



**MANAGEMENT'S DISCUSSION
AND ANALYSIS OF OUR
FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
AS OF DECEMBER 31, 2024**

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 several 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 4.5 million clients as of December 31, 2024. We were recognized as a Financial Group by the National Banking and Insurance Commission (CNBS by its acronym in Spanish) in 2012 and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from important synergies of being part of a Financial Group.

Our businesses are mainly focused on three segments: (i) banks, through our subsidiaries Banco Atlántida, one of the largest banks in Honduras based on total assets as of December 31, 2024, according to data from the CNBS, Banco Atlántida El Salvador, Banco Atlántida Nicaragua, Pacific Bank in Panama and Banco D-Miro in Ecuador, the last one was acquired as part of our expansion plans in 2024 (ii) insurance, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of December 31, 2024, according to data from CNBS, Atlántida Vida, Seguros de Personas and Seguros Atlántida El Salvador; and (iii) pension fund management, through our subsidiary AFP Atlántida, the largest private pension fund manager in Honduras based on assets under management as of December 31, 2024, according to data published by our competitors, and AFP Confia, El Salvador's largest private pension fund manager based on assets under management, as of April 30, 2023, according to data from the Superintendence of the Financial System of El Salvador (SSF by its acronym in Spanish). (Data as of December 31, 2024, is not available yet).

Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida, these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to CNBS data. As of December 31, 2024, and 2023, Banco Atlántida had a net income of L1,172,153 thousand and L1,302,109 thousand and a ROAE of 8.0% and 9.6%; Seguros Atlántida had a net profit of L 252,423 thousand and L160,735 thousand and a ROAE of 19.2% and 13.7% and AFP Atlántida had a net profit of L236,002 thousand and L226,386 thousand and a ROAE of 27.1% and 25.9%, 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 19.9%, 20.2% and 20.5%, respectively, as of December 31, 2024, 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 14.7% and 15.3% as of December 31, 2024, and 2023, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 59.9% market share in terms of assets under management as of December 31, 2024.

The Group has one of the largest banking distribution networks in Honduras. As of December 31, 2024, we had 6,402 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, Panama, and Ecuador added 6,621 service points as follows:

- 347 branches (169 agencies, 83 teller windows embedded within corporate client offices, 23 drive through and 72 branches related to the other business lines of the Group).
- 1,401 ATMs (472 proprietary ATMs and 929 third-party network ATMs) and
- 4,898 non-correspondent banking agents.

As of December 31, 2024, and 2023, Banco Atlántida El Salvador had net income of L84,547 thousand and L223,991 thousand and an ROAE of 2.8% and 8.4%, respectively. Banco Atlántida El Salvador's market share of 5.1%, 5.1 and 4.8%, in total assets, loans and deposits, respectively, as of December 31, 2024, according to SSF data. As of April 30, 2023, AFP CONFIA had a 51.9% market share in terms of total assets under management and 47.9% in terms of total number of clients according to SSF data. Furthermore, we have three small operations in Nicaragua (Banco Atlántida Nicaragua), Panama (Pacific Bank) and Ecuador (Banco D-Miro).

Key factors affecting our financial condition and results of operations.

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

As of December 31, 2024, the Group has not defaulted on principal and interest payments of its financial obligations. As a result of the regulatory responses, that the Central Bank and the Regulatory Agencies implemented to mitigate the macroeconomic and financial impacts generated by the COVID-19 pandemic, the contractual commitments associated with the specific financial indicators are monitored which may be impacted by such implementations.

As of December 31, 2024, the loan portfolio without debt forgiveness has a balance L149,555,504 thousand, representing 94.0% of total commercial and personal loans. The portfolio also has debt relief mechanisms for covid-19 and Tropical storms Eta and Iota with balance of L8,986,914 thousand, representing 6.0% of the total portfolio, divided into refinanced with L2,050,714 thousand, readjusted L6,897,042 thousand and deferred in installments L39,158 thousand.

As of December 31, 2024, the interests generated by debt relief mechanisms to covid-19 and Eta and Iota had a balance of L125,531 which represents 5.2% of the total interest receivable on loan portfolio, compound by L66,041 on refinanced loans, L59,194 on readjusted loans and L296 on deferred payments.

