



**MANAGEMENT'S DISCUSSION
AND ANALYSIS OF OUR
FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
as of June 30, 2021**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements, and with the other financial information included in this offering memorandum. Our consolidated financial statements included in this offering memorandum have been prepared in accordance with Honduran Banking GAAP. Our future results may vary substantially from those discussed herein because of various factors that affect our business, including, but not limited to, those discussed under "Forward-Looking Statements" and "Risk Factors" and other factors discussed in this offering memorandum.

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 services, insurance, pension fund management and other financial services to more than 3.5 million clients as of June 30, 2021. We were recognized as a Financial Group by the Comisión Nacional de Bancos y Seguros (CNBS) in 2012 and our main subsidiary, Banco Atlántida was founded in 1913. We believe that our businesses benefit from significant synergies from being part of a Financial Group.

Our businesses are mainly focused on six segments: (i) *banking*, through our subsidiaries Banco Atlántida, one of the largest banks in Honduras based on total assets as of June 30, 2021, according to data of the CNBS, Banco Atlántida El Salvador and Banco Atlántida Nicaragua, this last one was created organically as part of our expansion plans in 2019; (ii) *insurance*, through our subsidiaries Seguros Atlántida, one of the largest insurance providers in Honduras based on total assets as of June 30, 2021, according to data of the CNBS, and Atlántida Vida, Seguros de Personas; and (iii) *pension fund management*, through our subsidiary AFP Atlántida, the largest private pension fund administrator in Honduras based on assets under management as of March 31, 2021 (the last data available), based on data published by our competitors, and our subsidiary, AFP Confia, the largest private pension fund administrator in El Salvador based on assets under management as of June 30, 2021, according to data of the Superintendencia del Sistema Financiero from El Salvador (SSF).

As of June 30, 2021 and 2020, Banco Atlántida had net income of L480,799 thousands and L429,231 thousands and an ROAE of 8.8% and 8.7%; Seguros Atlántida had net income of L95,963 thousands and L153,328 thousands and an ROAE of 13.5% and 22.3% and AFP Atlántida had net income L108,987 thousands and L79,987 thousands and an ROAE of 19.6% and 18.4%, respectively. Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida and these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to data from the CNBS. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits from clients and other banks, with market shares of 19.4%, 20.3% and 21.3%, respectively, as of June 30, 2021, according to data from the CNBS. Seguros Atlántida is one of the largest insurance companies in terms of gross written premiums, with a market share of 21.2% and 18.3% as of June 30, 2021 and 2020, respectively, according to data from the CNBS, AFP Atlántida is the largest pension fund manager in the Honduran market with a 61.8% share in terms of managed funds as of March 31, 2021.

We have one of the largest banking distribution networks in Honduras. As of June 30, 2021, we had 2,827 points of service in Honduras, which together with our insurance distribution network and operations in El Salvador and Nicaragua totaled 2,930 points of service as follows:

- 263 branches (148 agencies, 61 teller windows embedded within corporate client offices, 23 drive thru and 31 branches related to the other lines of business that make up INVATLAN;
- 1,147 ATMs (407 proprietary ATMs and 728 third-party network ATMs); and
- 1,520 non-correspondent banking agents.

As of June 30, 2021, and 2020, Banco Atlántida El Salvador had a net income of L112,070 thousands and L12,186 thousands and an ROAE of 12.3% and 1.5%, respectively. Our operations in El Salvador include Banco Atlántida El Salvador and AFP Confia. Banco Atlántida El Salvador is still a relatively small bank in El Salvador with a market share of 4.0%, and 3.6%, in total assets, and deposits, respectively, as of June 30, 2021, according to data from the SSF. As of June 30, 2021, AFP Confia had a market share of 52.3% in terms of total assets under management and 47.8% in terms of total number of clients, in each case according to data from the SSF. In terms of our operations in Nicaragua, Banco Atlántida Nicaragua is a recently created entity which began operating on November 1, 2019 and as a result, is not yet relevant in the Nicaraguan market.

