



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF SEPTEMBER 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 2023, and 2022, Banco Atlántida had a net income of L 1,024,206 thousand and L1,185,011 thousand and a ROAE of 10.1% and 12.6%; Seguros Atlántida had a net profit of L86,884 thousand and L155,802 thousand and a ROAE of 9.6% and 15.6% and AFP Atlántida had a net profit of L162,149 thousand and L179,896 thousand and a ROAE of 25.6% and 27.3%, respectively. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits, with market shares of 19.2%, 20.6% and 20.2%, respectively, as of September 30, 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 14.4% and 14.8% as of September 30, 2023, and 2022, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 59% market share in terms of assets under management as of September 30, 2023.

The Group has one of the largest banking distribution networks in Honduras. As of September 30, 2023, we had 5,136 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, and Panama added 5,272 service points as follows:

- 268 branches (152 agencies, 60 teller windows embedded within corporate client offices, 23 drive thru and 33 branches related to the other business lines of the Group);
- 1,210 ATMs (440 proprietary ATMs and 770 third-party network ATMs); and
- 3,794 non-correspondent banking agents.

As of September 30, 2023, and 2022, Banco Atlántida El Salvador had net income of L222,807 thousand and L80,870 thousand and an ROAE of 5.4% and 4.6 %, respectively. Banco Atlántida El Salvador's market share of 5.1%, 5.1% and 4.3%, in total assets, loans and deposits, respectively, as of September 30, 2023, according to SSF data. As of April 30, 2023, AFP Confía 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.

COVID-19 pandemic

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.

Tropical storms ETA and IOTA

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.

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

As of September 30, 2023, the portfolio also has debt relief mechanisms for covid-19 pandemic and Eta and Iota tropical storms had a balance of L11,970,592 thousand, representing 0.9% of the total portfolio, divided into refinanced with L3,139,347 thousand, readjusted L8,676,574 thousand and deferred in installments L154,671 thousand.

As of September 30, 2023, the interests generated by debt relief mechanisms to covid-19 pandemic and Eta & Iota tropical storms had a balance of L193,740 thousand represents 12% of the total interest receivable on portfolio, interest is divided into in refinanced with balance L131,365 thousand, readjusted L60,601 thousand and deferred payments L1,774 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 78.8% of our consolidated interest income for the nine months ended September 30, 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 September 30, 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	11.1%	11.2%	12.1%
Liabilities (deposits-BASA)	2.8%	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 3.00% on November 27, 2020, a decrease of 0.75 bp, due to the continuous efforts of the Central Bank to mitigate the effects of the COVID-19 pandemic and has not been changed since. Previous changes were made on August 3, 2020, where the minimum bid rate was decreased to 3.75% from 4.50%.

Banco Atlántida's average interest rate on assets (loans) denominated in lempiras was 9.9% as of September 30, 2023, compared to 10.1% as of December 31, 2022. For the nine months ended September 30, 2023, the loan portfolio denominated in lempiras grew 13.7% while the local financial system grew 15.9% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) increased to 2.8% as of September 30, 2023, compared to 2.2% as of December 31, 2022. As of September 30, 2023, deposits denominated in lempiras grew 17.3%, while the local financial system grew 9.2% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	2023	2022	2021
System Average Assets Rate	9.1%	7.7%	7.3%
Assets (loans-BASA)	7.2%	7.2%	6.5%
System Average Liabilities Rate	2.2%	1.9%	1.5%
Liabilities (Deposits-BASA)	2.1%	2.6%	2.2%

As of September 30, 2023 and December 31, 2022, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 7.2%. The loan portfolio denominated in USD decreased 1.1% as of September 30, 2023, while the local financial system increased 4.0% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 2.1% as of September 30, 2023, and 2.6% as of December 31, 2022. Deposits denominated in USD decrease by 0.1% as of September 30, 2023, while deposits for the local financial system grew 3.4% during the same period, according to CNBS data.