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 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 76.0% of our consolidated interest income for the year ended December 31, 2024, comes from Banco Atlántida, our analysis is focused on the behavior of Banco Atlántida's interest rates. The following tables establish the weighted average interest rates of assets and liabilities in *lempiras* and USD as of December 31, 2024, December 31, 2023, and 2022, 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:

	2024	2023	2022
Assets (loans-BASA)	8.8%	9.9%	10.1%
System Average Assets Rate	13.4%	11.4%	11.2%
Liabilities (deposits-BASA)	4.4%	3.1%	2.2%
Monetary Policy Rate	5.8%	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 increased to 4.0% on August 5, 2024, an increment of 100 bp, due to the measures outlined in the Monetary Program 2024–2025, with the aim of mitigating internal inflationary pressures and preserving the country's external position. Subsequently, on October 28, 2024, the Central Bank raised the policy rate again, reaching 5.8%, reinforcing its commitment to tightening monetary conditions in response to persistent inflationary risks. Prior to these adjustments, the minimum bid rate had remained unchanged since November 27, 2020, when it was reduced to 3.0%, a decrease of 75 bp.

Banco Atlántida's average interest rate on assets (loans) denominated in lempiras was 8.8% as of December 31, 2024, compared to 9.9% as of December 31, 2023. For the year ended December 31, 2024, the loan portfolio denominated in lempiras grew 4.0% while the local financial system grew 10.9%, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) increased to 4.4% as of December 31, 2024, compared to 3.1% as of December 31, 2023. As of December 31, 2024, deposits denominated in lempiras increased 4.6%, while the local financial system grew 8.2% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	2024	2023	2022
Assets (loans-BASA)	7.2%	7.5%	8.4%
System Average Assets Rate	10.6%	9.4%	6.9%
Liabilities (Deposits-BASA)	3.6%	2.3%	1.8%
System Average Liabilities Rate	3.3%	2.4%	1.9%

As of December 31, 2024, and 2023, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 7.2%, and 7.5%, respectively. The loan portfolio denominated in USD grew 27.7% as of December 31, 2024, while the local financial system increased 12.0% during the same period, according to data from CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 3.6% as of December 31, 2024, and 2.3% as of December 31, 2023. Deposits denominated in USD decreased by 23.6% as of December 31, 2024, while deposits for the local financial system grew 11.0% during the same period, according to CNBS data.

Effect of family remittances

As of December 31, 2024, family remittances that entered Honduras were USD9,742.9 million, which represented an increase of 6.2% compared to the corresponding period in 2023, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*		Change %
31/12/2024	9,742.9	(r)	6.2%
31/12/2023	9,177.4	(r)	5.7%
31/12/2022	8,683.5	(r)	17.8%
31/12/2021	7,369.9	(r)	28.4%

*Expressed in millions of USD

(r) revised data

The income obtained by Banco Atlántida as a result of handling family remittances consisted mainly of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD2,588.3 million in family remittances during the period ended December 31, 2024, 19.1% more than the corresponding period of 2023, during which USD2,174 million were processed. As of December 31, 2024, and 2023, Banco Atlántida's market share was 26.6% and 23.7%, respectively.

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 on 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 many 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 had been characterized by moderate inflation levels; however, this trend was disrupted in 2022 by a series of external shocks that led to a significant spike in prices, driving the annual inflation rate from 5.3% on December 31, 2021, to 9.8% on December 31, 2022. On December 31, 2023, inflation showed signs of normalization, falling to 5.2% by year-end, and aligning with the Central Bank's target range of 5.0% to 6.0%, as established in the revised Monetary Program with the IMF.

By December 31, 2024, the inflation rate had declined further to 3.8%, the lowest year-end level in the last eight years and 1.4 percentage points below the rate recorded twelve months earlier. Importantly, this result is also within the inflation target range of $4.0\% \pm 1.0$ percentage points, as defined in the 2024–2025 Monetary Program agreed upon with the IMF. This reduction was supported by a combination of government subsidy measures particularly on fuel and electricity which, according to the Central Bank, reduced inflation by approximately 0.53 percentage points. Additionally, while monthly inflation in December 2024 rose to 0.45% (compared to 0.11% in November), this was largely attributed to seasonal demand increases in food, non-alcoholic beverages, and transport services (including air travel and international bus fares). Overall, the inflation slowdown in 2024 reflects a stabilization of price dynamics following the extraordinary pressures observed in previous years.

