



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF JUNE 30, 2022**

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 3.8 million clients as of June 30, 2022. We were recognized as a Financial Group by the National Banking and Insurance Commission (CNBS) 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 June 30, 2022, according to data from the CNBS, Banco Atlántida El Salvador and Banco Atlántida Nicaragua, the 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, 2022, according to data from CNBS, and Atlántida Vida, Seguros de Personas; and (iii) pension fund management, through our subsidiary AFP Atlántida, the largest private pension fund manager in Honduras based on assets under management as of June 30, 2022, 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 February 28, 2022, according to data from the Superintendence of the Financial System of El Salvador (SSF) (data as of June 30, 2022 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 June 30, 2022 and 2021, Banco Atlántida had a net income of L816,252 thousand and L480,799 thousand and a ROAE of 13.2% and 8.8%; Seguros Atlántida had a net profit of L133,259 thousand and L95,963 thousand and a ROAE of 19.8% and 13.5% and AFP Atlántida had a net profit of L119,219 thousand and L108,987 thousand and a ROAE of 26.3% and 19.6 %, 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 18.8%, 21.7% and 21.6%, respectively, as of June 30, 2022, according to data from the CNBS. Seguros Atlántida is one of the largest insurers in terms of gross written premiums, with a market share of 15.9% and 21.2% as of June 30, 2022 and 2021, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 58.1% market share in terms of assets under management as of June 30, 2022.

The Group has one of the largest banking distribution networks in Honduras. As of June 30, 2022, we had 3,711 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador and Nicaragua added 3,826 service points as follows:

- 263 branches (146 agencies, 62 teller windows embedded within corporate client offices, 23 drive thru and 32 branches related to the other business lines of the Group);
- 1,188 ATMs (427 proprietary ATMs and 761 third-party network ATMs); and
- 2,375 non-correspondent banking agents.

As of June 30, 2022 and 2021, Banco Atlántida El Salvador had a net income of L45,012 thousand and L112,070 thousand and a ROAE of 4.1% and 12.3%, respectively. Banco Atlántida El Salvador remains a relatively small bank in El Salvador with a market share of 4.4% and 3.4%, in total assets and deposits, respectively, as of June 30, 2022, according to SSF data. As of February 28, 2022, AFP Confía had a market share of 52.0% in terms of total assets under management and 47.8% in terms of total number of clients according to SSF data. Regarding our operations in Nicaragua, Banco Atlántida Nicaragua is a recently created entity that began operations 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 the COVID-19 pandemic on the results of operations

On March 21, 2020, the CNBS issued resolution GES No. 175/21-03-2020, through which a temporary financial relief measure was approved, urging financial institutions to grant a deferment in the payment of the main financial obligations (not interest) owed by its debtors, until June 30, 2020. During the deferral period, payments on all principal, interest and fees were suspended. Once the deferral period has ended, debtors can request refinancing if necessary. Debtors and financial institutions had until September 30, 2020 to agree on debt refinancing plans. In addition, financial system institution were urged to establish updated plans to ensure the continuity of their operations. Subsequently, on June 25, 2020, the CNBS issued resolution GES No. 278/25-06-2020, that allows supervised institutions (banks, financial companies, private development organizations, insurers) to grant additional grace periods or allow their debtors to restructure their loans, starting in July 2020, to debtors whose economic activities have been negatively affected by the COVID-19 pandemic, which would be determined on a case-by-case basis for each institution according to each debtor situation. This analysis should consider the debtor's ability to pay and their financial situation. If an institution determines that severity is less, their payments could be deferred for shorter periods of time. For other debtors whose economic activities have been less affected by the pandemic, their payments were only deferred until July 31, 2020. In addition, on October 19, 2020, the Honduran Government, represented by the Central Bank, the CNBS and the Honduran Bank for Production and Housing (BANHPROVI) reached an agreement with the Honduran Association of Banking Institutions (AHIBA) to provide additional financial assistance, including the extension of grace periods for payment, micro, small and medium-sized enterprises adversely affected by the COVID-19 pandemic. On December 2, 2020, the CNBS issued resolution GES No.601/02-12-2020 by which it extended the deadline until March 31, 2021 for the credit institution to formalize the refinancing or adjustment of the debtor's credit obligations. under these relief mechanisms.