Effect of family remittances

As of September 28, 2023, family remittances that entered Honduras were USD6,829.8 million, which represented an increase of 6.1% compared to the corresponding period in 2022, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*	Change %
28/09/2023	6,829.8	(p) 6.1%
28/09/2022	6,439.9	(r) 20.4%
28/09/2021	5,343.3	(r) 36.9%
28/09/2020	3,902.6	(r) -0.6%

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 USD1,750.2 million in family remittances during the period ended September 30, 2023, -8.3% less than the corresponding period of 2022, during which USD1,909.2 million were processed. As of September 30, 2023, Banco Atlántida's market share was 25.6%, while for the corresponding period of 2022 it was 29.6%.

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 have influenced the growth rate in the price index. During 2023, it has been observed that inflation has begun to return to previously experienced levels, and it is expected that by the end of 2023 its growth will be like that experienced before the effects of the pandemic.

As of September 30, 2023, the inflation rate was 6.13%, this behavior is mainly due to the increase in the prices of eggs, dairy products, beef, some fruits and vegetables, as well as some industrial products and the increase in fuel prices. The items with the greatest contribution to this rise in inflation in September were: “Foods and non-alcoholic beverages; Accommodation, Water, Electricity, Gas and Other Fuels, Transport; and Hotels, Cafes and Restaurants. Additionally, the items of “Clothing and Footwear” and “Furniture and Articles for the Conservation of the Home” with 0.03 pp each, “Recreation and Culture” with 0.02 pp, “Health” and “Personal Care” with 0.01 pp each contributed, but with a lesser extent. According to the Central Bank, the inflation rate for 2022 was below than target (10.30%), 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 trimester of the year and it is a great indicator of post-pandemic economic recovery. For 2023, the inflation target is set within a range of 5 to 6%, according to the review of the Monetary Program made by the government with the 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 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.

During 2022 and 2023, the Lempira experienced a slight depreciation due to the post pandemic economic recovery. 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 L24.6422 per US\$1.00 on September 30, 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
2022	9.6	1.1%	3,303	9.7%	52.4%	-1.7%	7.1%	1.7%
2021	9.5	2.2%	3,010	17.4%	53.3%	-7.6%	7.9%	1.7%
2020	9.3	1.1%	2,564	-6.6%	57.7%	16.6%	10.7%	46.9%
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 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 59.4%, as of December 31, 2022.

According to the Central Bank, as of September 30, 2023, the growth rate of bank loans to the private sector was 19.0%, compared to the growth rate of 18.7% and 7.2% as of September 2022 and 2021 respectively. The main change is explained by the increase in the demand for loans from the private sector, due to the normalization in the growth of economic activity experienced as of the second half of 2022.

Results of operations for the nine months ended September 30, 2023, compared to the same period ended September 30, 2022.

	September 30,		Change	
	2023	2022	HNL	%
Interest income	10,321,650	8,694,118	1,627,532	18.7%
Interest expense	4,709,730	3,193,065	1,516,665	47.5%
Financial profit	5,611,920	5,501,053	110,867	2.0%
Loan impairment charges	878,286	1,005,915	-148,294	-14.7%
Financial profit, net of impairment charges	4,733,634	4,495,138	238,496	5.3%
Income from insurance activities	3,226,164	3,845,947	-619,783	-16.1%
Expenses from insurance activities	2,988,478	3,487,399	-498,921	-14.3%
Profit from insurance activities	237,686	358,548	-120,862	-33.7%
Services	93,219	53,432	39,787	74.5%
Commissions	3,303,734	3,341,394	-37,660	-1.1%
Leases	8,160	5,097	3,063	60.1%
Other income	374,375	576,085	-201,710	-35.0%
Total proceeds from services	3,779,489	3,976,008	-196,519	-4.9%
Staff-expenses	2,626,141	2,215,234	410,907	18.5%
General and administrative expenses	4,342,754	4,078,693	264,061	6.5%
Depreciation and amortization	696,916	611,204	85,712	14.0%
Total operating expenses	7,665,811	6,905,131	760,680	11.0%
Operating income	1,084,997	1,924,563	-839,566	-43.6%
Income from dividends	3,737	4,451	-714	-16.1%
Gain on sale of assets available for sale	592,517	159,914	432,603	270.5%
Gain on sale of property, plant and equipment	35,082	20,334	14,748	72.5%
Other income, net	257,870	136,885	120,985	88.4%
Total non-operating income	889,205	321,584	567,621	176.5%
Income before income tax	1,974,203	2,246,147	-271,944	-12.1%
Income tax/capital gain/net assets tax	795,715	875,836	-80,121	-9.1%
Income before non-controlling interest	1,178,487	1,370,311	-97,908	-7.1%
Net income attributable to noncontrolling interest	173,301	176,179	-2,878	-1.6%
Net income	1,005,186	1,194,132	-188,946	-15.8%