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 2021, 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 stood at L25.3800 per US\$1.00 as of December 31, 2024, compared to L24.6513 per US\$1.00 as of December 31, 2023, according to the Central Bank of Honduras

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
2024	9.9	1.5%	3,758	6.4%	62.9%	-1.2%	N/A	N/A
2023	9.7	1.5%	3,534	8.0%	64.1%	11.7%	6.1%	-30.8%
2022	9.6	1.6%	3,272	10.0%	52.4%	-1.3%	8.8%	3.2%
2021	9.5	1.6%	2,974	18.4%	53.7%	-4.0%	8.5%	-22.6%

*GDP per capita

N/A not available

*The World Bank updated its database on April 2, 2024, which is why the demographic variables presented in the table above underwent changes due to new data obtained to update the methodology to calculate this indicator.

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 70.5%, as of December 31, 2024.

According to the Central Bank, as of December 31, 2024, the growth rate of bank loans to the private sector was 11.7%, compared to the growth rate of 18.0% and 18.9% as of December 2023 and 2022 respectively. It should be noted that the total credit granted to companies reported an interannual growth of 6.6% and to households of 17.5%. Meanwhile, credit in external currency to companies increased by 4.4% and that granted to households by 37.3%.

Results of operations for the year ended December 31, 2024, compared to the same period 2023.

	December 31,		Change	
	2024	2023	L	%
Interest Income	17,772,127	14,306,425	3,465,702	24.2%
Interest expense	9,956,656	6,659,075	3,297,581	49.5%
Financial profit	7,815,471	7,647,350	168,121	2.2%
Loan impairment charges	2,245,935	1,242,022	1,003,913	80.8%
Financial profit, net of impairment charges	5,569,536	6,405,328	(835,792)	-13.1%
Income from insurance activities	5,176,641	4,686,596	490,045	10.5%
Expenses from insurance activities	4,745,518	4,259,742	485,776	11.4%
Profit from insurance activities	431,123	426,854	4,269	1.0%
Services	201,968	302,054	(100,086)	-33.1%
Commissions	5,520,324	4,665,103	855,221	18.3%
Leases	134,332	16,059	118,273	736.5%
Other Income	452,654	526,186	(73,532)	-14.0%
Total proceeds from services	6,309,278	5,509,402	799,876	14.5%
Staff-expenses	4,026,740	3,670,026	356,714	9.7%
General and administrative expenses	6,907,092	6,107,998	799,094	13.1%
Depreciation and amortization	1,022,154	926,367	95,787	10.3%
Total operating expenses	11,955,986	10,704,391	1,251,595	11.7%
Operating Income	353,951	1,637,193	(1,283,242)	-78.4%
Income from dividends	32,733	7,353	25,380	345.2%
Gain on sale of assets available for sale	277,513	711,826	(434,313)	-61.0%
Gain on sale of property, plant and equipment	160,888	95,714	65,174	68.1%
Other income, net	1,606,196	342,543	1,263,653	369.0%
Total non-operating Income	2,077,330	1,157,436	919,894	79.5%
Income before income tax	2,431,281	2,794,629	(363,348)	-13.0%
Income tax/capital gain/net assets tax	895,998	1,104,402	(208,404)	-18.9%
Income before non-controlling interest	1,535,283	1,690,227	(154,944)	-9.2%
Net income attributable to noncontrolling interest	292,945	230,912	62,033	26.9%
Net Income	1,242,338	1,459,315	(216,977)	-14.9%

(In thousands of L 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 year ended, December 31, 2024 and 2023:

	December 31,		Change	
	2024	2023	L	%
Loans	14,940,088	11,934,634	3,005,454	25.2%
Certificates, bonds and others	1,893,410	1,664,507	228,903	13.8%
Finance leasing	622,210	403,276	218,934	54.3%
Deposits	316,419	304,008	12,411	4.1%
Total	17,772,127	14,306,425	3,465,702	24.2%

(In thousands of L except percentages)

Interest income increased 24.2%, or L3,465,702 thousand, for the year ended December 31, 2024, compared to same period of 2023, mainly due to a 25.2% increase in interest income on loans; 13.8% due to an increase in interest income on certificates, bonds and others and 54.3% due to an increase in interest income on finance leasing.