Key Factors Affecting our Financial Condition and Results of Operations

Effects of COVID-19 Pandemic on our Results of Operations

On March 21, 2020, the CNBS issued resolution GES No 175/21-03-2020, through which a temporary financial relief measure was approved, urging financial institutions to grant a deferral on the payment of principal (not interest) financial obligations owed by their debtors, through June 30, 2020. During the period of the deferral, payments of all principal, interest, and fees were suspended. Once the period of the deferral ends, debtors can request refinancing if necessary. Debtors and financial institutions had up to September 30, 2020 to agree on debt refinancing plans. Furthermore, financial system institutions in general were urged to establish updated plans to assure the continuity of their operations. Subsequently, on June 25, 2020, the CNBS issued resolution GES No 278/25-06-2020 allowing supervised institutions (banks, financial companies, private development organizations, insurers) to grant additional grace periods or to permit their debtors to restructure their loans, beginning in July 2020 to debtors whose economic activities have been negatively impacted by the COVID-19 pandemic, which would be determined on a case by case basis by each institution based on each debtor's individual situation. This analysis should consider the debtor's ability to pay and financial condition. If an institution determined that the severity was minor, their payments could be deferred for shorter periods of time. For other debtors whose economic activities have been less impacted by the pandemic, their payments were only deferred through July 31, 2020. Furthermore, on October 19, 2020, the Honduran Government, represented by the Central Bank, the CNBS and Banco Hondureño para la Producción y la Vivienda (BANHPROVI) reached an agreement with the Asociación Hondureña de Instituciones Bancarias (AHIBA) to provide additional financial assistance, including the prolonging of grace periods for payment, to micro, small and medium-sized companies negatively affected by the COVID-19 pandemic. On December 2, 2020 CNBS issued the resolution GES No.601/02-12- 2020 by which it extended the term until March 31, 2021 for the credit financial institution to formalize the refinancing or adjustment of the debtor's credit obligations under this relief mechanisms.

Effects of ETA & IOTA tropical storms on our Results of Operations

On December 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 which consists in that supervised institutions that carry out credit operations, after identification and evaluation, may grant grace periods to debtors (natural or legal persons), who have been affected, by the effects caused by ETA and IOTA tropical storms. The grace periods may not exceed three (3) months, corresponding to the installments of the months of November and December 2020 and January 2021, which must be applied at the request of the debtors or at the initiative of the institutions when identifying affected clients, regardless of the category of risk in which the debtor is classified.

This resolution established March 31, 2021, as the maximum date for the credit financial institution to formalize the refinancing and readjustment of the debtor's credit obligations under this relief mechanism. The debtor's credit obligations under this relief mechanism will retain the risk category they had as of October 31, 2020, after this period, the debtor's credit obligations must be evaluated and classified in the risk category according to the criteria established in the current credit portfolio classification standards issued by the CNBS.

As a result of adopting these measures we recognize additional interest for the periods for which principal was deferred partially offset by the fact that certain interest for mortgage credits could not be capitalized and therefore recognize interest on such capitalized amounts. In addition, we decided to temporarily restrain consumption credit to avoid delinquency. Finally, the regulator allowed for creditors that had access to these reliefs not to change their risk grading and therefore there was no immediate impact to the credit reserves.

As of June 30, 2021, the percentages of loans in our portfolio that were deferred, restructured, or refinanced pursuant to the relief order by the government were as follows:

Consolidated the Relief of June 30, 2021

Business and commercial banking		Portfolio	%	Interests	Total
With Covid-19 relief:	L	20,493,437	28.5%	326,181	20,819,618
With deferred installments		1,165,441	1.6%	35,007	1,200,448
Adjusted		14,624,171	20.4%	217,434	14,841,605
Refinanced		4,703,825	6.5%	73,740	4,777,565
With Eta & Iota relief		72,636	0.1%	530	73,166
Without relief:		51,366,258	71.4%	610,370	51,976,628
Total	L	71,932,331	100.0%	937,081	72,869,412

Retail banking		Portfolio	%	Interests	Total
With Covid-19 relief:	L	1,969,125	12.3%	26,344	1,995,468
With deferred installments		28,449	0.2%	403	28,852
Adjusted		1,665,147	10.4%	22,367	1,687,514
Refinanced		275,529	1.7%	3,573	279,102
Without relief:		13,978,855	87.7%	248,250	14,227,105
Total	L	15,947,980	100.0%	274,595	16,222,575

tropical storms.

Effects of Changes in Interest Rates

Changes in interest rates usually 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, comprising most of our revenue. 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 interests earned on assets do 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 as compared to prior periods.

Increases in interest rates may reduce the value of our financial assets. The Company holds 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 impact our results) as our subsidiaries implement strategies to reduce and mitigate future interest rate exposure. The market value of an obligation with a variable interest rate can be adversely affected when interest rates increase due to a lag in the implementation of repricing terms.

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

Assets and Liabilities Rates

Given that 82.5% of our consolidated interest income for the year ended June 30, 2021 is derived from Banco Atlántida, the tables below set forth the weighted average interest rates of assets and liabilities on *lempiras* and US Dollars of Banco Atlántida as of June 30, 2021, December 31, 2020 and 2019 as published by the Central Bank. The table also shows the reference rate published by the Central Bank.