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 nine months ended, September 30, 2023, and 2022:

	September 30,		Change	
	2023	2022	HNL	%
Loans	8,700,766	7,553,958	1,146,808	15.2%
Certificates, bonds and others	1,107,324	887,380	219,944	24.8%
Finance leasing	288,000	208,466	79,534	38.2%
Deposits	225,560	44,314	181,246	409.0%
Total	10,321,650	8,694,118	1,627,532	18.7%

(In Thousands of HNL except percentages)

Interest income increased 18.7%, or L1,627,532 thousand, for the nine months ended September 30, 2023, compared to same period of 2022, mainly due to a 15.2% increase in income from interest on loans, 409.0% increase in income from interest on deposits and 24.8% increase in income from interest on certificates, bonds and other.

Interest income on loans increased by 15.2%, or L1,146,808 thousand, for the nine months ended September 30, 2023, compared to the same period of 2022, as a result of an increase in loans volume in local and foreign currency by 17.2% and 14.6%, respectively, which led to an increase of L1,189,388 thousand in interest income, partially offset by a decrease of L42,580 thousand in interest income because of the downward trend in interest rates.

Interest income on certificates, bonds and others increased by 24.8%, or L219,944 thousand, for the nine months ended September 30, 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 L127,714 thousand and L92,230 thousand, respectively.

Interest income from financial leases increased by 38.2%, or L79,534 thousand, for the nine months ended September 30, 2023, compared to the same period, September 30, 2022, due to an increase of L94,981 thousand as a result of a 49.2% increase in the volume of financial leases, partially offset by a decrease of L15,447 thousand as a result of the downward trend in interest rate.

Interest income on deposits increased by 409.0%, or L181,246 thousand, for the nine months ended September 30, 2023, compared to the same period ended September 30, 2022, due to an increase of L202,696 thousand, as a result of the upward trend in the interest rates, partially offset by a decrease of L21,446 thousand in interest income due to a 25.1% decrease in deposits volume.

Interest expense

	September 30,		Change	
	2023	2022	HNL	%
Deposits	2,930,458	2,072,511	857,947	41.4%
Loans obtained from banks	884,412	483,346	401,066	83.0%
Bonds and guaranteed notes	894,860	637,208	257,652	40.4%
Total,	4,709,730	3,193,065	1,516,665	47.5%

(In Thousands of HNL except percentages)

Interest expense increased by 47.5%, or L1,516,665 thousand, for the nine months ended September 30, 2023, compared to the same period ended September 30, 2022, primarily due to an Increase in interest expenses on deposits by 41.4%, and an increase by 83.0% in interest expenses on loans from banks, as explained below.

Interest expense on deposits increased 41.4% or L857,947 thousand, for the nine months ended September 30, 2023, compared to the same period ended September 30, 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 L448,218 thousand and L409,729 thousand, respectively.