Interest income on loans increased by 25.2%, or L3,005,454 thousand, for the year ended December 31, 2024, compared to the same period of 2023, as a result of an increase in loans volume in local and foreign currency by 10.5% and 17.1%, respectively, which led to an increase of L1,690,535 thousand in interest income, and an increase of L1,314,919 thousand in interest income as a result of an upward trend in interest rates.

Interest income on certificates, bonds and others increased by 13.8%, or L228,903 thousand, for the year ended December 31, 2024, compared to the same period of 2023, due to an increase in the volume of investments which led to an increase in interest income by L263,772 thousand offset by a decrease of L34,869 thousand due to a downward trend in interest rates of local and foreign investments.

Interest in income from financial leases increased by 54.3%, or L218,934 thousand, for the year ended December 31, 2024, compared to the same period of 2023, due to an increase of L141,265 thousand, as a result of an increase in volume of financial leases by 19.4%, and an increase of L77,669 thousand as a result of the upward trend in interest rate.

Interest expense

	December 31,		Change	
	2024	2023	L	%
Deposits	6,677,841	4,171,291	2,506,550	60.1%
Loans obtained from banks	2,003,721	1,267,086	736,635	58.1%
Bonds and guaranteed notes	1,275,094	1,220,698	54,396	4.5%
Total,	9,956,656	6,659,075	3,297,581	49.5%

(In thousands of L except percentages)

Interest expense increased by 49.5%, or L3,297,581 thousand, for the year ended December 31, 2024, compared to the same period 2023, primarily due to an increase in interest expenses on deposits by 60.1%, and an increase by 58.1% in interest expenses on loans from banks.

Interest expense on deposits increased 60.1% or L2,506,550 thousand, for the year ended December 31, 2024, compared to the same period 2023, mainly due to the upward trend of the interest rates, which led an increase in interest expense of L1,177,396 thousand, and an increase by L1,329,154 thousand due to an increase in volume of deposits.

Interest expense on loans from banks increased by 58.1% or L736,635 thousand, for the year ended December 31, 2024, compared to the same period 2023, mainly as a result of an increase in the volume of loans obtained from banks and the upward trend of interest rate, which led to an increase in interest expense of L484,661 thousand and L251,974 thousand, respectively.

Loan impairment charges

	December 31, 2024	2023	Change	%
Loan impairment charges	2,245,935	1,242,022	1,003,913	80.8%
NPL ratio (1)	2.2%	2.4%	-	-
Coverage ratio (2)	110.0%	111.1%	-	-
Provision for loan losses	3,921,479	3,764,394	157,085	4.2%

(In thousands of L except percentages)

Note:

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

Loan impairment charges increased by 80.8%, or L1,003,913 thousand, for the year ended December 31, 2024, compared to the same 2023, while the delinquency ratio as of December 31, 2024 and 2023 was 2.2% and 2.4%, respectively, on the other hand, the NPL coverage ratio as of December 31, 2024, and December 31, 2023 was 110.0%, and 111.1%, respectively.

For the year ended December 31, 2024, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L2,195,737 thousand.
- b) Attributable to SME banking L54,114 thousand.
- c) Attributable to corporate banking (L3,916) thousand.

The provision for credit losses increased by L157,085 thousand as of December 31, 2024, mainly due to the recognition of loan impairment charges by L2,245,935 thousand, and an increase by L16,869 thousand due to transfer from retained earnings, an increase by L57,337 thousand due to exchange fluctuation effect, an increase by incorporation of Banco D-Miro (Ecuador) and FUNDESER by L265,787 thousand and an increase in interest included in loans by L7,630 thousand, partially offset by transfer to assets held for sale by L1,165 thousand, by portfolio charge-offs by L2,354,234 thousand, and release of reserves by L81,074 thousand.

Proceeds from services.

The following table presents the components of income from services for the year ended, December 31, 2024, and 2023:

	December 31,		Change	
	2024	2023	L	%
Services	201,968	302,054	(100,086)	-33.1%
Commissions	5,520,324	4,665,103	855,221	18.3%
Leases	134,332	16,059	118,273	736.5%
Other income ⁽¹⁾	452,654	526,186	(73,532)	-14.0%
Total	6,309,278	5,509,402	799,876	14.5%

(In thousands of L except percentages)

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

Proceeds from services increased by 14.5%, or L799,876 thousand, for the year ended December 31, 2024, compared to the same period 2023, primarily due to an increase in Leases and commissions by 18.3% and 736.5%, respectively, as explained below.