Effects of tropical storms ETA and IOTA on the results of operations

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

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

As of June 30, 2022, the percentages of loans in our portfolio that were deferred, restructured, or refinanced pursuant to the government relief order were as follows:

Consolidated COVID-19 pandemic effects as of June 30, 2022

Business and commercial banking		Portfolio	%	Interests	Total
With relief:	L	15,337,502	16.8%	166,761	15,504,263
With deferred installments		499,286	0.5%	7,508	506,794
Adjusted		10,764,437	11.8%	68,649	10,833,086
Refinanced		4,073,779	4.5%	90,604	4,164,383
Without relief:		76,044,841	83.1%	858,711	76,903,552
Subtotal	L	91,382,343	99.90%⁽¹⁾	1,025,472	92,407,815

Retail banking		Portfolio	%	Interests	Total
With relief:	L	1,240,082	6.3%	13,114	1,253,196
With deferred installments		15,448	0.1%	90	15,538
Adjusted		1,050,674	5.3%	11,408	1,062,082
Refinanced		173,960	0.9%	1,616	175,576
Without relief:		18,287,409	93.7%	199,047	18,486,456
Subtotal	L	19,527,491	100.0%	212,161	19,739,652
Total		110,909,834		1,237,633	112,147,467

⁽¹⁾ The difference (0.1%) corresponds to the loan portfolio with relief measures ETA and IOTA tropical storms..

Relief measures ETA and IOTA tropical storms

Through GES resolution No. 602/02-12-2020, the Commission extends the term until March 31, 2021, for debtors to be able to avail themselves of the Tropical Storms ETA and IOTA relief mechanisms, as of June 30, 2022, these relief represent 0.1% of the gross loans and interest's portfolio with a balance of L54,923 thousand and L341 thousand and L61,381 thousand and L422 thousand, as of December 31, 2021, respectively.

Effects of changes in interest rates

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

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

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

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

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

Asset and Liability Rates

Given that 81.9% of our consolidated interest income for the six months ended June 30, 2022, 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 June 30, 2022, December 31, 2021 and 2020, compared to the average rates of the Honduran financial system published by the Central Bank from Honduras.

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

	2022	2021	2020
Assets (loans-BASA)	10.3%	10.9%	12.1%
System Average Assets Rate	11.7%	12.1%	13.7%
Liabilities (deposits-BASA)	2.3%	3.4%	4.6%
Monetary Policy Rate	3.0%	3.0%	3.0%

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

Banco Atlántida's average interest rate on assets (loans) denominated in lempiras was 10.3% as of June 30, 2022, compared to 10.9% as of December 31, 2021. For the six months ended June 30, 2022, the loan portfolio denominated in lempiras grew 8.8% while the local financial system grew 9.2% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on lempira-denominated liabilities (deposits) decreased to 2.3% as of June 30, 2022, compared to 3.4% as of December 31, 2021. As of June 30, 2022, deposits denominated in lempiras grew 5.4%, while the local financial system grew 3.4% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	2022	2021	2020
Assets (loans-BASA)	7.1%	6.5%	7.2%
System Average Assets Rate	7.5%	7.3%	7.7%
Liabilities (Deposits-BASA)	2.0%	2.2%	2.6%
System Average Liabilities Rate	1.5%	1.5%	1.9%

As of June 30, 2022, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 7.1%, compared to 6.5% as of December 31, 2021. The loan portfolio denominated in USD increased 1.6% as of June 30, 2022, while the local financial system decreased 3.7% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 2.0% as of June 30, 2022 and 2.2% as of December 31, 2021. Deposits denominated in USD grew at a rate of 5.8% as of June 30, 2022, while deposits for the local financial system grew at a rate of 3.0% during the same period, according to CNBS data.