Interest expense on loans from banks increased by 83.0% or L401,066 thousand, for the nine months ended September 30, 2023, compared to the same period ended September 30, 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 L203,613 thousand and L197,453 thousand, respectively.

Interest expense on bonds and secured notes increased by 40.4% or L257,652 thousand, mainly due to: (i) an increase in the volume of bonds and notes which led to an increase in interest expenses of L161,906 thousand in foreign currency and L20,125 thousand in local currency and (ii) an increase of L75,621 thousand in interest expenses, due to the upward trend in interest rates.

Loan impairment charges

	September 30,		Change	
	2023	2022		%
Loan impairment charges	878,286	1,005,915	-127,629	-12.7%
NPL ratio (1)	2.4%	2.4%	-	-
Coverage ratio (2)	113.2%	124.3%	-	-
Provision for loan losses	3,579,767	3,584,536	-4,769	-0.1%

(In thousands of HNL's except percentages)

Comparative data for 2022 corresponds to December 31, 2022, except for loan impairment charges which corresponds to September 30, 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 12.7%, or L127,629 thousand, for the nine months ended September 30, 2023, compared to the same period ended September 30, 2022, while the delinquency ratio as of September 30, 2023, and December 31, 2022 was 2.4% respectively, on the other hand, the NPL coverage ratio was 113.2% as of September 30, 2023, and 124.3% as of December 31, 2022.

For the nine months ended September 30, 2023, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L373,327 thousand.
- b) Attributable to SME banking L55,807 thousand.
- c) Attributable to corporate banking L449,152 thousand.

The provision for credit losses decreased by L4,769 thousand as of September 30, 2023, mainly due to the recognition of loan impairment charges by L779,949 thousand, Provision for the year (portfolio subject to COVID-19 by L 98,336 thousand, temporary relief mechanisms and Eta and Iota natural phenomena), partially offset by a decrease in interest included in loans by L9,819 thousand, transfer to retained earnings by L 10,984, portfolio charge-offs by L800,395 thousand, release of reserves by L 50,860 thousand and transfer to assets held for sale, lease reserves and accounts receivable by L11,563 thousand.

Proceeds from services.

The following table presents the components of income from services for the nine months ended, September 30, 2023, and 2022:

	September 30,		Change	
	2023	2022	HNL	%
Services	93,219	53,432	39,787	74.5%
Commissions	3,303,734	3,341,394	(37,660)	-1.1%
Leases	8,160	5,097	3,063	60.1%
Other income ⁽¹⁾	374,375	576,085	(201,710)	-35.0%
Total	3,779,488	3,976,008	(196,520)	4.9%

(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 4.9%, or L196,520 thousand, for the nine months ended September 30, 2023, compared to the same period 2022, primarily due to a decrease in commissions and other income by 1.1% and 35.0% respectively.

The decrease in commission income of 1.1%, or L37,660 thousand, for the nine months ended September 30, 2023, compared to the same period September 30, 2022, is mainly explained as a follow:

Banco Atlantida's commission's:	
Loans commissions	-14,452
Products and Service commissions	9,069
Credits/debits card fees	246,001
Other commissions	177,998
Sub Total	418,616
AFP Atlántida's commissions income	-24,993
AFP Confia's commissions income	-455,299
Banco Atlántida El Salvador commissions	-13,138
Atlantida Capital's commissions income	20,183
Atlantida Securities's commissions income	9,327
Pacific Bank's commissions	5,187
Casa de Bolsa Atlantida's commissions	2,583
Total Commissions	-37,535

(In thousands of HNL)

The decrease in other income of 35.0% or L201,710 thousand for the nine months ended September 31, 2023, compared to the same period September 30, 2022, mainly due to: (i) a decrease of L128,093 thousand in profits from the purchase and sale of foreign currency of Banco Atlántida, S.A.; (ii) a decrease in income from account management charges of L 29,571 thousand and (iii) a decrease in other income of L 44,046 thousands.