The decrease in proceeds from service of 33.1% or L100,086 thousand, for the year ended December 31, 2024, compared to the same period 2023, by a decrease of warehouse by L9,000 thousand mainly due to a decrease in volume of clients, a decrease in income from financial advice services and tracking and monitoring services by L35,922 thousand and L43,035 thousand respectively, a decrease of administration of securitization funds services and IT services by L6,613 thousand and L24,756 thousand, respectively; partially offset by an increase of software sales and portfolio origination by L6,299 thousand and L18,649 thousand respectively.

The increase in commission income of 18.3%, or L855,221 thousand, for the year ended December 31, 2024, compared to the same period 2023, is mainly explained as follow:

Commissions

Credit and debit card commissions	304,883
Other commissions	232,747
Produced by services (mainly transferances)	154,828
Loan commissions	162,428
Total	854,884

(In thousands of L)

Profit from insurance activities.

The following table presents the components of income from insurance activities for the year ended December 31, 2024, and 2023:

	December 31,		Change	
	2024	2023	L	%
Income from insurance activities	5,176,641	4,686,596	490,045	10.5%
Expenses from insurance activities	4,745,518	4,259,742	485,776	11.4%
Profit from insurance activities	431,123	426,854	4,269	1.0%

(In thousands of L except percentages)

Income from insurance activities increased by 1.0%, or L4,269 thousand, for the year ended December 31, 2024, compared to the same period December 31, 2023, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities increased L490,045 thousand, for the year ended 31, 2024, compared to the same period of 2023, primarily due to an increase in premiums issued by Seguros Atlántida by L173,954 thousand; an increase of L185,735 thousand due to the premiums issued by Seguros Atlántida El Salvador and an increase by L18,074 thousand of Atlántida Vida, an increase by L30,042 thousand in ceded reinsurance commissions and an increase in claims recovered from foreign reinsurers by L127,212 thousand; partially offset by a decrease of L49,090 in the variation of reserves for risk in progress

Expenses from insurance activities increase by L485,776 thousand, for the year ended December 31, 2024, compared to the same period in 2023, mainly due to an increase of L93,154 thousand in claims, an increase of L94,419 thousand in premium returns and cancellations, an increase of L159,288 thousand in premiums ceded to foreign reinsurers and an increase of L156,133 thousand in variation in reserves for risks in progress partially offset by a decrease of L103,090 thousand in incurred and unreported claims.

Operating expenses

The following table presents the components of operating expenses for the year ended December 31, 2024, and 2023

	December 31,		Change	
	2024	2023	L	%
Staff expenses	4,026,740	3,670,026	356,714	9.7%
General and administrative expenses	6,907,092	6,107,998	799,094	13.1%
Depreciations and amortizations	1,022,154	926,367	95,787	10.3%
Total	11,955,986	10,704,391	1,251,595	11.7%

(In thousands of L except percentages)

Operating expenses increased by 11.7%, or L1,251,595 thousand, for the year ended December 31, 2024, compared to the same period of 2023, primarily due to an increase of 9.7% in staff expenses and an increase in general and administrative expenses by 13.1%, as explained below.

Staff expenses increased by 9.7% or L356,714 thousand, for the year ended December 31, 2024, compared same period of 2023, mainly due to an increase in salary adjustments and headcount by L129,727 thousand; L55,317 thousand as a consequence of the incorporation Banco D-Miro and FUNDESER Nicaragua; an increase by L123,239 thousand in expenses for bonuses, an increase by L29,707 thousand in medical care for Group's employees, an increase by L23,443 thousand in employer contributions, and an increase of L12,072 thousand in training expenses; partially offset by a decrease of L34,165 thousand in travel expenses.

General and administrative expenses increased 13.1%, or L799,094 thousand, for the year ended December 31, 2024, compared same period of 2023, mainly due to: (i) an increase by L645,312 thousand in miscellaneous expenses due to the increases in commission expenses by L385,683 thousand; an increase in other administrative expenses by L112,883, an increase in loyalty programs by L42,451, and an increase in subscription by L19,609 thousand; (ii) an increase in expenses for outsourced services by L43,691 thousand; (iii) and an increase in expenses for professional fees by L64,723 thousand; partially offset by a decrease in expenses for taxes and contributions to the local governments by L31,866 thousand.

