



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF MARCH 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 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 March 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 March 31, 2024, according to data from the CNBS, Banco Atlántida El Salvador, Banco Atlántida Nicaragua and Pacific Bank in Panama, (ii) insurance, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of March 31, 2024, according to data from CNBS, Atlántida Vida, Seguros de Personas and Seguros Atlantida El Salvador, the last one was acquired as part of our expansion plans in 2023; and (iii) pension fund management, through our subsidiary AFP Atlántida, the largest private pension fund manager in Honduras based on assets under management as of March 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 March 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 March 31, 2024, and 2023, Banco Atlántida had a net income of L360,472 thousand and L284,625 thousand and a ROAE of 10.6% and 8.3%; Seguros Atlántida had a net profit of L58,203 thousand and L19,083 thousand and a ROAE of 17.9% and 22.7% and AFP Atlántida had a net profit of L55,205 thousand and L51,859 thousand and a ROAE of 23.9% and 22.7%, 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 17.8%, 19.8% and 20.5%, respectively, as of March 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 14.5% and 14.3% as of March 31, 2024, and 2023, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 58.8% market share in terms of assets under management as of March 31, 2024.

The Group has one of the largest banking distribution networks in Honduras. As of March 31, 2024, we had 5,655 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, Panama and Ecuador added 5,835 service points as follows:

- 287 branches (157 agencies, 64 teller windows embedded within corporate client offices, 23 drive thru and 43 branches related to the other business lines of the Group).
- 1,301 ATMs (447 proprietary ATMs and 854 third-party network ATMs); and
- 4,247 non-correspondent banking agents.

As of March 31, 2024, and 2023, Banco Atlántida El Salvador had net income of L50,120 thousand and L41,111 thousand and an ROAE of 1.8% and 1.6%, respectively. Banco Atlántida El Salvador's market share of 5.3%, 5.0% and 4.8%, in total assets, loans and deposits, respectively, as of March 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 two small operations in Nicaragua (Banco Atlántida Nicaragua) and Panama (Pacific Bank).

Key factors affecting our financial condition and results of operations.

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

As of March 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 March 31, 2024, the portfolio also has debt relief mechanisms for covid-19 pandemic and Eta and Iota tropical storms had a balance of L10,606,893 thousand, representing 0.8% of the total portfolio, divided into refinanced with L2,864,096 thousand, readjusted L7,597,419 thousand and deferred in installments L145,378 thousand.

As of March 31, 2024, the interests generated by debt relief mechanisms to covid-19 pandemic and Eta & Iota tropical storms had a balance of L227,814 thousand represents 12% of the total interest receivable on portfolio, interest is divided into in refinanced with balance L164,014 thousand, readjusted L62,160 thousand and deferred payments L1,640 thousand.

Effects of changes in interest rates

Changes in interest rates often affect, among others, the following areas of our business:

- financial margin.
- volume of loans originated.
- market value of our financial assets; and
- gains or losses from sales of loans and securities.

Increases in short-term interest rates can reduce our financial margin, which comprises most of our income. A significant portion of our subsidiaries' assets, including loans, are long-term assets. In contrast, most deposits are short-term deposits. When interest rates increase, Banco Atlántida and the other Banking Subsidiaries must pay higher interest on deposits, while accrued interest on assets does not increase as rapidly. This can cause a decrease in profits. Interest rate increases could result in adverse changes in our financial margin, thus reducing our growth rate or even resulting in decreases compared to previous periods.

Increases in interest rates can reduce the value of our financial assets. The Company owns a substantial portfolio of loans and debt securities that have both fixed and variable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates increase. This may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, could affect our results) as our subsidiaries implement strategies to reduce and mitigate future exposure to interest rates. The market value of an obligation with a variable interest rate may be adversely affected when interest rates increase due to a delay in the application of price change terms.

The assets and liabilities have been classified by Banco Atlántida's domicile as domestic (operations in Honduras) or foreign (operations outside Honduras) and by currency denomination (*lempiras* or United States Dollar (USD)). Domestic operations include *lempiras* (local currency of our operations in Honduras) and USD-denominated assets and liabilities. Foreign operations include assets and liabilities denominated in USD. USD have been translated to *lempiras* using the exchange rate published by the Central Bank on the relevant dates. For more information, see "Exchange Rates" For the purposes of this section, U.S. dollar-denominated assets and liabilities include: (i) domestic USD, which includes all transactions conducted in Honduras or on behalf of Honduran residents in USD, and (ii) foreign USD, which includes all transactions conducted with entities outside of Honduras, such as multilateral banks and correspondents.