Effect of family remittances

As of June 23, 2022, family remittances entering Honduras were USD4,005.3 million, which represented an increase of 19.7% compared to the corresponding period in 2021, while, for the previous comparative periods, they were as shown in the following table:

Period	Amount*	Change %	
23/06/2022	4,005.3	(p)	19.7%
23/06/2021	3,345.4	(r)	41.8%
23/06/2020	2,359.4	(r)	-5.8%
24/06/2019	2,493.4	(r)	9.0%

Expressed in millions of USD

(p) preliminary data

(r) revised data

The income obtained by Banco Atlántida as a result of handling of family remittances consisted mainly of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD1,227.5 million in family remittances during the period ended June 30, 2022, 21.7% more than the corresponding period of 2021, during which USD1,572.7 million were processed. As of June 30, 2022, Banco Atlántida's market share was 30.6%, while for the corresponding period of 2021 it was 30.0%.

Competition

We face intense competition in all our segments, which can materially affect our growth, market share, margins, and profitability. For more information, see “Honduras Financial Services Industry.”

Inflation

An increase in inflation rates may affect our performance primarily because all of our assets are not adjusted for the effects of inflation. In addition, material increases in the rate of inflation could result in lower demand and affect the prices of our services and products. Because much of our costs and expenses are fixed, we may not be able to reduce costs in the event of inflation. Increases in the rate of inflation could also negatively affect our loan portfolio.

The Honduran economy has been characterized by moderate inflation in recent years. As of June 30, 2022, according to the Central Bank of Honduras, the inflation rate was 10.2%, of which 4.2% corresponds to imported inflation. This result is mainly explained by the increase in the prices of food and non-alcoholic beverages; furniture and items for home maintenance, accommodation, water, electricity, gas and other fuels, clothing and footwear; hotels, restaurants, transportation, education, among others. As of December 31, 2021, the inflation rate was 5.3% according to the Central Bank, which exceeded the established target of 4.0% (± 1 pp) by 30bp, as agreed with the International Monetary Fund (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 USD could have a negative impact on the ability of our subsidiaries' clients to repay loans and make insurance premium payments, which in turn could have an adverse effect on our financial condition and results of operations

In 2020, the exchange rate of the Lempira compared to the USD appreciated at a stable rate due to the effects of the Covid-19 pandemic on the entry flows of foreign currency. During 2021, the lempira experienced a slight depreciation due to the post pandemic economic recovery. The Lempira exchange rate is characterized by cyclical fluctuations 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 L24.4124 per USD1.00 on June 30, 2022, compared to L24.3454 per USD1.00 on December 31, 2021, 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
2021	9.5	2.2%	3,010	17.4%	N/A	N/A	8.5%	1.7%
2020	9.3	1.1%	2,563	-6.6%	N/A	N/A	8.4%	46.9%
2019	9.2	2.2%	2,743	2.8%	48.0%	-4.8%	5.7%	0.9%
2018	9.0	1.1%	2,669	2.0%	50.4%	1.2%	5.7%	2.2%

* GDP per capita
N/A not available

Bank loans

The growth rate of Banco Atlántida's loan portfolio, specifically for its retail banking segment, can be attributed to low banking penetration. In terms of banking penetration, the ratio of loans (as published by the Commission) to GDP (as published by the Central Bank) was 57.9%, as of June 30, 2022.

According to the Central Bank, as of June 30, 2022, the growth rate of bank loans to the private sector was 16.7%, compared to 4.7% as of June 30, 2021. The change is explained by the increase in demand of credits from the private sector, as a consequence of the reactivation of economic activities that were partially or totally suspended during the pandemic.

Results of operations for the six months ended June 30, 2022, compared to the six months ended June 30, 2021.

