 31, 2022, while the delinquency ratio was of 2.3% as of March 31, 2023 and 2.4% as of December 31, 2022, on the other hand, the NPL coverage ratio was 113.6% as of March 31, 2023 and 131.2% as of December 31, 2022.

For the three months ended March 31, 2023, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L189,884 thousand;
- b) Attributable to SME banking L87,430 thousand;
- c) Attributable to corporate banking L4,859 thousand.

The provision for credit losses decreased by L245,603 thousand as of March 31, 2023. This increase is mainly due to the recognition of loan impairment charges by L249,394 thousand, Provision for the year (portfolio subject to COVID-19 temporary relief mechanisms and Eta and Iota natural phenomena) by L32,779 partially offset by an interest included in loans by L5,059 thousand, exchange fluctuation effect by L125 thousand, transfer to retained earnings by L5,244, portfolio write-offs by L500,143 thousand, release of reserves by L13,116 thousand and transfer to reserves for amortization of assets available for sale by L4,089 thousand.

Proceeds from services

The following table presents the components of income from services for the three months ended, March 31, 2023 and 2022:

	March 31,		Change	
	2023	2022	HNL's	%
Services	27,099	31,157	(4,058)	-13.0%
Commissions	1,028,302	1,050,876	(22,574)	-2.1%
Leases	1,393	1,631	(238)	-14.6%
⁽¹⁾ Other income	109,006	234,073	(125,067)	-53.4%
Total	1,165,800	1,317,737	(151,937)	-11.5%

(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 decreased by 11.5%, or L151,937 thousand, for the three months ended March 31, 2023, compared to the same period March 31, 2022, primarily due to a decrease in commissions and other income by 2.1% and 53.4% respectively

The decrease in commission income of 2.1%, or L22,574 thousand, for the three months ended March 31, 2023, compared to the same period March 31, 2022, is mainly explained as a follow:

Banco Atlantida's commissions income:

Loan Commissions	701
Commissions on products and services	(2,576)
Credit/debit card fees	12,610
Other Commissions	49,914
Subtotal	60,649
AFP Atlántida's commissions	(23,357)
AFP Confía's commissions	(86,847)
Banco Atlántida El Salvador commissions on loans and services	(2,913)
Atlántida Capital's commissions income	8,322
Atlántida Securities's commissions income	19,776
Pacific Bank's commissions income	958
Casa de Bolsa Atlantida's commission incomes	865
Total, commissions	22,546

(In thousands of HNL)

The decrease in other income of 53.4% or L125,067 thousand for the three months ended March 31, 2023, compared to the same period March 31, 2022, is mainly due to the decrease in other income of Banco Atlántida due as a follow : (i) a decrease of L58,263 thousand in profits from the purchase and sale of foreign currency, (ii) a decrease in income from account management charges of L25,579, (iii) a decrease in other income of L42,210 thousands. This decrease was partially offset by an increase of L967 thousand in other diverse services of COALSA.

Profit from insurance activities

The following table presents the components of income from insurance activities for the three months ended March 31, 2023 and 2022:

	March 31,		Change	
	2023	2022	(HNL)	%
Income from insurance activities	1,135,133	1,134,910	223	0.0%
Expenses from insurance activities	1,053,666	960,036	93,630	9.8%
Profit from insurance activities	81,467	174,874	(93,407)	-53.4%

Income from insurance activities decreased by 53.4%, or L93,407 thousand, for the three months ended March 31, 2023, compared to same period March 31, 2022, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities increased L223 thousand, for the three months ended March 31, 2023, compared to the same period March 31, 2022, primarily due to an increase by L69,236 in recovered claims from reinsurers, an increase of L1,670 thousand in ceded reinsurance commissions offset partially by an decrease in premiums issued by Atlántida Vida and Seguros Atlántida by L4,733 thousand and L20,650 thousand, respectively; a decrease in the variation of reserves for risk in progress by L41,423 thousands, a decrease in the variation of reserves for claims pending liquidation by L2,322 thousand and a decrease in math reserves by L790 thousand, a decrease in salvage and claim recovery by L399 thousand and a decrease in the release of reserves for impairment of premiums receivable by L344 thousand and a decrease in other technical income by L23 thousand.