Profit from insurance activities

The following table presents the components of income from insurance activities for the nine months ended September 30, 2023, and 2022:

	September 30,		Change	
	2023	2022	(HNL)	%
Income from insurance activities	3,226,164	3,845,947	-619,783	-16.1%
Expenses from insurance activities	2,988,478	3,487,399	-498,921	-14.3%
Profit from insurance activities	237,686	358,548	-120,862	-33.7%

(In thousands of HNL except percentages)

Income from insurance activities decreased by 33.7%, or L120,862 thousand, for the nine months ended September 30, 2023, compared to same period September 30, 2022, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities decreased L619,783 thousand, for the nine months ended September 30, 2023, compared to the same period of 2022, primarily due to a decrease in premiums issued by Atlántida Vida by L679,628 thousand; offset by an increase in premiums issued by Seguros Atlantida by L61,765 thousand, a decrease in the variation of reserves for risk in progress by L128,926 thousands, a decrease in variation of reserves for claims pending liquidation by L5,003, offset partially by an increase of L132,934 thousands in recovered claims from reinsurers.

Expenses from insurance activities decrease by 14.3%, or L498,921 thousand, for the nine months ended September 30, 2023, compared to the same period of 2022, primarily due to a decrease in variation of reserve for risk in progress by L 292,172 thousand, a decrease in ceded premiums by L74,540 thousand, a decrease in cancellations of insurance premium by L120,980 thousand, a decrease by L61,875 thousand, in claims, a decrease by L10,874 thousand, in insurance commissions; partially offset by an increase in claims incurred but not reported claims by L60,123 thousand, an increase in insurance Bonuses for Intermediaries by L2,250 thousand.

Operating expenses

The following table presents the components of operating expenses for the nine months ended September 30, 2023, and 2022.

	September 30,		Change	
	2023	2022	HNL's	%
Staff expenses	2,626,141	2,215,234	410,907	18.5%
General and administrative expenses	4,342,754	4,078,693	264,061	6.5%
Depreciations and amortizations	696,916	611,204	85,712	14.0%
Total	7,665,811	6,905,131	760,680	11.0%

(In thousands of HNL except percentages)

Operating expenses increased by 11.0%, or L760,680 thousand, for nine months ended September 30, 2023, compared same period of 2022, primarily due to an increase by 18.5% in staff expenses and increase in general and administrative expenses by 6.5%, as explained below.

Staff expenses increased by 18.5% or L410,907 thousand, for the nine months ended September 30, 2023, compared same period of 2022, mainly due to an increase in salaries expense by L227,895 thousand due to salary adjustments and increase in the headcount; an increase by L76,959 thousand in expenses for bonuses; an increase by L23,219 thousand in travel expenses; an increase by L76,841 thousand in medical care for Group's employees.

General and administrative expenses increased 6.5%, or L264,061 thousand, for the nine months ended September 30, 2023, compared same period of 2022, mainly due to: (i) an increase by L257,215 thousand in various expenses of Banco Atlántida because of increases in commission expenses by L286,759 thousand; loyalty programs expenses by L4,709 thousands; and a decrease miscellaneous expenses by L40,168 thousand; (ii) an increase by L 461,327 thousand in other expense for services of Banco Atlántida, mainly due to the following increases: an increase in license subscriptions expenses by L234,154 thousand, die-cutting of credit and debit card expenses by L15,219 thousand and international assistance plan expenses by L17,977 thousand, L 2,585 thousand in maintenance of vehicles, L 69,427 thousand in advertising and marketing expenses, L12,252 thousand in maintenance of furniture and office equipment, L 9,667 thousand in real estate maintenance, L 15,503 in miscellaneous expenses, L 16,011 thousand in security expenses, utilities L 36,030 thousand, L10,419 thousand in insurance premiums and bonds (iii) an increase by L 44,163 thousand in other administrative expenses; (v) a decrease in expenses for outsourced services of Banco Atlántida El Salvador and CONFIA by L7,745 thousand and L670,731 thousand, respectively; (vi) an increase in expenses for professional fees by L 1,638 thousands, (vii) an increase in expenses for taxes and contributions to the local governments by L 132,044 thousand, (viii) an increase in expenses for contributions to regulators by L 10,347 thousand, and (viii) an increase in board of directors expenses by L 13,210 thousand.