	June 30,		Change	
	2022	2021	HNL	%
Interest income	5,763,985	4,848,213	915,772	18.9%
Interest expense	2,103,780	2,416,696	(312,916)	-12.9%
Financial profit	3,660,205	2,431,517	1,228,688	50.5%
Loan impairment charges	711,481	398,076	313,405	78.7%
Financial profit, net of impairment charges	2,948,724	2,033,441	915,283	45.0%
Income from insurance activities	2,538,629	2,216,225	322,404	14.5%
Expenses from insurance activities	2,258,896	1,957,030	301,866	15.4%
Profit from insurance activities	279,733	259,195	20,538	7.9%
Services	55,833	34,484	21,349	61.9%
Commissions	2,170,167	1,778,081	392,086	22.1%
Leases	3,203	5,832	(2,629)	-45.1%
Other income	446,751	362,872	83,879	23.1%
Total proceeds from services	2,675,954	2,181,269	494,685	22.7%
Staff-expenses	1,448,675	1,289,097	159,578	12.4%
General and administrative expenses	2,617,735	2,106,948	510,787	24.2%
Depreciation and amortization	402,844	386,880	15,964	4.1%
Total operating expenses	4,469,254	3,782,925	686,329	18.1%
Operating income	1,435,157	690,980	744,177	107.7%
Income from dividends	1,440	1,747	(307)	-17.6%
Gain on sale of assets available for sale	72,126	56,806	15,320	27.0%
Gain on sale of property, plant and equipment	13,019	112,505	(99,486)	-88.4%
Other income, net	60,099	143,850	(83,751)	-58.2%
Total non-operating income	146,684	314,908	(168,224)	-53.4%
Income before income tax	1,581,841	1,005,888	575,953	57.3%
Income tax/capital gain/net assets tax	645,293	448,314	196,979	43.9%
Income before non-controlling interest	936,548	557,574	378,974	68.0%
Net income attributable to noncontrolling interest	119,380	80,723	38,657	47.9%
Net income	817,168	476,851	340,317	71.4%

In thousands of HNL except percentages

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

Interest income

The following table presents the components of the interest income for the six months ended, June 30, 2022 and 2021:

	June 30,		Change	
	2022	2021	HNL	%
Loans	5,014,760	4,167,731	847,029	20.3%
Certificates, bonds and others	595,393	543,328	52,065	9.6%
Finance leasing	134,513	117,606	16,907	14.4%
Deposits	19,319	19,548	(229)	-1.2%
Total	5,763,985	4,848,213	915,772	18.9%

(In Thousands of HNL except percentages)

Interest income increased 18.9%, or L915,772 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to a 20.3% increase in income from interest on loans and a 9.6% increase in income from interest on certificates, bonds and others.

Interest income on loans increased by 20.3%, or L847,029 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, as a result of the increase by L984,186 thousand due to an increase in the volume of loans in local currency of 27.9% and 14.6% in foreign currency. This increase was partially offset by a decrease of L137,158 thousand, because of the reduction in interest rates.

Interest income on investments in certificates, bonds and others increased by 9.6%, or L52,065 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, due to a higher volume of local and foreign investments that resulted in an increase of L157,905 thousand, partially offset by a decrease of L105,840 thousand as a result of the decrease in interest rates.

Interest income from finance leases increased by 14.4%, or L16,907 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, due to an increase of L27,390 thousand as a result of a 25.6% increase in the volume of financial leases, partially offset by a decrease of L10,483 thousand, as a result of the reduction in interest rates.

Interest expense

	June 30,		Change	
	2022	2021	HNL	%
Deposits	1,379,708	1,799,625	(419,917)	-23.3%
Loans obtained from banks	306,956	259,212	47,744	18.4%
Bonds and guaranteed notes	417,116	357,859	59,257	16.6%
Total,	2,103,780	2,416,696	(312,916)	- 12.9%

(In Thousands of HNL except percentages)

Interest expense decreased by 12.9%, or L312,916 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, primarily as a result of a decrease by 23.3% in interest expense on deposits.

Interest expense on deposit decreased 23.3% or L419,917 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to the downward trend of the interest rates, which led to a decrease in interest expense of L512,625 miles, partially offset by an increase of L92,708 miles due to an increase in the volume of deposits by 10.9%.