Asset and Liability Rates

Given that 77.6% of our consolidated interest income for the three months ended March 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 March 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)	10.3%	9.9%	10.1%
System Average Assets Rate ^(p)	11.7%	11.4%	11.2%
Liabilities (deposits-BASA)	3.8%	3.1%	2.2%
Monetary Policy Rate ^(p)	3.0%	3.0%	3.0%

(p) preliminary data

The Honduran banking industry generally does not set interest rates by reference to a benchmark rate; however, the weighted average interest rates on lempira-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum bid rate that the Central Bank allows for its treasury notes. This reference rate was reduced to 3.0% on November 27, 2020, and has not changed since that date.

Banco Atlántida's average interest rate on assets (loans) denominated in lempiras was 10.3% as of March 31, 2024, compared to 9.9% as of December 31, 2023. For the three months ended March 31, 2024, the loan portfolio denominated in lempiras grew 0.1% while the local financial system grew 3.3% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) increased to 3.8% as of March 31, 2024, compared to 3.1% as of December 31, 2023. As of March 31, 2024, deposits denominated in lempiras decreased 1.3%, while the local financial system grew 1.2% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	2024	2023	2022
Assets (loans-BASA)	8.4%	7.5%	8.4%
System Average Assets Rate ^(p)	9.9%	9.4%	6.9%
Liabilities (Deposits-BASA)	3.0%	2.3%	1.8%
System Average Liabilities Rate ^(p)	2.6%	2.4%	1.6%

(p) preliminary data

As of March 31, 2024, and December 31, 2022, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 8.4%, and 7.5%, respectively. The loan portfolio denominated in USD grew 3.1% as of December 31, 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 3.0% as of March 31, 2024, and 2.3% as of December 31, 2023. Deposits denominated in USD decreased by 1.5% as of March 31, 2024, while deposits for the local financial system grew 2.8% during the same period, according to CNBS data.

Effect of family remittances

As of March 31, 2024, family remittances that entered Honduras were USD2,100.9 million, which represented a decrease of 1.0% compared to the corresponding period in 2023, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*		Change %
31/03/2024	2,100.9	(p)	-1.0%
31/03/2023	2,119.6	(r)	9.2%
31/03/2022	1,940.8	(r)	22.3%
31/03/2021	1,586.6	(r)	29.9%

*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 USD589.7 million in family remittances during the period ended March 31, 2024, 14% more than the corresponding period of 2023, during which USD519.14 million were processed. As of March 31, 2024, Banco Atlántida's market share was 28.1% (p), while for the corresponding period of 2023 it was 24.5%.

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 has been characterized by having moderate levels of inflation, however, this changed in 2022, due to various external shocks that influenced the growth rate in the price index. During 2023, the inflation has begun to return to previously experienced levels. According to the Central Bank, at the end of the fourth quarter of 2023, the inflation rate was slightly above the target 5.2% since the inflation target was set within a range of (4.0% +/- 1.0 pp), according to the review of the Monetary Program made by the government with the IMF. As of March 31, 2024, the inflation rate was 4.8%, lower 4.2% (pp) compared to 9.0% as of March 31, 2023 this result is explained by clothing and footwear; furniture and articles for home conservation; recreation and culture; hotels, cafes and restaurants and personal care. For 2024, the inflation target is set within a range of (4.0% +/- 1.0 pp), according to 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.

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 L24.6636 per US\$1.00 on March 31, 2024, compared to L24.5805 per US\$1.00 on March 31, 2023, 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	Unemployment rate	% Change
2023	9.7	1.0%	3,538	8.1%	N/A	N/A	6.8%	-4.2%
2022	9.6	1.1%	3,272	10.0%	52.4%	-1.7%	7.1%	-10.1%
2021	9.5	2.2%	2,974	18.4%	53.3%	-7.6%	7.9%	-26.2%
2020	9.3	1.1%	2,512	-7.6%	57.7%	16.6%	10.7%	91.1%

*GDP per capita

*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 calculating methodology for 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 65.2%, as of December 31, 2023.