Non-operating income (expenses)

	September 30,		Change	
	2023	2022	HNL	%
Dividend income	3,736	4,451	(715)	-16.1%
profit on sale of assets available for sale	592,517	159,914	432,603	270.5%
Profit on sale of property, plant and equipment	35,082	20,334	14,748	72.5%
Other income (expenses), net	257,870	136,885	120,985	88.4%
Total	889,205	321,584	567,621	176.5%

(In thousands of HNL except percentages)

Non-operating income (expenses) increased by 176.5% or L567,621 thousand, for nine months ended September 30, 2023, compared same period of 2022, mainly due to an increase in profit on sale of assets available for sale by 270.5%, or L432,603 thousand, due to a high volume of sale of properties.

Other income (expense), net, increased 88.4%, or L120,985 thousand, for nine months ended September 30, 2023, compared to nine months ended September 30, 2022, mainly due to: (i) an increase in net income from valuation of financial assets held for sale by L206,142 thousand, (ii) an increase in other financial income/expenses (net) by L85,150 thousand, (iii) an increase in recoveries of written off by L23,215 thousand, (iv) an increase in losses due to theft, assault and fraud by L6,768 thousand; (v) a decrease in other income/expenses (net) by (L139,381) thousand, mainly due to a release of reserves in 2022 as follow: to decreased in release of reserve of financial assets by L74,943 thousand, a decreased in extraordinary assets reserves by L108,072 thousand, a decreased in reserves or investment losses by L4,717 thousand, besides to these an increase by L34,120 thousand of other miscellaneous income/expense (net), and (vi) a decrease in income/expense (net) due to the fluctuation in exchange rates by (L43,967) thousand.

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest decreased 12.1% to L1,974,202 thousand for the nine months ended September 30, 2023, compared to L2,246,147 thousand for the same period ended September 30, 2022, as a result of the factors discussed above.

Income tax

Income tax expense decreased by 9.1%, or L80,121 thousand, for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The effective rate of income tax was 37.4% as of September 30, 2023, compared to 35.5% as of same period ended September 30, 2022.

Net income

Net income decreased 15.8% for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. Average shareholders' equity increased 17.9% to L17,730,070 thousand, for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. ROAE was 7.6% and 10.6% for the nine months ended September 30, 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 September 30, 2023, and December 31, 2022:

	September 30 2023	December 31 2022	Change	%
Demand Deposits	25,863,283	23,707,141	2,156,142	9.1%
Savings Deposits	54,167,607	53,218,617	948,990	1.8%
Term Deposits	55,697,367	41,553,483	14,143,884	34.0%
Other	1,344,090	1,070,761	273,329	25.5%
Total, Deposits	137,072,347	119,550,002	17,522,345	14.7%
Banks Loans	22,830,035	22,405,253	424,782	1.9%
Bonds and guaranteed notes	13,720,954	12,729,459	991,495	7.8%
	173,623,336	154,684,714	18,938,622	12.2%

(In thousands of HNL except percentages)

Deposits increased 14.7% to L137,072,347 thousand as of September 30, 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, after the period of inactivity caused by the COVID-19 pandemic.

Bank loans were L22,830,035 thousand as of September 30, 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 June 30, 2023, Banco Atlántida had a total amount of USD \$441,197 thousand (L10,872,060 thousand) in uncommitted credit lines from foreign institutions on a consolidated basis, of which US \$293,444 thousand (L7,231,104 thousand) were available for use.