Non-operating income (expenses)

	December 31,		Change	
	2024	2023	L	%
Dividend income	32,733	7,353	25,380	345.2%
Profit on sale of assets available for sale	277,513	711,826	(434,313)	-61.0%
Profit on sale of property, plant and equipment	160,888	95,714	65,174	68.1%
Other income (expenses), net	1,606,196	342,543	1,263,653	368.9%
Total	2,077,330	1,157,436	919,894	79.5%

(In thousands of L except percentages)

Non-operating income (expenses) increased by 79.5% or L919,894 thousand, for the year ended December 31, 2024, compared to the same period of 2023, primarily due to an increase by 368.9% in other income (expenses) net and partially offset by a decrease in profit on sale of assets available by 61.0%, as explained below.

Decrease in profit on sale of assets available for sale by 61.0%, or L434,313 thousand, due to extraordinary sales in 2023.

Other income (expense), net, increased 337.3%, or L1,263,653 thousand, for the year ended December 31, 2024, compared to the year ended December 31, 2023, mainly due to: (i) an increase in net income from valuation of financial assets held for sale by L731,026 thousand, (ii) an increase in other financial income/expenses (net) by L13,902 thousand, (iii) an increase in other income/(expenses) net by L377,294 thousand, (iv) an increase in release of reserve of financial assets by L92,676 thousand, (v) an increase by L64,833 thousand, due to the fluctuation in exchange rates, net (vi) a decrease in losses due to theft, assault and fraud by L4,699 thousand; and (vii) an increase in interest tax by L20,778 thousand.

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest decreased 13.0% to L2,431,281 thousand for the year ended December 31, 2024, compared to L2,794,629 thousand for the same period ended 2023, as a result of the factors discussed above.

Income tax

Income tax expenses decreased by 18.9%, or L208,404 thousand, for the year ended December 2024, compared to the same period ended December 31, 2023. The effective rate of income tax was 29.1% as of December 31, 2024, compared to 34.8% as of same period ended 2023.

Net income

Net income decreased 14.9% for the year ended December 31, 2024, compared to the year ended December 31, 2023. Average shareholders' equity increased 1.8% to L17,238,399 thousand, for the year ended December 31, 2024, compared to the year ended December 31, 2023. ROAE was 7.2% for the year ended December 31, 2024, compared to 8.6% for the same period ended December 31, 2023.

Liquidity and financing

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

The following table shows the main sources of funds of the Group as of December 31, 2024, and December 31, 2023:

	December 31		Change	%
	2024	2023		
Demand deposits	25,599,819	28,545,724	(2,945,905)	-10.3%
Savings deposits	58,243,652	55,723,694	2,519,958	4.5%
Term deposits	79,480,638	57,680,409	21,800,229	37.8%
Other	1,929,258	1,445,325	483,933	33.5%
Total, Deposits	165,253,367	143,395,152	21,858,215	15.2%
Banks Loans	35,921,496	26,642,433	9,279,063	34.8%
Bonds and guaranteed notes	12,620,751	13,413,611	(792,860)	-5.9%
	213,795,614	183,451,196	30,344,418	16.5%

(In thousands of L except percentages)

Deposits increased 15.2% to L165,253,367 thousand as of December 31, 2024, compared to L143,395,152 thousand as of December 31, 2023, mainly due to the recovery of the dynamism of the economies of the countries where the Group operates, besides an increase in interest rate of term deposits.

Bank loans were L35,921,496 thousand as of December 31, 2024, compared to L26,642,433 thousand as of December 31, 2023. Banco Atlántida has lines of credit with 21 global financial institutions with which it has had correspondent relationships. Some of its main credit line providers include IFC, US Department of Agriculture -

Commodity Credit Corporation, BCIE, Citibank N.A., Wells Fargo Bank N.A. y Commerzbank AG. As of December 31, 2024, Banco Atlántida had a total amount of USD551,528 thousand (L13,997,772 thousand) in uncommitted credit lines from foreign institutions, of which USD268,210 thousand (L6,807,164 thousand) were available for use.

Bonds, and secured notes issued were L12,620,751 thousand as of December 31, 2024, compared to L13,413,611 thousand as of December 31, 2023, which represents a decrease of L792,860 thousand compound by L1,177,261 thousand of bond cancellations, an increase due to the application of the amortized cost method of L64,398 thousand and an increase due to the variation in the exchange rate of L320,136 thousand.