The assets and liabilities rates in *lempiras* are as follows:

	December		June
	2019	2020	2021
Assets (loans-BASA)	12.5%	12.1%	11.3%
System Average Assets Rate	13.9%	13.7%	12.8%
Liabilities (deposits-BASA)	4.5%	4.6%	3.7%
Monetary Policy Rate	5.5%	3.0%	3.0%

The Honduran banking industry generally does not set interest rates by reference to a reference rate; however, the weighted average interest rates of the assets (loans) and liabilities (deposits) denominated in *lempiras* of the Honduran banking industry are slightly influenced by the minimum offer rate that the Central Bank allows for its treasury notes. As of June 30, 2021, this rate was 3.0% as a result of several reductions made by the Central Bank of Honduras during 2020. Those reductions were the result of measures adopted by the Honduran Government to mitigate the effects of the COVID-19 pandemic on the national economy.

The average interest rate of Banco Atlántida on *lempira*-denominated assets (loans) was 11.3% as of June 30, 2021, compared to 12.1% as of December 31, 2020. For six months ended June 30, 2021, Banco Atlántida's *Lempiras*-denominated loan portfolio grew 3.3% while the local financial system grew by 2.9% according to data from the CNBS during the same period.

Banco Atlántida's average interest rate on *lempira*-denominated liabilities (deposits) decreased to 3.7% as of June 30, 2021 compared to 4.6% as of December 31, 2020. As of June 30, 2021, compared to December 2020, Banco Atlántida's *lempira*-denominated deposits have grown 7.2%, while the local financial system grew by 7.3% during the same period, according to data from the CNBS.

The assets and liabilities rates in *U.S. Dollars* are as follows:

	December		June
	2019	2020	2021
Assets (loans-BASA)	7.1%	7.2%	6.7%
System Average Assets Rate	8.2%	7.7%	7.6%
Liabilities (Deposits-BASA)	2.6%	2.6%	2.3%
System Average Liabilities Rate	2.2%	1.9%	1.7%

As of June 30, 2021, Banco Atlántida's average interest rate on assets (loans) denominated in foreign currency was 6.7%, compared to 7.2% as of December 31, 2020. Banco Atlántida's loan portfolio denominated in U.S. Dollars decreased 1.6% between June 30, 2021 and December 31, 2020, while the local financial system increased 2.2% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in foreign currency was 2.3% as of June 30, 2021 and 2.6% as of December 31, 2020. Banco Atlántida's foreign currency-denominated deposits grew at a rate of 1.4% as of June 30, 2021, while deposits for the local financial system grew at a rate of 0.5% during the same period, according to data from the CNBS.

Effect of family remittances

As of June 24th, 2021, family remittances that entered Honduras were USD3,356.6 million, which represented an increase of 41.0% compared to the corresponding period in 2020, while for the previous immediate periods, they were as shown in the following table:

Period	Amount (million USD)*		Change %
24/06/2021	3,356.6	p)	41.0%
24/06/2020	2,380.0	r)	-4.5%
24/06/2019	2,493.4	r)	7.1%
27/06/2018	2,326.4	r)	8.7%

* expressed in millions of USD

p) preliminary data

r) reviewed data

The income obtained by Banco Atlántida from family remittances mainly consisted 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 USD1,008.6 million in family remittances during the period ended June 30, 2021, 49.5% more than the corresponding period of 2020, during which USD674.7 million were processed. As of June 30, 2021, Banco Atlántida's market share was 30.0%, while for the corresponding period of 2020 it was 28.2%.

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 a moderate inflation in recent years. As of June 30, 2021, the inflation rate was 4.7%, respectively. The main drivers of inflation were food and beverages consumed outside the home followed by fuels for vehicular use, unprepared foods as well as furniture and articles for home. According to the Central Bank, the inflation target was achieved, as it remained within the range of 4.0% (± 1 bp) agreed with the Monetary Program 2021-2022 established by the Central Bank.

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. As of June 30, 2021, the exchange rate of the Lempira compared to the U.S. Dollar was L23.8651 per US\$1.00, compared to L24.7149 per US\$1.00 on June 30, 2020, 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
2020	9.3	1.1%	2,563	-6.6%	N/A	N/A	9.4%	67.9%
2019	9.2	2.2%	2,743	2.8%	N/A	N/A	5.6%	-1.8%
2018	9.0	1.1%	2,669	2.1%	48.3%	-3.01%	5.7%	3.6%
2017	8.9	1.2%	2,614	5.1%	49.8%	0.20%	5.5%	-17.9%

- GDP per capita
- N/A not available

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 59.6%, as of December 31, 2020.

According to the Central Bank, as of June 30, 2021, the growth rate of bank loans to the private sector was 4.6%, compared to the growth rate of 7.1% and 11.7% as of 2020 and 2019 respectively. It is important to note that preliminary data indicate that the accumulated flow of new loans during 2020 were allocated to Consumption (32.8%), Commerce (22.2%), Industry (15.6%), Services (12.5%), Real Estate (11.0%) and Agricultural (5.9%).

Results of Operations for the Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020.