Bonds, and secured notes issued were L13,720,954 thousand as of September 30, 2023, compared to L12,729,459 thousand as of December 31, 2022, which represents an increase of L2,936,254 thousand of which an increase L929,565 thousand correspond to new issuances net of bond cancellations, an increase due to the application of the amortized cost method of L26,694 thousand and an increase due to the variation in the exchange rate of L35,236 thousand.

Through our asset and liability management policy, we seek to ensure that sufficient liquidity is available to honor deposit withdrawals, pay other liabilities at maturity, extend loans or other forms of credit to customers, pay liabilities arising from the insurance policies we issue, and meet working capital needs. The minimum amount of liquidity that our main subsidiaries are obliged to maintain depends on the reserve requirements established by the Central Bank, as well as the technical and mathematical legal reserves required by our insurance operations.

We expect deposits, loans and borrowings from banks and debt securities issued to be sufficient to meet our liquidity requirements over the next 12 months.

Regulatory Capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, in accordance with Honduran, Salvadoran, Nicaraguan, Panama capitalization requirements, Banco Atlántida, Banco Atlántida El Salvador, Banco Atlántida Nicaragua and Pacific Bank are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras, Nicaragua and Panamá and capital fund for El Salvador). As of September 30, 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	September 30,	December 31,	
	2023	2022	2021
Total, level 1	9,676,838	9,177,071	8,677,567
Total, level 2	5,353,519	5,971,962	3,035,703
Total, Regulatory Capital	15,030,356	15,149,033	11,713,270
Total, Risk-weighted assets	120,444,306	111,361,967	98,852,163
Regulatory capital as a percentage of risk-weighted assets	12.5%	13.6%	11.8%

(In thousands of L except percentages)

Banco Atlántida El Salvador	September 30,	December 31,	
	2023	2022	2021
Total, level 1	91,922	91,922	76,583
Total, level 2	12,772	9,207	6,270
Total, Regulatory Capital	104,694	101,129	82,853
Total, Rick-weighted assets	839,054	752,368	633,118
Regulatory capital as a percentage of risk-weighted assets	12.5%	13.4%	13.1%

(In thousands of USD except percentages)

Banco Atlántida Nicaragua	September 30, 2023	December 31, 2022	2021
Total, level 1	607,795	555,636	534,237
Total, level 2	-36,292	-48,276	-57,441
Total, Regulatory Capital	571,503	507,360	476,796
Total, Risk-weighted assets	1,669,074	1,389,478	983,314
Regulatory capital as a percentage of risk-weighted assets	34.2%	36.5%	48.5%
(In thousands of córdobas except percentages)			

Pacific Bank (Panamá)	September 30, 2023	December 31 2022
Total, level 1	17,217	18,250
Total, level 2	1,270	-4,635
Total, Regulatory Capital	18,487	13,615
Total, Risk-weighted assets	73,859	64,225
Regulatory capital as a percentage of risk-weighted assets	25.0%	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 September 30, 2023.

(L in thousands, except	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	28,504,136	29,142,132	44,983,337	20,022,656	14,420,086	137,072,347
Bank Loans	5,925,759	1,271,105	3,308,934	5,238,697	7,085,540	22,830,035
Bonds and guaranteed notes	271,064	419,206	3,872,600	8,903,449	254,635	13,720,954
Total	34,700,959	30,832,443	52,164,871	34,164,802	21,760,261	173,623,336
% del Total	20.0%	17.8%	30.0%	19.7%	12.5%	100.00%
(In thousands of HNL except percentages)						

Capital expenditures.

Consolidated capital expenditures increased to L2,578,752 thousand for nine months ended September 30, 2023, compared to L1,596,686 thousand for same period ended September 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:

	September 30, 2023	December 31, 2022
Letters of credit and idle credit documents	L 732,155	795,550
Securities and bank guarantees issued	5,546,629	5,717,421
Acceptance debtors	-	4,070
Idle credits	8,028,389	5,774,296
Other responsibilities	221,396	274,497
	L <u>14,528,569</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 depositary. 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, 2023.