Interest expense on loans obtained from banks increased by 18.4%, or L47,744 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, primarily as a result of the increase in the volume of loans obtained from banks, which led to an increase in interest expense by L89,954 thousand, partially offset by a decrease of L42,210 thousand due to the downward trend of interest rates.

Interest expense on bonds and secured notes increased by 16.6% or L59,257 thousand, mainly due to (i) an increase in expense by L88,421 thousand due to the 30.4% increase in the volume of bonds and notes in currency foreign currency, offset by a decrease of L12,482 thousand caused by a 28.2% decrease in the volume of bonds in local currency and (ii) a decrease of L16,682 thousand in expenses, as a result of the downward trend of the interest rates.

Loan impairment charges

	June 30, 2022	2021	Change HNL	%
Loan impairment charges	711,481	398,076	313,405	78.7%
NPL ratio ⁽¹⁾	2.5%	2.6%	-	-
Coverage ratio ⁽²⁾	125.5%	131.2%	-	-
Provision for loan losses	3,449,502	3,038,643	410,859	13.5%

(In Thousands of HNL's except percentages)

Comparative data for 2021 corresponds to December 31, 2021, except for loan impairment charges which corresponds to June 30, 2021.

(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 78.7%, or L313,405 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, while the delinquency ratio (NPL ratio) was 2.5% as of June 30, 2022 and 2.6% as of December 31, 2021; On the other hand, the NPL coverage ratio was 125.5% as of June 30, 2022, and 131.2% as of December 31, 2021.

For the six months ended June 30, 2022, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L307,943 thousand;
- b) Attributable to SME banking L74,591 thousand;
- c) Attributable to corporate banking L328,947 thousand.

The provision for credit losses increased by L410,859 thousand as of June 30, 2022. This increase is mainly due to the recognition of loan impairment charges by L711,481 thousand, as well as the transfer of reserve for lease receivable for L900 thousand, partially offset by portfolio write-offs by L182,310 thousand, release of reserves by L120,498 thousand, interest included in loans by L1,721 thousand, transfer to reserves for amortization of assets available for sale by L474 thousand and exchange fluctuation effect by L512 thousand.

Proceeds from services

The following table presents the components of income from services for the six months ended June 30, 2022, and 2021:

	June 30,		Change	
	2022	2021	HNL	%
Services	55,833	34,484	21,349	61.9%
Commissions	2,170,167	1,778,081	392,086	22.1%
Leases	3,203	5,832	(2,629)	-45.1%
Other income ⁽¹⁾	446,751	362,872	83,879	23.1%
Total	2,675,954	2,181,269	494,685	22.7%

(In thousands of HNL except percentages)

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

Proceeds from services increased by 22.7%, or L494,685 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, primarily due to a 22.1% increase in commission income and an increase in other income by 23.1%, as explained below.

Income from services increased 61.9% or L21,349 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, due to an increase in other services of Atlántida Securities and GUIP by L8,733 thousand and L4,654 thousand, respectively, in addition, an increase in warehouse income by L4,965 thousand.

Commission income increased 22.1%, or L392,086 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is mainly explained by the following variations:

Banco Atlántida's commissions income:

Loan Commissions	42,118
Commissions on products and services	21,438
Credit/debit card fees	13,512
Other Commissions	95,565
Subtotal	172,633
AFP Atlántida's commissions	26,392
AFP Confía's commissions	125,056
Banco Atlántida El Salvador commissions on loans and services	18,910
Atlántida Capital's Commissions income	45,940
Total commissions	388,931

(In thousands of HNL)

The increase in other income by 23.1% or L83,879 thousand for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is mainly due to the increase in other income of Banco Atlántida due to: (i) an increase by L64,793 thousand in profits from the purchase and sale of foreign currency as a result of greater economic activity in the country; (ii) an increase in income by L39,575 thousand derived from the sale of financial instruments at amortized cost and (iii) a decrease by L22,639 thousand in charges for accounts management fees.