According to the Central Bank, as of March 31, 2024, the growth rate of bank loans to the private sector was 17.8%, compared to the growth rate of 19.0%, as of March 2023, respectively. It should be noted that the total credit granted to the companies reported year-on-year growth of 11.6% and to households 25.7%, meanwhile, the credit in foreign currency to companies increased by 8.1% and that granted to households was reduced by 2.1%.

Results of operations for the three months ended March 31, 2024, compared to the same period ended March 31, 2023.

	March 31,		Change	
	2024	2023	L	%
Interest Income	4,021,661	3,277,048	744,613	22.7%
Interest expense	2,099,765	1,395,979	703,786	50.4%
Financial Profit	1,921,896	1,881,069	40,827	2.2%
Loan impairment charges	458,237	282,173	176,064	62.4%
Financial profit, net of impairment charges	1,463,659	1,598,896	(135,237)	-8.5%
Income from insurance activities	1,308,220	1,135,132	173,088	15.2%
Expenses from insurance activities	1,171,560	1,053,666	117,894	11.2%
Profit from insurance activities	136,660	81,466	55,194	67.8%
Services	69,172	27,099	42,073	155.3%
Commissions	1,256,290	1,028,302	227,988	22.2%
Leases	4,115	1,393	2,722	195.4%
Other income	119,392	109,006	10,386	9.5%
Total proceeds from services	1,448,969	1,165,800	283,169	24.3%
Staff-expenses	997,849	839,119	158,730	18.9%
General and administrative expenses	1,519,721	1,346,483	173,238	12.9%
Depreciation and amortization	233,891	233,213	678	0.3%
Total operating expenses	2,751,461	2,418,815	332,646	13.8%
Operating income	297,827	427,347	(129,520)	-30.3%
Income from dividends	169	2,149	(1,980)	-92.1%
Gain on sale of assets available for sale	54,669	143,043	(88,374)	-61.8%
Gain on sale of property, plant and equipment	55,359	7,337	48,022	654.5%
Other income, net	336,533	39,669	296,864	748.4%
Total non-operating income	446,730	192,198	254,532	132.4%
Income before income tax	744,557	619,545	125,012	20.2%
Income tax/capital gain/net assets tax	253,531	243,839	9,692	4.0%
Income before non-controlling interest	491,026	375,706	(97,908)	-26.1%
Net income attributable to noncontrolling interest	75,042	53,727	21,315	39.7%
Net income	415,985	321,979	94,006	29.2%

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 three months ended, March 31, 2024, and 2023:

	March 31,		Change	
	2024	2023	L	%
Loans	3,387,101	2,768,980	618,121	22.3%
Certificates, bonds and others	427,824	350,330	77,494	22.1%
Finance leasing	130,839	85,762	45,077	52.6%
Deposits	75,897	71,976	3,921	5.4%
Total	4,021,661	3,277,048	744,613	22.7%

(In thousands of L except percentages)

Interest income increased 22.7%, or L744,613 thousand, for the three months ended March 31, 2024, compared to same period of 2023, mainly due to a 22.3% increase in income from interest on loans, 22.1% increase in income from interest on certificates, bonds and others, 52.6% increase in interest income on finance leasing and 5.4% increase in income from interest on deposits.

Interest income on loans increased by 22.3%, or L618,121 thousand, for the three months ended March 31, 2024, compared to the same period of 2023, as a result of an increase in loans volume in local and foreign currency by 16.7% and 7.5%, respectively, which led to an increase of L403,949 thousand in interest income, and an increase of L214,172 thousand in interest income because a slight upward trend in interest rates.

Interest income on certificates, bonds and others increased by 22.1%, or L77,494 thousand, for the three ended March 31, 2024, compared to the same period of 2023, due to the upward trend in interest rates of local and foreign investments and an increase in the volume of investments which led an increase in interest income by L6,091 thousand and L71,403 thousand, respectively.

Interest income from financial leases increased by 52.6%, or L45,077 thousand, for the three months ended March 31, 2024, compared to the same period, March 31, 2023, due to an increase of L34,935 thousand a result of an increase by 35.9% in the volume of financial leases, and an increase of L10,142 thousand as a result of the upward trend in interest rate.

Interest income on deposits increased by 5.4%, or L3,921 thousand, for the three months ended March 31, 2024, compared to the same period ended March 31, 2023, due to an increase of L3,483 thousand, as a result of the upward trend in the interest rates, and an increase of L438 thousand in interest income due to a 0.9% increase in deposits volume.

