



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF JUNE 30, 2023**

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

The following discussion of our financial position and results of operations should be read in conjunction with our consolidated financial statements and other financial information related to this. Our consolidated financial statements have been prepared in accordance with Honduran banking GAAP. Our future results may vary materially from those discussed in this document due to various factors that affect our business.

Overview

We are one of the largest financial services groups in Honduras and, through our subsidiaries, we offer a wide range of corporate and retail banking, insurance, pension fund management and other financial services to more than 4.1 million clients as of June 30, 2023. We were recognized as a Financial Group by the National Banking and Insurance Commission (CNBS by its acronym in Spanish) in 2012 and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from important synergies of being part of a Financial Group.

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

Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida, these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to CNBS data. As of June 30, 2023, and 2022, Banco Atlántida had a net income of L806,917 thousand and L816,252 thousand and a ROAE of 11.9% and 13.2%; Seguros Atlántida had a net profit of L44,165 thousand and L133,259 thousand and a ROAE of 7.4% and 19.8% and AFP Atlántida had a net profit of L100,391 thousand and L119,219 thousand and a ROAE of 23.8% and 26.3 %, respectively. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits, with market shares of 18.2%, 20.8% and 20.5%, respectively, as of June 30, 2023, according to data from the CNBS. Seguros Atlántida is one of the largest insurers in terms of gross written premiums, with a market share of 14.5% and 15.9% as of June 30, 2023, and 2022, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 59% market share in terms of assets under management as of June 30, 2023.

The Group has one of the largest banking distribution networks in Honduras. As of June 30, 2023, we had 4,705 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, and Panama added 4,837 service points as follows:

- 268 branches (151 agencies, 61 teller windows embedded within corporate client offices, 23 drive thru and 33 branches related to the other business lines of the Group);
- 1,198 ATMs (434 proprietary ATMs and 764 third-party network ATMs); and
- 3,371 non-correspondent banking agents.

As of June 30, 2023, and 2022, Banco Atlántida El Salvador had net income of L78,970 thousand and L45,012 thousand and an ROAE of 6.0% and 4.1%, respectively. Banco Atlántida El Salvador's market share of 4.8%, 4.9% and 4.0%, in total assets, loans and deposits, respectively, as of June 30, 2023, according to SSF data. As of April 30, 2023, AFP Confía had a 51.9% market share in terms of total assets under management and 47.9% in terms of total number of clients according to SSF data. Furthermore we have two small operations in Nicaragua (Banco Atlántida Nicaragua) and Panama (Pacific Bank).

Key factors affecting our financial condition and results of operations

COVID-19 pandemic

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

Tropical storms ETA and IOTA

On March 2, 2021, the CNBS issued resolution GES No.602/02-12-2020 by which it established relief mechanisms for debtors affected by tropical storms Eta & Iota, consisting of supervised institutions that carry out credit operations. credit, prior identification and evaluation, being able to grant grace periods to debtors (individuals or legal entities) who have been affected by the effects caused by tropical storms ETA and IOTA. The grace periods may not exceed three (3) months, corresponding to the installments for the months of November and March 2020 and January 2021, which must be applied at the request of the debtors or at the initiative of the institutions when identifying the clients. affected, regardless of the risk category in which the debtor is classified.

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

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

As of June 30, 2023, the loan portfolio had a balance of debt by L12,429,130 thousand under relief mechanisms for covid-19 pandemic and Eta & Iota tropical storms, representing 10% of the total portfolio, divided into refinanced with L3,213,836 thousand, readjusted L9,050,589 thousand and deferred in installments L164,705 thousand.

As of June 30, 2023, the interests recognized on loans under relief mechanisms to covid-19 pandemic and Eta & Iota tropical storms had a balance of L118,059 thousand represents 13% of the total interest receivable on portfolio, interest is divided into in refinanced with balance L126,151 thousand, readjusted L59,916 thousand and deferred payments L1,992 thousand.

Effects of changes in interest rates

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

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

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

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

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

Asset and Liability Rates

Given that 79.1% of our consolidated interest income for the six months ended June 30, 2023, comes from Banco Atlántida, our analysis is focused on the behavior of Banco Atlántida's interest rates. The following tables establish the weighted average interest rates of assets and liabilities in *lempiras* and USD as of June 30, 2023, December 31, 2022, and 2021, compared to the average rates of the Honduran Financial System published by the Central Bank of Honduras.