Profit from insurance activities

The following table presents the components of income from insurance activities for the six months ended June 30, 2022 and 2021:

	June 30,		Change	
	2022	2021	(HNL)	%
Income from insurance activities	2,538,629	2,216,225	322,404	14.5%
Expenses from insurance activities	2,258,896	1,957,030	301,866	15.4%
Profit from insurance activities	279,733	259,195	20,538	7.9%

Income from insurance activities increased by 7.9%, or L20,538 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities increased 14.5%, or L322,404 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to an increase in premiums issued by Atlántida Vida and Seguros Atlántida by L115,147 thousand and L162,981 thousand, respectively; an increase by L134,973 thousand in the variation of reserves for risks in progress; an increase by L30,169 thousand in ceded reinsurance commissions, partially offset by a decrease by L39,769 in recovered claims from reinsurers caused by movements in the 2021 estimate, due to adjustments for hurricanes Eta / Iota; a decrease by L17,471 thousand in the release of reserves for impairment of premiums receivable; a decrease by L6,662 thousand in salvage and claim recovery and; a decrease by L58,054 thousand in the variation of reserves for claims pending liquidation.

Expenses from insurance activities increased 15.4%, or L301,866 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to an increase by L213,957 thousand in claims, an increase by L88,302 thousand in ceded premiums, an increase by L57,262 thousand in returns and cancellations of insurance premiums, an increase by L9,564 thousand in insurance commissions, an increase by L5,580 thousand in premiums for excess loss contracts, an increase by L33,246 thousand in the variation of reserves, partially offset by a decrease of L67,900 thousand in other technical expenses, a decrease of L39,134 thousand in occurred and unreported claims and a decrease by L1,617 thousand due to allowance for impairment of premiums receivable.

Operating expenses

The following table presents the components of operating expenses for the six months ended June 30, 2022 and 2021.

	June 30,		Change	
	2022	2021	HNL's	%
Staff expenses	1,448,675	1,289,097	159,578	12.4%
General and administrative expenses	2,617,735	2,106,948	510,787	24.2%
Depreciations and amortizations	402,844	386,880	15,964	4.1%
Total	4,469,254	3,782,925	686,329	18.1%

(In thousands of HNL except percentages)

Operating expenses increased by 18.1%, or L686,329 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, primarily due to a 12.4% increase in staff expenses and a 24.2% increase in general and administrative expenses, as explained below.

Staff expenses increased by 12.4%, or L159,578 thousand, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021, mainly due to an increase in salaries expense by L89,660 thousand, of which L27,400 thousand correspond to the payment of variable compensation and L51,876 thousand due to salary adjustments; an increase by L35,944 thousand in provisions expenses for bonuses; an increase by L5,192 thousand in medical care for Group's employees; an increase by L4,309 thousand in employer contributions; an increase by L15,715 thousand in travel expenses and an increase in training expenses by L6,997 thousand.

General and administrative expenses increased 24.2%, or L510,787 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to: (i) an increase by L95,353 thousand in various expenses of Banco Atlántida; (ii) an increase by L166,646 thousand in other expenses for services, mainly due to the following increases: L82,482 thousand in other expenses for services, L16,192 thousand in maintenance of vehicles, L12,692 thousand in maintenance of furniture and office equipment, L8,997 thousand in advertising and marketing expenses, L18,418 thousand in software and computer equipment maintenance, L7,679 thousand in real estate maintenance, L8,113 thousand in valuables transportation expenses, (iii) an increase by L12,714 thousand in other administrative expenses of Banco Atlántida El Salvador; (iv) an increase in expenses for outsourced services of Confia and Banco Atlántida El Salvador by L29,602 thousand and L137,622 thousand, respectively; (v) an increase in expenses for professional fees by L12,568 thousand; (vi) an increase in expenses for contributions to regulators by L39,731 thousand.