The following table shows the principal components of our consolidated statement of comprehensive income for the six months ended June 30, 2021 and 2020:

	June 30,		Change	
	2021	2020	HNL	%
Interest income	4,848,213	4,786,336	61,877	1.3%
Interest expense	2,416,696	2,310,912	105,784	4.6%
Financial profit	2,431,517	2,475,424	(43,907)	-1.8%
Loan impairment charges	398,076	575,317	(177,241)	-30.8%
Financial profit, net of impairment charges	2,033,441	1,900,107	133,334	7.0%
Income from insurance activities	2,216,225	1,699,959	516,266	30.4%
Expenses from insurance activities	1,957,030	1,424,647	532,383	37.4%
Profit from insurance activities	259,195	275,312	(16,117)	-5.9%
Services	34,484	56,782	(22,298)	-39.3%
Commissions	1,778,081	1,471,865	306,216	20.8%
Leases	5,832	111,840	(106,008)	-94.8%
Other income	362,872	275,360	87,512	31.8%
Total Proceeds from services	2,181,269	1,915,847	265,422	13.9%
Staff-expenses	1,289,097	1,156,058	133,039	11.5%
General and administrative expenses	2,106,948	1,766,599	340,349	19.3%
Depreciation and amortization	386,880	323,839	63,041	19.5%
Total operative expenses	3,782,925	3,246,496	536,429	16.5%
Operating income	690,980	844,770	(153,790)	-18.2%
Income from dividends	1,747	781	966	123.7%
Gain on assets available for sale	56,806	37,401	19,405	51.9%
Gain on sale of fixed assets	112,505	5,539	106,966	1931.1%
Other income, net	143,850	32,817	111,033	338.3%
Total non-operating income (expenses)	314,908	76,538	238,370	311.4%
Income before income tax	1,005,888	921,308	84,580	9.2%
Income tax/capital gain/net assets tax	448,314	352,079	96,235	27.3%
Income before minority interest	557,574	569,229	(11,655)	-2.0%
Net income attributable to noncontrolling interests	80,723	80,209	514	0.6%
Net income	476,851	489,020	(12,169)	-2.5%

In thousands of HNL's except percentages

An analysis of the components of our consolidated statement of comprehensive income set forth in the foregoing table follows:

Interest income

The following table presents the components of our interest income for the six months ended June 30, 2021 and 2020:

Interest Income on:	June 30,		Change	
	2021	2020	HNL's	%
Loans	4,167,731	4,264,974	(97,243)	-2.3%
Investments Securities	543,328	498,001	45,327	9.1%
financial leasing	117,606	-	117,606	100.0%
Interest earning deposits	19,548	23,361	(3,813)	-16.3%
Total, interest income	4,848,213	4,786,336	61,877	1.3%

(In Thousands of HN's except percentages)

Interest income increased by 1.3%, or L61,877 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, mainly due to an increase in interest income on financial leasing of 100% as further explained below.

Interest income on loans decreased by 2.3%, or L97,243 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, which is a result of a decrease in interest rates which led to a decrease of L234,487 thousands in interest income, partially offset by an increase of L137,244 thousands due to higher volume of loans in local and foreign currency, with an average balance increase of 3.0% in local currency loans and 3.9% in foreign currency loans.

Interest income on leasing increased by 100%, or L117,606 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, mainly due to a change in accounting treatment that began in December 2020, pursuant to which Leasing Atlántida began recognizing all contracts as financial leases.

Interest income on investment securities increased by 9.1%, or L45,327 thousands, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020 due to higher volume of investment securities in local and foreign currency which led to an increase of L148,179 thousands. This increase was partially offset by a decrease in interest rates which led to a decrease in income of L102,852 thousands.

Interest income on interest earning deposits decreased by 16.3%, or L3,813 thousands, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, primarily due to a decrease in average interest rates that led to a decrease in interest income of L19,360 thousands, as a result of the effects of the COVID-19 pandemic on market interest rates. This decrease was partially offset by a 95.5% increase in the average balance of such deposits which led to an increase in interest income by L15,547 thousands.

Interest expense

The following table presents the components of our interest expense for the six months ended June 30, 2021 and 2020:

Interest expense on:	June 30,		Change	
	2021	2020	HNL's	%
Deposits	1,799,625	1,779,072	20,553	1.2%
Loans obtained from banks	259,212	263,580	(4,368)	-1.7%
Bonds and guaranteed notes	357,859	268,260	89,599	33.4%
Total, interest income	2,416,696	2,310,912	105,784	2.2%

(In Thousands of HN's except percentages)

Interest expense increased by 2.2%, or L105,784 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily as a result of 1.2% increase in interest expense on deposits and 33.4% increase in interest expense on bonds and guaranteed notes, partially offset by a decrease of 1.7% in interest expense on loans obtained from banks as further explained below.