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

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

Regulatory Capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, in accordance with Honduran, Salvadoran, Nicaraguan, Panamanian capitalization requirements, Banco Atlántida S.A, Banco Atlántida El Salvador, Banco Atlántida Nicaragua, Pacific Bank and Banco de Miro are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras, Nicaragua and Panamá and capital fund for El Salvador). As of December 31, 2024, the required capital adequacy ratio for Honduras, Nicaragua, Panama and Ecuador was 12.0%, 10.0%, 8.0% and 9.0%, respectively, while the required capital fund for El Salvador was 12.0%.

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

Banco Atlántida	December 31,		
	2024	2023	2022
Total, level 1	10,392,336	9,873,988	9,177,071
Total, level 2	6,368,066	5,633,360	5,971,962
Total, Regulatory Capital	16,760,402	15,507,348	15,149,033
Total, Risk-weighted assets	137,171,296	126,123,669	111,361,967
Regulatory capital as a percentage of risk-weighted assets	12.2%	12.3%	13.6%

(In thousands of L except percentages)

Banco Atlántida El Salvador

	December 31,		
	2024	2023	2022
Total, level 1	117,038	92,933	91,922
Total, level 2	5,526	16,362	9,207
Total, Regulatory Capital	122,564	109,295	101,129
Total, Risk-weighted assets	945,059	844,220	752,368
Regulatory capital as a percentage of risk-weighted assets	13.0%	12.9%	13.4%
<i>(In thousands of USD except percentages)</i>			

Banco Atlántida Nicaragua

	December 31,		
	2024	2023	2022
Total, level 1	805,080	863,784	555,636
Total, level 2	(63,601)	(57,138)	(48,276)
Total, Regulatory Capital	741,479	806,646	507,360
Total, Risk-weighted assets	2,474,725	2,026,662	1,389,478
Regulatory capital as a percentage of risk-weighted assets	30.0%	39.8%	36.5%
<i>(In thousands of córdobas except percentages)</i>			

Pacific Bank (Panamá)

	December 31		
	2024	2023	2022
Total, level 1	29,250	29,250	18,250
Total, level 2	(1,476)	(3,286)	(4,635)
Total, Regulatory Capital	27,774	25,962	13,615
Total, Risk-weighted assets	116,585	87,420	64,225
Regulatory capital as a percentage of risk-weighted assets	23.8%	29.7%	21.2%
<i>(In thousands of B/. except percentages)</i>			

Banco D-Miro

	December 31,
	2024
Total, level 1	12,583
Total, level 2	727
Total, Regulatory Capital	13,310
Total, Risk-weighted assets	73,703
Regulatory capital as a percentage of risk-weighted assets	18.1%
<i>(In thousands of USD except percentages)</i>	

Commitments and contractual obligations

The Group assumes several commitments and contractual obligations that may require future payments in cash. The following table summarizes our commitments and contractual obligations as of December 31, 2024.

	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	45,670,945	42,249,462	41,169,525	30,527,773	5,635,662	165,253,367
Bank loans	10,807,711	1,542,061	8,691,670	7,715,412	7,164,642	35,921,496
Bonds and guaranteed notes	-	25,360	2,528,057	9,738,020	329,314	12,620,751
Total	56,478,656	43,816,883	52,389,252	47,981,205	13,129,618	213,795,614
% del Total	26.4%	20.4%	24.5%	22.5%	6.1%	100%

(In thousands of L except percentages)

Capital expenditures.

Consolidated capital expenditures decreased to L2,308,824 thousand for the year ended December 31, 2024, compared to L L4,027,403 thousand for same period in 2023, mainly due to a decrease in development of intangibles assets such as software, licenses.

Off-balance sheet agreements

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

		As of December 31,	
		2024	2023
Letters of credit and idle credit documents	L	956,647	673,875
Securities and bank guarantees issued		6,093,976	6,479,459
Acceptance debtors		5,612	-
Idle credits		8,690,882	7,592,212
Other responsibilities		277,821	296,108
	L	<u>16,024,938</u>	<u>15,041,654</u>

(In thousands of L)

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 exposure to these risks, please see Note 4 of our consolidated financial statements as of December 31, 2024.