Interest expense

	March 31,		Change	
	2024	2023	L	%
Deposits	1,379,753	827,920	551,833	66.7%
Loans obtained from banks	409,291	275,837	133,454	48.4%
Bonds and guaranteed notes	310,721	292,222	18,499	6.3%
Total,	2,099,765	1,395,979	703,786	50.4%

(In thousands of L except percentages)

Interest expense increased by 50.4%, or L703,786 thousand, for the three months ended March 31, 2024, compared to the same period ended March 31, 2023, primarily due to an increase in interest expenses on deposits by 66.7%, an increase by 48.4% in interest expenses on loans from banks and an increase by 6.3% in interest expense on bonds and guaranteed notes, as explained below.

Interest expense on deposits increased 66.7% or L551,833 thousand, for the three months ended March 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 L279,667 thousand, and an increase in interest expense of L272,166 thousand due to an increase in the volume of deposits.

Interest expense on loans from banks increased by 48.4% or L133,454 thousand, for the three months ended March 31, 2024, compared to the same period ended March 31, 2023, 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 L10,579 thousand and L122,875 thousand, respectively.

Interest expense on bonds and secured notes increased by 6.3% or L18,499 thousand, mainly due to: (i) an increase in the volume of bonds and notes which led to an increase in interest expenses of L21,936 thousand in foreign currency; partially offset a decrease by L4,947 thousand in local currency and (ii) an increase of L1,511 thousand in interest expenses, due to the upward trend in interest rates.

Loan impairment charges

	March 31,	December 31,		
	2024	2023	Change	%
Loan impairment charges	458,237	282,173	176,064	62.4%
NPL ratio (1)	2.6%	2.4%	-	-
Coverage ratio (2)	107.7%	111.1%	-	-
Provision for loan losses	3,859,065	3,764,394	94,671	2.5%

(In thousands of L's except percentages)

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

Loan impairment charges increased by 62.4%, or L176,064 thousand, for the three months ended March 31, 2024, compared to the same period ended March 31, 2023, while the delinquency ratio as of March 31, 2024, was 2.6% compared as of December 31, 2023 was 2.4%, on the other hand, the NPL coverage ratio as of March 31, 2024, and December 31, 2023 was 107.7%, and 111.1%, respectively.

For the three months ended March 31, 2024, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L382,002 thousand.
- b) Attributable to SME banking L52,100 thousand.
- c) Attributable to corporate banking L24,135 thousand.

The provision for credit losses increased by L94,671 thousand as of March 31, 2024, mainly due to the recognition of loan impairment charges by L458,237 thousand, and an increase by L110 thousand due to exchange fluctuation effect, an increase in interest included in loans by L7,477 thousand, transfer to retained earnings by L236 thousand, partially offset by portfolio charge-offs by L328,211 thousand, and release of reserves by L43,178 thousand .

Proceeds from services.

The following table presents the components of income from services for the three months ended, March 31, 2024, and 2023:

	March 31,		Change	
	2024	2023	L	%
Services	69,172	27,099	42,073	155.3%
Commissions	1,256,290	1,028,302	227,988	22.2%
Leases	4,115	1,393	2,722	195.4%
Other income ⁽¹⁾	119,392	109,006	10,386	9.5%
Total	1,448,969	1,165,800	283,169	24.3%

(In thousand 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 24.3%, or L283,169 thousand, for the three months ended March 31, 2024, compared to the same period 2023, primarily due to an increase in services and commissions by 155.3% and 22.2%, respectively, and an increase of 9.5% in other income, as explained bellow.

The increase in proceeds from service of 155.3% or L42,073 thousand, for the three months ended March 31, 2024, compared to the same period 2023, is due to the incorporation of Grupo Sur Atlantida and Subsidiaries and LynxLabs which led to an increase in other services by L43,524 thousand, and L813 thousand, respectively, and an increase in other services of GUIP by L2,412 thousand, partially offset by a decrease of other services from COALSA by L3,623 thousand, and a decrease in warehouse services by L4,053 thousand mainly due to the decrease in volume of clients.