Non-operating income (expenses)

	June 30,		Change	
	2022	2021	HNL	%
Dividend income	1,440	1,747	(307)	-17.6%
profit on sale of assets available for sale	72,126	56,806	15,320	27.0%
Profit on the sale of property, plant and equipment	13,019	112,505	(99,486)	-88.4%
Other income (expenses), net	60,099	143,850	(83,751)	-58.2%
Total	146,684	314,908	(168,224)	-53.4%

(In thousands of HNL except percentages)

Non-operating income (expenses) decreased by 53.4%, or L168,224 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, primarily due to a decrease in other income (expenses) net by 58.2%, a decrease in profit from the sale of property, plant and equipment by 88.4%; partiality offset by an increase in profit on sale of assets available for sale by 27.0%

Profit from the sale of assets available for sale increased by 27.0%, or L15,320 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to an increase in the sales of Banco Atlántida.

Profit from the sale of property, plant and equipment decreased by 88.4%, or L99,486 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to a decrease of L96,740 thousand, corresponding to an extraordinary transaction carried out by Banco Atlántida El Salvador in 2021.

Other income (expenses), net, decreased 58.2%, or L83,751 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, mainly due to: (i) a decrease in other financial income by L24,757 thousand; (ii) an increase in net losses from valuation of financial assets held for sale by L137,682 thousand; (iii) a decrease in recoveries of financial assets written off by L5,280 thousand; (iv) an increase in income due to the fluctuation in exchange rates by L67,073 thousand; and (v) an increase in other income/expenses (net) by L20,845 thousand.

Income before taxes and non-controlling interest

Profit before taxes and non-controlling interest increased 57.3% to L1,581,842 thousand for the six months ended June 30, 2022, compared to L1,005,888 thousand for the corresponding period in 2021, as a result of the factors discussed above.

Income tax

Income tax expense increased by 43.9%%, or L196,979 thousand, for the six months ended June 30, 2022, compared to the six months ended June 30, 2021. The effective rate of income tax was 36.2% as of June 30, 2022, compared to 35.9% as of June 30, 2021.

Net income

Net income increased 71.4% for the six months ended June 30, 2022, compared to the corresponding period of 2021. Average shareholders' equity increased 9.5% to L15,547,732 thousand, for the six months ended June 30, 2022, compared to the corresponding period of 2021. ROAE was 10.5% and 6.7% for the six months ended June 30, 2022 and 2021, 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 June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021	Change	%
Demand deposits	20,294,290	20,798,239	(503,949)	-2.4%
Savings deposits	60,362,372	56,752,094	3,610,278	6.4%
Term deposits	39,114,485	38,830,579	283,906	0.7%
Other	678,218	184,393	493,825	267.8%
Total, deposits	120,449,365	116,565,305	3,884,060	3.3%
Banks loans	14,427,699	16,324,834	(1,897,135)	-11.6%
Bonds and guaranteed notes	11,904,385	11,396,531	507,854	4.5%
	146,781,449	144,286,670	2,494,779	1.7%
(In thousands of HNL except percentages)				

Deposits increased 3.3% to L120,449,365 thousand as of June 30, 2022, compared to L116,565,305 thousand as of December 31, 2021, mainly as a result of the partial recovery of the dynamism of the economies of the countries where the Group operates, after the period of inactivity caused by the COVID-19 pandemic.

Bank loans were L14,427,699 thousand as of June 30, 2022, compared to L16,324,834 thousand as of December 31, 2021. Banco Atlántida has lines of credit with 20 global financial institutions with which it has had correspondent relationships. Some of its main credit line providers include IFC, PROPARCO, CABEI, 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, 2022, the Group had a total amount of USD \$404,557 thousand (L9,876,197 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which US\$227,608 thousand (L5,556,446 thousand) were available for use.