Expenses from insurance activities increased by 9.8%, or L93,630 thousand, for the three months ended March 31, 2023, compared to the same period March 31, 2022, primarily due to an increase in claims by L80,709 thousand, an increase in claims incurred but not reported claims by L20,041 thousand, an increase in variation of reserve for risk in progress by L8,092 thousand, an increase in cancellations of insurance premium by L5,076 thousand partially offset by a decrease in ceded premiums by L19,406 thousand and a decrease in returns and cancellations of insurance premiums by L2,262 thousand.

Operating expenses

The following table presents the components of operating expenses for the three months ended March 31, 2023 and 2022.

	March 31,		Change	
	2023	2022	HNL's	%
Staff expenses	839,119	712,335	126,784	17.8%
General and administrative expenses	1,346,483	1,271,815	74,668	5.9%
Depreciations and amortizations	233,212	202,948	30,264	14.9%
Total	2,418,814	2,187,098	231,716	10.6%

(In thousands of HNL except percentages)

Operating expenses increased by 10.6%, or L231,716 thousand, for three months ended March 31, 2023, compared same period March 31, 2022, primarily due to a 17.8% in staff expenses and increase in general and administrative expenses by 5.9%, as explained below.

Staff expenses increased by 17.8% or L126,784 thousand, for the three months ended March 31, 2023, compared same period March 31, 2022, mainly due to an increase in salaries expense by L68,712 thousand due to salary adjustments and increase in the headcount; an increase by L18,674 thousand in provision expenses for bonuses; an increase by L17,248 thousand in travel expenses; an increase by L22,821 thousand in medical care for Group's employees; partially offset by a decrease in premium written by L3,346 thousand.

General and administrative expenses increased 5.9%, or L74,668 thousand, for the three months ended March 31, 2023, compared same period March 31, 2022, mainly due to: (i) an increase by L56,086 thousand in various expenses of Banco Atlántida mainly due to increases in commission expenses by L28,646 thousand; loyalty programs expenses by L7,167 thousands; miscellaneous expenses by L18,995 thousand; (ii) an increase by L125,074 thousand in other expense for services of Banco Atlántida, mainly due to the following increases: L63,057 thousand in other expenses for services (mainly due to an increase in license subscriptions expenses by L50,711 thousand; and international assistance plan expenses by L6,303 thousand), L4,096 thousand in maintenance of vehicles, L11,259 thousand in maintenance of furniture and office equipment, L18,095 thousand in advertising and marketing expenses, L7,080 thousand in real estate maintenance, L10,101 in miscellaneous expenses, L7,818 thousand in security expenses (iii) an increase by L10,004 thousand in other administrative expenses; (iv) a decrease in expenses for outsourced services of CONFIA and Banco Atlántida El Salvador by L1,866 thousand and L155,277 thousand, respectively; (v) an increase in expenses for professional fees by L8,819 thousands (vi) an increase in expenses for taxes and contributions to the local governments by L20,599 thousand; (vii) an increase in expenses for contributions to regulators by L4,512 thousand and (viii) an increase in board of directors expenses by L3,338 thousand.

Non-operating income (expenses)

	March 31,		Change	
	2023	2022	HNL	%
Dividend income	2,149	803	1,346	167.6%
profit on sale of assets available for sale	143,043	29,771	113,272	380.5%
Profit on sale of property, plant and equipment	7,337	7,091	246	3.5%
Other income (expenses), net	39,669	40,689	(1,020)	2.5%
Total	192,198	78,354	113,844	145.3%

(In thousands of HNL except percentages)

Non-operating income (expenses) increased by 145.3% or L113,844 thousand, for three months ended March 31, 2023, compared same period March 31, 2022, mainly due to an increase in profit on sale of assets available for sale by 380.5%, or L113,272 thousand, due to the sale of two high-value properties.

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest decreased 28.4% to L375,706 thousand for the three months ended March 31, 2023, compared to L524,888 thousand for the same period ended March 31, 2022, as a result of the factors discussed above.

Income tax

Income tax expense decreased by 26.1%, or L85,916 thousand, for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. The effective rate of income tax was 39.4% as of March 31, 2023, compared to 37.9% as of same period ended March 31, 2022.