The increase in commission income of 22.2%, or L227,988 thousand, for the three months ended March 31, 2024, compared to the same period March 31, 2023, is mainly explained as follow:

Banco Atlantida's commissions:

Loan commissions	18,629
Product and service commissions	36,292
Credit/debit card fees	142,164
other commissions	59,645
Subtotal	256,730
AFP Atlántida's commission income	(2,917)
AFP Confia's commission income	(52,042)
Banco Atlántida El Salvador's commissions for loans and services, credit/debit cards	6,805
Atlantida Capital's other commissions	8,281
Atlantida Securities's other commissions	(12,308)
Pacific Bank's other commissions	3,139
Fiduciaria Atlantida's commissions on products and services	16,378
Total commissions	224,067
	(In thousands of L)

The increase in other income of 9.5% or L10,386 thousand for the three months ended March 31, 2024, compared to the same period March 31, 2023, mainly due to an increase in other income from Banco Atlantida S.A; as a follow: (i) an increase of L5,167 thousand in other income(ii) an increase of L510 thousand, in income from account management charges and (iii) a decrease of L1,761 thousand in profits from the purchase and sale of foreign currency; and an increase in other income of COALSA, Grupo Sur Atlantida, CONFIA, INFATLAN, and Banco Atlantida El Salvador, by L2,856 thousand, L1,762 thousand, L472 thousand, L990 thousand, and L151 thousand, respectively.

Profit from insurance activities.

The following table presents the components of income from insurance activities for the three months ended March 31, 2024, and 2023:

	March 31,		Change	
	2024	2023	L	%
Income from insurance activities	1,308,220	1,135,132	173,088	15.2%
Expenses from insurance activities	1,171,560	1,053,666	117,894	11.2%
Profit from insurance activities	136,660	81,466	55,194	67.8%
	(In thousands of L except percentages)			

Income from insurance activities increased by 67.8%, or L55,194 thousand, for the three months ended March 31, 2024, compared to same period March 31, 2023, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities increased L173,088 thousand, for the three months ended March 31, 2024, compared to the same period of 2023, primarily due to an increase in premiums issued by Seguros Atlantida by L167,343 thousand; an increase of L33,560 thousand due to the incorporation of premiums issued by Seguros Atlantida El Salvador; partially offset by a decrease of L1,061 of Atlántida Vida, an increase by L15,860 thousand in ceded reinsurance commissions; partially offset by a decrease of L46,901 thousand in recovered claims from reinsurers, L9,063 thousand in the variation of reserves for risk in progress, and a decrease in salvage and claims recovery by L4,408 thousand.

Expenses from insurance activities increase by 11.2%, or L117,894 thousand, for the three months ended March 31, 2024, compared to the same period of 2023, primarily due to an increase in cancellations of insurance premium by L67,553 thousand, an increase in premiums ceded to foreign reinsurers by L66,184 thousand, an increase in variation of reserve for risk in progress by L43,485 thousand, an increase in insurance commissions by L9,025 thousand, an increase in other technical expenses by L7,134 thousand, an increase of allowance for impairment of premiums receivable by L6,077 thousand, in insurance bonuses for intermediaries by L4,360 thousand and L3,037 thousand in cancellations of insurance premium; partially offset by decrease in ceded claims by L90,972 thousand.

Operating expenses

The following table presents the components of operating expenses for the three months ended March 31, 2024, and 2023

	March 31,		Change	
	2024	2023	L	%
Staff expenses	997,849	839,119	158,730	18.9%
General and administrative expenses	1,519,721	1,346,483	173,238	12.9%
Depreciations and amortizations	233,891	233,213	678	0.3%
Total	2,751,461	2,418,815	332,646	13.8%
(In thousands of L except percentages)				

Operating expenses increased by 13.8%, or L332,646 thousand, for the three months ended March 31, 2024, compared same period of 2023, primarily due to an increase by 18.9% in staff expenses and increase in general and administrative expenses by 12.9%, as explained below.

Staff expenses increased by 18.9% or L158,730 thousand, for the three months ended March 31, 2024, compared same period of 2023, mainly due to an increase in salary adjustments and headcount by L52,271 thousand; L36,610 thousand as a consequence of the incorporation Grupo Sur Atlantida and Subsidiaries; an increase by L52,698 thousand in expenses for bonuses, an increase by L16,196 thousand in medical care for Group's employees and an increase by L9,431 thousand in employer contributions; partially offset by a decrease of L7,945 thousand in travel expenses and L944 thousand in training expenses.