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

	June, 30	December, 31	
	2023	2022	2021
Assets (loans-BASA)	9.9%	10.1%	10.9%
System Average Assets Rate	11.2%	11.2%	12.1%
Liabilities (deposits-BASA)	2.8%	2.2%	3.4%
Monetary Policy Rate	3.0%	3.0%	3.0%

The Honduran banking industry generally does not set interest rates by reference to a benchmark rate; however, the weighted average interest rates on *lempira*-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum bid rate that the Central Bank allows for its treasury notes. This reference rate was reduced to 3.0% on November 27, 2020, a decrease of 0.75 bp, due to the continuous efforts of the Central Bank to mitigate the effects of the COVID-19 pandemic and has not been changed since.

Banco Atlántida's average interest rate on assets (loans) denominated in *lempiras* was 9.9% as of June 30, 2023, compared to 10.1% as of December 31, 2022. For the six months ended June 30, 2023, the loan portfolio denominated in *lempiras* grew 9.3% while the local financial system grew 10.6% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) increased to 2.8% as of June 30, 2023, compared to 2.2% as of December 31, 2022. As of June 30, 2023, deposits denominated in lempiras grew 15.8%, while the local financial system grew 5.6% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	June,30	December,31	
	2023	2022	2021
System Average Assets Rate	8.8%	7.7%	7.3%
Assets (loans-BASA)	7.2%	7.2%	6.5%
System Average Liabilities Rate	2.0%	1.9%	1.5%
Liabilities (Deposits-BASA)	2.1%	2.6%	2.2%

As of June 30, 2023, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 8.8%, compared to 7.7% as of December 31, 2022. The loan portfolio denominated in USD increased 0.2% as of June 30, 2023, while the local financial system increased 3.2% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 2.1% as of June 30, 2023, and 2.6% as of December 31, 2022. Deposits denominated in USD decrease by 1.3% as of June 30, 2023, while deposits for the local financial system grew 4.1% during the same period, according to CNBS data.

Effect of family remittances

As of June 22, 2023, family remittances that entered Honduras were USD4,301.0 million, which represented an increase of 7.4% compared to the corresponding period in 2022, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*	Change %	
22/6/2023	4,301.0	(p)	7.4%
22/6/2022	4,005.3	(r)	19.3%
24/6/2021	3,356.6	(r)	41.0%
24/6/2020	2,380.0	(r)	-4.5%

expressed in millions of USD

(p) preliminary data

(r) revised data

The income recognized by Banco Atlántida as a result of handling family remittances consisted mainly of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD1,139.23 million in family remittances during the period ended June 30, 2023, 7.2% less than the corresponding period of 2022, during which USD1,227.5 million were processed. As of June 30, 2023, Banco Atlántida's market share was 26.5%, while for the corresponding period of 2022 it was 30.6%.

Competition

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

Inflation

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

The Honduran economy was characterized by having moderate levels of inflation, however, this changed in 2022, due to various external shocks that have influenced the growth rate in the price index. During 2023, it has been observed that inflation has begun to return to previously experienced levels, and it is expected that by the end of 2023 its growth will be similar to that experienced before the effects of the pandemic. As of June 30, 2023, the inflation rate was 5.6%, this behavior is mainly due to moderation in the growth rate food prices, lower weighted average prices fuels and in the electricity rate and price stability of other items, reducing its contribution to the rate year-on-year with respect to June 2022. Of the total interannual inflation, the component imported continues to be important, representing approximately 45.0% (2.52pp) of the total. According to the Central Bank, for 2023, the inflation target is set within a range of 6 to 7%, according to the Monetary Program made by the government with the IMF.

Exchange Rates

The Group is exposed to currency risk any time an open position in a currency other than Lempiras is held. Volatility in Lempiras exchange rates could result in higher risks associated with such positions.

In addition, any devaluation or depreciation of the Lempira compared to the U.S. dollar could have a negative impact on the ability of our subsidiaries’ clients to repay loans and make insurance premium payments, which in turn could have an adverse effect on our financial condition and results of operations.

The lempira exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras’ main agricultural commodities and the high demand for foreign currency to pay for imported goods. The exchange rate was L24.5932 per US\$1.00 on June 30, 2023, compared to L24.4124 per US\$1.00 on June 30, 2022, according to the Central Bank.

Demographic trends

During the last 4 years the behavior of the main demographic variables of the country has been as shown in the following table:

Period	Population (millions)	% Change	GDP * (USD)	% Change	Poverty rate	% Change	Unemploy-ment rate	% Change
2022	9.6	1.1%	3,303	9.7%	52.4%	-1.7%	7.1%	-10.1%
2021	9.5	2.2%	3,010	17.4%	53.3%	-7.6%	7.9%	-26.2%
2020	9.3	1.1%	2,564	-6.6%	57.7%	16.6%	10.7%	91.1%
2019	9.2	2.2%	2,744	5.0%	49.5%	-0.6%	5.6%	0.9%

* GDP per capita

Bank loans

The growth rate of the loan portfolio of Banco Atlántida, specifically for its retail banking segment, can be attributed to low bank penetration. In terms of bank penetration, the proportion of loans (as published by the Commission) to GDP (as published by the Central Bank) was 59.4%, as of December 31, 2022.