Net income

Net income decreased 30.5% for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. Average shareholders' equity increased 3.4% to L15,570,381 thousand, for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. ROAE was 8.3% and 12.1% for the three months ended March 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 March 31, 2023 and March 31, 2022:

	March 31	December 31		
	2023	2022	Change	%
Demand deposits	24,885,414	23,696,564	1,188,850	5.0%
Savings deposits	54,011,731	53,218,617	793,114	1.5%
Term deposits	46,498,873	41,553,483	4,945,390	11.9%
Other	1,151,527	1,070,761	80,766	7.5%
Total, Deposits	126,547,545	119,539,425	7,008,120	5.9%
Banks loans	22,359,593	22,405,253	(45,660)	-0.2%
Bonds and guaranteed notes	12,730,664	12,729,459	1,205	0.0%
	161,637,802	154,674,137	6,963,665	4.5%

(In thousands of HNL except percentages)

Deposits increased 5.9% to L126,547,545 thousand as of March 31, 2023, compared to L119,539,425 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, after the period of inactivity caused by the COVID-19 pandemic.

Bank loans were L22,359,593 thousand as of March 31, 2023, compared to L22,405,253 thousand as of December 31, 2022. 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, 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 March 31, 2023, Banco Atlántida had a total amount of USD 426,494 thousand (L10,483,431 thousand) in uncommitted credit lines from foreign institutions on a consolidated basis, of which US \$296,527 thousand (L6,625,106 thousand) were available for use.

Bonds and secured notes issued were L12,730,664 thousand as of March 31, 2023, compared to L12,729,459 thousand as of December 31, 2022, which represents an increase of L1,205 thousand caused by the application of the amortized cost method and the effect of the fluctuation in the exchange rate.

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 March 31, 2023, 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	March 31,	December 31,	
	2023	2022	2021
Total, level 1	9,177,504	9,177,071	8,677,567
Total, level 2	6,255,958	5,971,962	3,035,703
Total, Regulatory Capital	15,433,462	15,149,033	11,713,270
Total, Risk-weighted assets	115,436,347	111,361,967	98,852,163
Regulatory capital as a percentage of risk-weighted assets	13.4%	13.6%	11.8%
(In thousands of L except percentages)			

Banco Atlántida El Salvador	March 31,	December 31,	
	2023	2022	2021
Total, level 1	91,922	91,922	76,583
Total, level 2	11,399	9,207	6,270
Total, Regulatory Capital	103,321	101,129	82,853
Total, Risk-weighted assets	789,0178	752,368	633,118
Regulatory capital as a percentage of risk-weighted assets	13.1%	13.4%	13.1%
(In thousands of USD except percentages)			

Banco Atlántida Nicaragua	March 31,	December 31,	
	2023	2022	2021
Total, level 1	507,704	555,636	534,237
Total, level 2	-8,850	-48,276	-57,441
Total, Regulatory Capital	498,854	507,360	476,796
Total, Risk-weighted assets	1,580,284	1,389,478	983,314
Regulatory capital as a percentage of risk-weighted assets	31.6%	36.5%	48.5%
(In thousands of córdobas except percentages)			

Pacific Bank (Panamá)	March 31, 2023	December 31 2022
Total, level 1	18,250	18,250
Total, level 2	(4,208)	(4,635)
Total, Regulatory Capital	13,841	13,615
Total, Risk-weighted assets	58,229	64,225
Regulatory capital as a percentage of risk-weighted assets	23.8%	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 March 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	28,495,548	24,618,248	42,576,862	19,810,655	11,046,232	126,547,545
Bank loans	6,445,689	1,377,536	3,109,561	5,708,964	5,717,843	22,359,593
Bonds and guaranteed notes	-	821,067	1,156,513	10,988,004	-	12,965,584
Total	34,941,237	26,816,851	46,842,936	36,507,623	16,764,075	161,872,722
% of Total	21.6%	16.6%	28.9%	22.5%	10.4%	100.0%
	(In thousands of HNL except percentages)					

Capital expenditures

Consolidated capital expenditures increased to L328,771 thousand for three months ended March 31, 2023, compared to L241,298 thousand for same period ended March 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:

		March 31, 2023	December 31, 2022
Letters of credit and idle credit documents	L	936,084	795,550
Securities and bank guarantees issued		5,384,088	5,717,421
Acceptance debtors		25,062	4,070
Idle credits		7,145,487	5,774,296
Other responsibilities		254,952	274,497
	L	<u>13,745,673</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 March 31, 2023.