Interest expense on deposits increased 1.2%, or L20,553 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily due to an increase in the volume of deposits which led to an increase of L287,835 thousands, as well as a decrease in the interest rates paid, which led to a decrease in interest expense of L267,282 thousands.

Interest expense on loans obtained from banks decreased by 1.7%, L4,368 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily as a result of the decrease in market interest rates which led to a decrease in interest expense of L14,792 thousands. This decrease was partially offset by an increase in loans from banks which led to an increase in interest expense of L10,424 thousands.

Interest expense on bonds and guaranteed notes increased by 33.4%, or L89,599 thousands, mainly due to an (i) increase in interest paid on outstanding guaranteed notes in local currency of L15,250 thousands, which was primarily due to a new local bond issuance of Banco Atlántida by L500,000 thousands in September 2020, (ii) increase in interest paid on outstanding bonds of L83,457 thousands, of which L61,273 thousands correspond to a new issuance of foreign currency bonds of Invatlan by USD300,000 thousands in May 2021 and L12,210 thousands by amortization of issuance cost and (iii) a decrease of L9,108 thousands mainly due to a decrease in the average rate on bonds in foreign currency.

Loan impairment charges

The following table presents the loan impairment charges, NPL ratio, the coverage ratio and provision for loan losses for the six months ended June 30, 2021 and 2020:

(L in thousands, except percentages)	June 30,		Change	
	2021	2020	Lempiras	%
Loan impairment charges	398,076	575,317	(177,241)	-30.8%
NPL ratio(1)	2.9%	2.3%	-	-
Coverage ratio(2)	117.6%	128.7%	-	-
Provision for loan losses	2,974,039	2,774,028	200,011	7.2%

(1) NPL ratio is calculated by dividing non-performing loans (including refinanced non-performing loans) by our gross portfolio of loans.

(2) Coverage ratio is calculated by dividing provision for loan losses by non-performing loans (including refinanced non-performing loans).

(3) provision for loan losses is compared to December 31, 2020.

Loan impairment charges decreased by 30.8%, or L177,241 thousands, for the six months ended June 30, 2021, as compared to the six ended June 30, 2020, meanwhile our delinquency rate increased to 2.9% as of June 30, 2021 as compared to 2.3% as of June 30, 2020 and our coverage ratio decreased to 117.6% as of June 30, 2021 as compared to 128.7% as of June 30, 2020.

During the six months ended June 30, 2021, loan impairment charges were allocated as follow:

- a) Attributable to the retail banking L226,651 thousands;
- b) Attributable to the SME banking L114,599 thousands and
- c) Attributable to the corporate banking L56,827 thousands.

Last year the Group's senior management decided to create additional reserves in order to protect itself from the potential negative effects of the COVID-19 pandemic on the loan portfolio which explain why impairment charges have decreased this year.

Provision for loan losses increased by L200,011 thousands to L2,974,039 thousands as of June 30, 2021, compared to December 31, 2020. This increase was mainly due to the recognition on loan impairment charges by L398,076 thousands, write-offs of loans by L152,460 thousands and release of reserves by L43,800 thousands.

Proceeds from services

The following table presents the components of proceeds from services for the six months ended June 30, 2021 and 2020:

(L in thousands)	June 30,		Change	
	2021	2020	HNL's	%
Services	34,484	56,782	(22,298)	-39.3%
Commissions	1,778,081	1,471,865	306,216	20.8%
Leases	5,832	111,840	(106,008)	-94.8%
Other income ⁽¹⁾	362,872	275,360	87,512	31.8%
Total Proceeds from services	2,181,269	1,915,847	265,422	13.9%

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

Proceeds from services increased by 13.9%, or L265,422 thousands, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, mainly due to a 20.8% increase in commission income, an increase in other income 31.8%, partially offset by a decrease in leases income of 94.8%, as further explained below.

The decrease in service income of 39.3%, or L22,298 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, was primarily due to a decrease in warehouse services of L12,290 thousands of COALSA, and a decrease in other service income of Banco Atlántida El Salvador by L8,866 thousands mainly due to a reclassification of this income to other income in order to get a better presentation of the financial information.

The increase in commission income of 20.8%, or L306,216 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020 is mainly explained as follow:

Banco Atlántida's commission:

Commissions on loans	L 58,821
Commissions on products and services	L 58,637
Commissions on credit/debit cards	L 20,297
Other commissions	L 54,237
AFP Atlántida's commission income	L 64,953
AFP Confia's commission income	L 35,714
Banco Atlántida El Salvador commission on loans and services	L 9,160
Total Commissions	<u>L301,099</u>

The decrease in lease income of 94.8%, or L106,008 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020; is due to a change in accounting treatment that began in December 2020, pursuant to which Leasing Atlántida began recognizing all contracts as financial leases.