General and administrative expenses increased 12.9%, or L173,238 thousand, for the three months ended March 31, 2024, compared same period of 2023, mainly due to: (i) an increase by L74,919 thousand in various expenses of Banco Atlántida because of increases in commission expenses by L113,271 thousand; loyalty programs expenses by L12,830 thousand, a decrease miscellaneous expenses by L47,880 thousand; and a decrease security fee by L8,731 thousand; (ii) an increase by L51,015 thousand in other expense for services of Banco Atlántida, mainly due to the following: an increase in license subscriptions expenses by L69,676 thousand, international assistance plan expenses by L4,199 thousand, L3,179 thousand in security expenses, L20,049 in miscellaneous expenses partially offset a decrease by L16,507 thousand in real estate maintenance, L5,816 thousand in advertising and marketing expenses, L22,589 thousand in maintenance of furniture and office equipment and L9,315 thousand in die-cutting of credit and debit card expenses;(iii) an increase by L44,103 thousand in other administrative expenses; (iv) a decrease in expenses for outsourced services by L84,799 thousand; (v) an increase in expenses for professional fees by L47,704 thousand, (vi) an increase in expenses for taxes and contributions to the local governments by L17,079 thousand, (vii) an increase in expenses for contributions to regulators by L12,581 thousand.

Non-operating income (expenses)

	March 31,		Change	
	2024	2023	L	%
Dividend income	169	2,149	(1,980)	-92.1%
Profit on sale of assets available for sale	54,669	143,043	(88,374)	-61.8%
Profit on sale of property, plant and equipment	55,359	7,337	48,022	654.5%
Other income (expenses), net	336,533	39,669	296,864	748.4%
Total	446,730	192,198	254,532	132.4%

(In thousands of L except percentages)

Non-operating income (expenses) increased by 132.4% or L254,532 thousand, for the three months ended March 31, 2024, compared same period of 2023, primarily due to an increase by 748.4% in other income(expenses) net and partially offset by a decrease in profit on sale of assets available for sale by 61.8%, as explained below.

Decrease in profit on sale of assets available for sale by 61.8%, or L88,374 thousand, due to a high volume of sale of properties in 2023.

Other income (expense), net, increased 748.4%, or L296,864 thousand, for the three months ended March 31, 2024, compared to the three months ended March 31, 2023, mainly due to: (i) an increase in net income from valuation of financial assets held for sale by L180,985 thousand, (ii) an increase in other financial income/expenses (net) by L22,958 thousand, (iii) a decrease in recoveries of written off by L16,615 thousand, (iv) a decrease in losses due to theft, assault and fraud by L656 thousand; (v) an increase in other income/(expenses) net by L120,363 thousand, mainly due to an increase in a release of reserves in 2024 as follow: to increase in release of reserve of financial assets by L30,061 thousand, besides an increase by L85,297 thousand of other miscellaneous income/(expense) net, (vi) a decrease by L5,398 thousand, due to the fluctuation in exchange rates; and (vii) an increase in interest tax by L6,086 thousand.

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest increased 20.2% to L744,557 thousand for the three months ended March 31, 2024, compared to L619,545 thousand for the same period ended March 31, 2023, as a result of the factors discussed above.

Income tax

Income tax expense increased by 4.0%, or L9,602 thousand, for the three months ended March 31, 2024, compared to the same period ended March 31, 2023. The effective rate of income tax was 26.9% as of March 31, 2024, compared to 39.4% as of same period ended March 31, 2023.

Net income

Net income increased 29.2% for the three months ended March 31, 2024, compared to the three months ended March 31, 2023. Average shareholders' equity decreased 2.8% to L16,482,695 thousand, for the three months ended March 31, 2024, compared to the year ended December 31, 2023. ROAE was 8.3% for three months ended March 31, 2024, and 2023, 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, 2024, and December 31, 2023:

	March 31	December 31		
	2024	2023	Change	%
Demand deposits	27,338,665	28,545,724	(1,207,059)	-4.2%
Savings deposits	55,850,437	55,723,694	126,743	0.2%
Term deposits	58,712,900	57,680,409	1,032,491	1.8%
Other	1,712,372	1,445,325	267,047	18.5%
Total, Deposits	143,614,374	143,395,152	219,222	5.9%
Banks loans	28,793,970	26,642,433	2,151,537	8.1%
Bonds and guaranteed notes	13,239,595	13,413,611	(174,016)	-1.3%
	185,647,939	183,451,196	2,196,743	1.2%

(In thousands of L except percentages)

Deposits increased 5.9% to L143,614,374 thousand as of March 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.