Bonds and secured notes issued were L11,904,385 thousand as of June 30, 2022, compared to L11,396,531 thousand as of December 31, 2021, which represents an increase of L507,854 thousand of which L487,387 thousand correspond to new issuances net of bond cancellations, an increase due to the application of the amortized cost method of L5,802 thousand and a decrease due to the variation in the exchange rate of L14,603 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 and Nicaraguan capitalization requirements, Banco Atlántida, Banco Atlántida El Salvador and Banco Atlántida Nicaragua are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras and Nicaragua and capital fund for El Salvador). As of June 30, 2022, the required capital adequacy ratio for Honduras and Nicaragua was 11.25% and 10.0%, 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) and Banco Atlántida Nicaragua (capital adequacy ratio), according to regulatory requirements:

Banco Atlántida	June 30,		December 31,	
	2022	2021	2020	2019
Total, level 1	9,176,710	8,677,567	8,680,524	7,988,863
Total, level 2	3,238,457	3,035,703	1,958,843	1,894,418
Total, Regulatory Capital	12,415,167	11,713,270	10,639,367	9,883,281
Total, Risk-weighted assets	103,967,837	98,852,163	83,072,295	81,437,715
Regulatory capital as a percentage of risk-weighted assets	11.9%	11.8%	12.8%	12.1%
(In thousands of lempiras except percentages)				

Banco Atlántida El Salvador	June 30,		December 31,	
	2022	2021	2020	2019
Total, level 1	91,583	76,583	65,946	55,848
Total, level 2	8,872	6,270	3,980	3,567
Total, Regulatory Capital	100,455	82,853	69,926	59,415
Total, Risk-weighted assets	859,034	633,118	540,912	445,121
Regulatory capital as a percentage of risk-weighted assets	11.7%	13.1%	12.9%	13.3%
(In thousands of USD except percentages)				

Banco Atlántida Nicaragua	June 30,		December 31,	
	2022	2021	2020	2019
Total, level 1	483,607	534,237	427,848	400,491
Total, level 2	(25,145)	(57,441)	(64,015)	(34,280)
Total, Regulatory Capital	458,462	476,976	363,833	366,211
Total, Risk-weighted assets	997,595	983,314	663,952	253,194
Regulatory capital as a percentage of risk-weighted assets	46.0%	48.5%	54.8%	144.6%
(In thousands of córdobas 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 June 30, 2022.

	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	26,917,238	25,729,083	21,028,036	28,391,635	18,383,373	120,449,365
Bank loans	794,695	1,253,079	3,832,511	4,539,995	4,007,419	14,427,699
Bonds and guaranteed notes			1,611,845	10,546,859		12,158,704
Total	27,711,933	26,982,162	26,472,392	43,478,489	22,390,792	147,035,768
% of Total	18.8%	18.4%	18.0%	29.6%	15.2%	100.0%

(In thousands of HNL, except percentages)

Capital expenditures

Consolidated capital expenditures decreased to L517,157 thousand for the six months ended June 30, 2022, compared to L776,252 thousand for the six months ended June 2021, mainly due to a decrease in the development of intangibles assets such as software, licenses, among others.

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:

	June 30, 2022	December 31, 2021
Letters of credit and idle credit documents	L 573,819	796,496
Securities and bank guarantees issued	5,532,555	6,271,148
Acceptance debtors	11,054	243,274
Idle credits	6,157,287	5,532,658
Other responsibilities	250,631	286,703
L	<u>12,525,346</u>	<u>13,130,279</u>

(In thousands of HNL)

The credit risk of both on-and off-balance sheet financial instruments changes based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific requirements for covenants, guarantees and guarantees on a case-by-case basis, depending on the nature of the financial instrument and the solvency of the client. We may also require letters of commitment and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory, and accounts receivable, as well as cash on deposit, stocks, bonds, and other marketable securities that are generally held in our possession or by another appropriate custodian or depository. This guarantee is periodically assessed and inspected to ensure both its existence and its adequacy. Additional collateral is required where appropriate as determined by the credit committee of our subsidiaries.

Qualitative and quantitative disclosure on market risks

We are exposed to risks in the ordinary course of business, particularly credit risk, liquidity risk, exchange rate risk and interest rate risk. For a discussion of how we regularly assess and manage our exposures to these risks, please see Note 4 of our consolidated financial statements as of June 30, 2022.