The increase in other income of 31.8% or L87,512 thousand for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, is mainly due to the increase of L90,306 thousand in other income of Banco Atlántida caused primarily by: (i) an increase of L31,105 thousand in earnings on purchase and sale of foreign currency, (ii) an increase of L75,389 thousand on investments at amortized cost, (iii) a decrease of L8,155 thousand in financial assets and liabilities available for sale, (iv) a decrease of L3,953 thousand in other incomes due to a reclassification to operating leases, and (v) a decrease of L4,947 thousand account handling charges. This increase in Banco Atlántida's income was partially offset by a decrease of L7,249 thousand in other income of COALSA.

Profit from insurance activities

The following table presents the components of profit from insurance activities for the six months ended June 30, 2021 and 2020:

(L in thousands)	June 30,		Change	
	2021	2020	(HNL)	%
Income from insurance activities	2,216,225	1,699,959	516,266	30.4%
Expenses from insurance activities	1,957,030	1,424,647	532,383	37.4%
Profit from insurance activities	259,195	275,312	(16,117)	-5.9%

Profit from insurance activities decreased by 5.9%, or L16,117 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily due to the income and expense movements discussed below.

Income from insurance activities increased by 30.4%, or L516,266 thousands, for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, mainly due to an increase of written premiums of L265,704 thousand as a result of the increase in the operations of Atlántida Vida, partially offset by a decrease of L101,255 in written premiums of Seguros Atlántida; an increase in variation in the reserves of risk in progress for L144,433 thousand, of which L115,017 thousand correspond to the increase in operations of Atlántida Vida; an increase in the income from claims recovered from reinsurers for L98,977 thousand; an increase in income from changes in reserves pending settlement for L63,911 thousand and an increase in income from salvage and subrogation recoveries for L27,590 thousand.

Expenses for insurance activities increased by 37.4%, or L532,383 thousands, for the six months ended June 30, 2021, as compared to six months ended June 30, 2020, mainly due to an increase of L199,624 thousands in expenses for claims in personal insurance as a result of the effects of COVID-19 pandemic, an increase of L251,765 thousands in variations in reserves, an increase of L77,475 thousands in other technical expenses.

Operating expenses

The following table presents the components of operating expenses for the six months ended June 30, 2021 and 2020.

(L in thousands)	June 30,		Change	
	2021	2020	HNL's	%
Staff expenses	1,289,097	1,156,058	133,039	11.5%
General and administrative expenses	2,106,948	1,766,599	340,349	19.3%
Depreciation and amortization	386,880	323,839	63,041	19.5%
Total, operating expenses	3,782,925	3,246,096	536,429	16.5%

Operating expenses increased by 16.5%, or L536,429 thousands, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, mainly due to an increase of 11.5% in staff expenses, an increase of 19.3% in general and administrative expenses and an increase of 19.5% in depreciation and amortization expenses, as further explained below.

Staff expenses increased by 11.5% or L133,039 thousand, for the six months ended June 30, 2021 compared to the six months ended June 30, 2020, mainly due to an increase in the variable compensation of Banco Atlántida for L47,061 thousands; L15,966 thousands due to new hires; L6,731 thousands due to the incorporation of GUIP; additionally there was an increase in the provision expense for bonuses by L46,521 thousands and an increase by L17,885 thousands in medical assistance of employees, partially offset by a decrease in training expenses by L2,580 thousand.

General and administrative expenses increased 19.3%, or L340,349 thousand, for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, mainly due to an increase of L97,315 thousands in diverse commissions expense of Banco Atlántida; an increase of L32,807 thousands due to employee resignation from Confía; an increase in other administrative expenses of Banco Atlántida El Salvador by L11,253 thousands; an increase in outsourced services of Banco Atlántida and Confía by L42,093 thousands and L68,451 thousands, respectively; an increase in professional fees by L31,154 thousands and an increase in contributions to regulators by L23,699 thousands.

Depreciation and amortization expenses increased by 19.5%, or L63,041 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, mainly due to a higher capitalization of software and applications, the acquisition of vehicles, computer equipment and amortization of improvements to leased properties of Banco Atlántida.

Non-operating income (expenses)

The following table presents the components of the non-operating income (expenses) for the six months ended June 30, 2021 and 2020:

(L in thousands)	June 30,		Change	
	2021	2020	HNL	%
Income from dividends	1,747	781	966	123.5%
Gain on sale of assets available for sale	56,806	37,401	19,405	51.9%
Gain on sale of fixed assets	112,505	5,539	106,966	1,931.1%
Other income (expense), net	143,850	32,818	111,032	338.3%
Total non-operating income (expenses)	314,908	76,539	238,369	311.4%

Non-operating income (expenses) increased by 311.4%, or L238,369 thousand, during the six months ended June 30, 2021, compared to the six months ended June 30, 2020, mainly due to the increase in other income (expenses) by 338.3%; an increase in profit from the sale of fixed assets by 1,931.1% and an increase in gain on sale of assets available for sale by 51.9%, as explained below.