Bank loans were L28,793,970 thousand as of March 31, 2024, compared to L26,642,433 thousand as of December 31, 2023. 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 December 31, 2023, Banco Atlántida had a total amount of USD426,494 thousand (L10,483,431 thousand) in uncommitted credit lines from foreign institutions, of which USD269,527 thousand (L6,625,106 thousand) were available for use.

Bonds, and secured notes issued were L13,239,595 thousand as of March 31, 2024, compared to L13,413,611 thousand as of December 31, 2023, which represents an decrease of L174,016 thousand of which L202,489 thousand correspond to a cancellations of bonds, an increase due to the application of the amortized cost method of L22,066 thousand and an increase due to the variation in the exchange rate of L6,409 thousand.

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

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

Regulatory Capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, in accordance with Honduran, Salvadoran, Nicaraguan, Panamanian capitalization requirements, Banco Atlántida S.A, Banco Atlántida El Salvador, Banco Atlántida Nicaragua and Pacific Bank are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras, Nicaragua and Panamá and capital fund for El Salvador). As of March 31, 2024, 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	March 31,	December 31,	
	2024	2023	2022
Total, level 1	9,901,478	9,873,988	9,177,071
Total, level 2	5,976,050	5,633,360	5,971,962
Total, Regulatory Capital	15,877,528	15,507,348	15,149,033
Total, Risk-weighted assets	127,735,915	126,123,669	111,361,967
Regulatory capital as a percentage of risk-weighted assets	12.4%	12.3%	13.6%
(In thousands of L except percentages)			

Banco Atlántida El Salvador	March 31,	December 31,	
	2024	2023	2022
Total, level 1	92,933	92,933	91,922
Total, level 2	21,168	16,362	9,207
Total, Regulatory Capital	114,101	109,295	101,129
Total, Risk-weighted assets	881,842	844,220	752,368
Regulatory capital as a percentage of risk-weighted assets	12.9%	12.9%	13.4%
(In thousands of USD except percentages)			

Banco Atlántida Nicaragua	March 31,	December 31,	
	2024	2023	2022
Total, level 1	806,628	863,784	555,636
Total, level 2	(8,573)	(57,138)	(48,276)
Total, Regulatory Capital	798,055	806,646	507,360
Total, Risk-weighted assets	2,328,734	2,026,662	1,389,478
Regulatory capital as a percentage of risk-weighted assets	34.3%	39.8%	36.5%
(In thousands of córdobas except percentages)			

Pacific Bank (Panamá)	March 31	December 31	
	2024	2023	2022
Total, level 1	29,250	29,250	18,250
Total, level 2	(2,922)	(3,286)	(4,635)
Total, Regulatory Capital	26,328	25,965	13,615
Total, Risk-weighted assets	91,764	87,420	64,225
Regulatory capital as a percentage of risk-weighted assets	28.7%	29.7%	21.2%
(In thousands of B/. except percentages)			

Commitments and contractual obligations

The Group assumes a several commitments and contractual obligations that may require future payments in cash. The following table summarizes our commitments and contractual obligations as of March 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	33,175,645	30,591,991	44,150,851	24,183,496	11,512,391	143,614,374
Bank loans	9,011,941	1,364,878	4,742,393	6,496,379	7,178,379	28,793,970
Bonds and guaranteed notes			1,025,684	11,573,029	831,667	13,430,380
Total	42,187,586	31,956,869	49,918,928	42,252,904	19,522,437	185,838,724
% del Total	22.7%	17.2%	26.9%	22.7%	10.5%	100.0%

(In thousands of L except percentages)

Capital expenditures.

Consolidated capital expenditures increased to L742,676 thousand for the three months ended March 31, 2024, compared to L328,771 thousand for same period in 2023, 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, 2024	December 31, 2023
Letters of credit and idle credit documents	L 847,797	673,875
Securities and bank guarantees issued	6,118,248	6,479,459
Acceptance debtors	410,273	-
Idle credits	8,464,318	7,592,212
Other responsibilities	273,844	296,108
	L 16,114,480	15,041,654

(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 exposures to these risks, please see Note 4 of our consolidated financial statements as of March 31, 2024.