Profit from the sale of assets available for sale increased by 51.9%, or L19,405 thousand, for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, attributed to an increase in the country's economic activity, as a consequence of the partial lifting of the restrictions adopted in 2020 by the government to face the effects of the Covid-19 pandemic.

Profit from the sale of fixed assets increased by 1,931.1% or 106,966 thousand, for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, mainly due to an increase of L97,149 thousands in the income of Banco Atlántida El Salvador, as a result of the sale of land and building.

Other income (expenses) increased 338.3%, or L111,032 thousand, for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, mainly due to the following : (i) an increase in other income of L134,226 thousands; (ii) an increase in the expense of financial assets and liabilities available for sale L455 thousands; (iii) an increase in other financial income of L24,930 thousand; (iv) an increase in other expenses of L10,852 thousand; (v) a decrease in earnings due to exchange rate fluctuations L51,257 thousand; (vi) an increase in income from the recovery of written-off financial assets of L30,409 thousands and (vii) a decrease in income from fluctuations in the value of financial assets available for sale of L11,507 thousands.

Income before tax and non-controlling interest

Income before tax and non-controlling interest increased by 9.2% to L1,005,888 thousands for the six months ended June 30, 2021 from L921,309 thousands for the corresponding period in 2020 as a result of the factors discussed above.

Income tax

Income tax expense increased by 27.3%, or L96,235 thousands, for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The effective income tax rate was 35.9% on June 30, 2021 and 2020, respectively.

Net income

As a result of the foregoing, net income decreased by 2.5% to L476,851 thousands for the six months ended June 30, 2021 from L489,019 thousands for the six months ended June 30, 2020. Average shareholders' equity increased by 7.8% to L14,195,630 thousands for the six months ended June 30, 2021, from L13,172,320 thousands for the six months ended June 30, 2020. The ROAE was 6.7% for the six months ended June 30, 2021, as compared to 7.4% for the six months ended June 30, 2020.

Liquidity and Funding

The following discussion of liquidity and funding is on a consolidated basis. Banco Atlántida represents our primary source of funds, and its liquidity comes from client deposits, loans from banks and financial institutions and debt securities.

Banco Atlántida's primary sources of funds have traditionally consisted of deposits, loans and borrowings from banks, as well as debt securities issued and subordinated debt.

The following table sets forth the Group's primary sources of funding on a consolidated basis as of June 30, 2021 and December 2020:

(L in thousands)	June 30, 2021	December 31, 2020	Variación	%
Demand deposits	18,935,472	16,887,212	2,048,260	12.1%
Saving deposits	50,754,611	46,779,158	3,975,453	8.5%
Term deposits	39,929,396	39,735,678	193,718	0.5%
Others	168,837	133,424	35,413	26.5%
Total deposits from clients and other banks	109,788,316	103,535,472	6,252,844	6.0%
Financial obligations	11,216,750	10,363,087	853,663	8.2%
Bonds and guaranteed notes	13,994,795	7,329,106	6,665,689	90.9%
Total	134,999,861	121,227,665	13,772,196	11.4%

Deposits from clients and other banks increased by 6.0% to L109,788,316 thousands as of June 30, 2021, as compared to L103,535,472 thousands as of December 31, 2020, primarily as a result of the uncertainties caused by the COVID-19 pandemic, which has caused clients to increase their savings deposits in Banco Atlántida due to its perceived financial strength.

Financial obligations were L11,216,750 thousands as of June 30, 2021, compared to L10,363,087 thousands as of December 31, 2020. Banco Atlántida has lines of credit with 17 global financial institutions with which it has had longstanding correspondent relationships. Some of its main providers of credit facilities include IFC, PROPARCO, CABEL, Global Climate Partnership Fund, Banco Central de Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AG. As of June 30, 2021, we had an aggregate amount of US\$389,499 thousands (L9,295,433 thousands) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US\$251,244 thousands (L5,995,963 thousands) was available to draw upon.

Bonds and guaranteed notes issued were L13,994,795 thousands as of June 30, 2021, compared to L7,329,106 thousands as of December 31, 2020, representing an increase of 90.9%, which was primarily the result of a new issuance by Invatlan of foreign currency bonds in an aggregate principal amount of USD300,000 thousands (L7,159,530 thousands), partially offset by a redemption of Banco Atlántida's bonds and guaranteed notes by L689,932 thousands.

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

We expect that deposits, loans and borrowings from banks and debt securities issued, will 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, pursuant to Honduran capitalization requirements, Banco Atlántida is required to maintain specific levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 11.0% or above. As of June 30, 2021, and December 31, 2020, Banco Atlántida's capital adequacy ratio was 12.6% and 12.8%, respectively.

The following table sets forth Banco Atlántida's capital as compared to the minimum capital requirements as of the dates indicated:

(L in thousands)	June 30,	December 31,		
	2021	2020	2019	2018
Total, Tier 1	8,683,708	8,680,524	7,988,863	7,488,863
Total, Tier 2	2,280,087	1,958,843	1,894,418	1,361,627
Total, Regulatory Capital	10,963,795	10,639,367	9,883,281	8,850,490
Total, Risk weighted assets	87,272,579	83,072,295	81,437,715	71,545,025
Regulatory Capital as percentage of risk weighted assets	12.6%	12.8%	12.1%	12.4%

In addition, pursuant to Salvadoran capitalization requirements, Banco Atlántida El Salvador is required to maintain specific levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 12.0%. As of June 30, 2021, and December 31, 2020, Banco Atlántida El Salvador's capital adequacy ratio was 14.5% and 12.9%, respectively.

The following table sets forth Banco Atlántida El Salvador's capital as compared to the minimum capital requirements as of the dates indicated:

(US\$ in thousands)	June 30,	December 31,		
	2021	2020	2019	2018
Total, Tier 1	75,947	65,946	55,848	45,695
Total, Tier 2	4,275	3,980	3,567	2,485
Total, Regulatory Capital	80,222	69,926	59,415	48,180
Total, Risk weighted assets	554,477	540,912	445,121	360,756
Regulatory Capital as percentage of risk weighted assets	14.5%	12.9%	13.3%	13.3%

Under Nicaraguan capitalization requirements, Banco Atlántida Nicaragua is required to maintain specific levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 10.0%. As of June 30, 2021, and December 31, 2020, Banco Atlántida Nicaragua's capital adequacy ratio was 45.3% and 54.8%, respectively.

The following table sets forth Banco Atlántida Nicaragua's capital as compared to the minimum capital requirements as of the dates indicated:

(Córdobas in thousands)	June 30,	December 31,	
	2021	2020	2019
Total, Tier 1	367,950	427,848	400,491
Total, Tier 2	(29,560)	(64,015)	(34,280)
Total, Regulatory Capital	338,390	363,833	366,211
Total, Risk weighted assets	747,145	663,952	253,194
Regulatory Capital as percentage of risk weighted assets	45.3%	54.8%	144.6%

Commitments and contractual obligations

In May 2021, the Company issued US\$300,000 thousands 7.50% new Senior Secured Notes due on May 2026, part of the proceed of this issue (US\$156,187.5 thousands) was used to repay our first issuance US\$150,000 thousand 8.25% Senior Secured Notes due 2022 plus accrued and unpaid interest thereon to the redemption date for the Notes. The redemption date of the Notes took place on July 28, 2021.

The Group enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes our commitments and contractual obligations as of June 30, 2021.

(L in thousands, except rates)	Less than 30 days	31 to 90 days	91 days to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits for clients and other banks	19,799,750	16,562,033	21,799,013	31,128,738	20,498,782	109,788,316
Financial obligations	595,673	754,876	2,698,738	3,601,606	3,565,857	11,216,750
Bonds and guaranteed notes	3,579,765	377,785	5,370	10,384,925		14,347,845
Total	23,975,188	17,694,694	24,503,121	45,115,269	24,064,639	135,352,911
% of Total	17.7%	13.1%	18.1%	33.3%	17.8%	100.0%

Capital expenditures

The consolidated capital expenditures decreased to L776,252 thousands for the six months ended June 30, 2021 compared to L1,297,365 thousands for the six months ended June 30, 2020, primarily due to a decrease in investment in the development of intangibles such as licensing programs, among others.

Off-Balance sheet arrangements

In the normal course of business, the Group takes part of several off-balance sheet activities that have credit, market and operational risk and are not reflected in our financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as guarantees, letters of credit and loans under contract pending disbursement, including credit lines and syndicated loans. We provide our clients with services related to the issuance and confirmation of commercial and stand-by letters of credit and to the issuance of bank guarantees. These contingent liabilities are detailed as follows:

	June 2021	December 2020
Letters of credit and idle credit documents	L 553,370	458,550
Securities and bank guarantees issued	6,056,937	5,503,169
Acceptance debtors	907,246	451,251
Idle credits	5,629,897	4,396,235
Other responsibilities	217,068	108,477
	L 13,364,518	10,917,682

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 covenants, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the client's creditworthiness. We may also require commitment letters 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 collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when appropriate as determined by the credit committee of our subsidiaries.

Qualitative and Quantitative Disclosure about 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 on how we regularly assess and manage our exposures to these risks, see Note 4 to our interim consolidated financial statements as of June 30, 2021.