According to the Central Bank, as of June 30, 2023, the growth rate of bank loans to the private sector was 19.9%, compared to the growth rate of 17.2% and 4.7% as of June 2022 and 2021, respectively. The main change is explained by the increase in the demand for loans from the private sector, due to the normalization in the growth of economic activity experienced as of the second half of 2022.

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

	June 30,		Change	
	2023	2022	HNL	%
Interest income	6,739,507	5,763,985	975,522	16.9%
Interest expense	2,979,497	2,103,780	875,717	41.6%
Financial profit	3,760,010	3,660,205	99,805	2.7%
Loan impairment charges	563,187	711,481	-148,294	-20.8%
Financial profit, net of impairment charges	3,196,822	2,948,724	248,098	8.4%
Income from insurance activities	2,205,246	2,538,629	-333,383	-13.1%
Expenses from insurance activities	2,062,281	2,258,896	-196,615	-8.7%
Profit from insurance activities	142,965	279,733	-136,768	-48.9%
Services	55,623	55,833	-210	-0.4%
Commissions	2,158,113	2,170,167	-12,054	-0.6%
Leases	5,062	3,203	1,859	58.0%
Other income	237,427	446,751	-209,324	-46.9%
Total proceeds from services	2,456,225	2,675,954	-219,729	-8.2%
Staff-expenses	1,733,752	1,448,675	285,077	19.7%
General and administrative expenses	2,863,843	2,617,735	246,108	9.4%
Depreciation and amortization	470,256	402,844	67,412	16.7%
Total operating expenses	5,067,852	4,469,254	598,598	13.4%
Operating income	728,160	1,435,157	-706,997	-49.3%
Income from dividends	3,390	1,440	1,950	135.4%
Gain on sale of assets available for sale	513,286	72,126	441,160	611.7%
Gain on sale of property, plant and equipment	9,439	13,019	-3,580	-27.5%
Other income, net	161,484	60,099	101,385	168.7%
Total non-operating income	687,599	146,684	540,915	368.8%
Income before income tax	1,415,760	1,581,841	-166,081	-10.5%
Income tax/capital gain/net assets tax	577,120	645,293	-68,173	-10.6%
Income before non-controlling interest	838,640	936,548	-97,908	-10.5%
Net income attributable to noncontrolling interest	137,073	119,380	17,693	14.8%
Net income	701,567	817,168	-115,601	-14.1%

In thousands of HNL except percentages

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

Interest income

The following table shows the components of the interest income for the six months ended, June 30, 2023, and 2022:

	June 30,		Change	
	2023	2022	HNL	%
Loans	5,697,841	5,014,760	683,081	13.6%
Certificates, bonds and others	705,549	595,393	110,156	18.5%
Finance leasing	181,279	134,513	46,766	34.8%
Deposits	154,838	19,319	135,519	701.5%
Total	6,739,507	5,763,985	975,522	16.9%

(In Thousands of HNL except percentages)

Interest income increased 16.9%, or L975,522 thousand, for the six months ended June 30, 2023, compared to same period of 2022, mainly due to a 13.6% increase in income from interest on loans, 701.5% increase in income from interest on deposits and 18.5% increase in income certificates, bonds and other.

Interest income on loans increased by 13.6%, or L683,081 thousand, for the six months ended June 30, 2023, compared to the same period of 2022, as a result of an increase in loans volume in local and foreign currency by 21.2% and 15.2%, respectively, which led to an increase of L929,235 thousand in interest income, partially offset by a decrease of L246,153 thousand in interest income because of the downward trend in interest rates.

Interest income on investments in certificates, bonds and others increased by 18.5%, or L110,156 thousand, for the six months ended June 30, 2023, compared to the same period of 2022, due to the upward trend in interest rates of local and foreign investments and an increase in the volume of investments which led to an increase in interest income by L87,969 thousand and L22,187 thousand, respectively.

Interest income from financial leases increased by 34.8%, or L46,766 thousand, for the six months ended June 30, 2023, compared to the same period, June 30, 2022, due to an increase of L59,519 thousand as a result of a 48.9% increase in the volume of financial leases, partially offset by a decrease of L12,753 thousand as a result of the rise trend in interest rate.

Interest income on deposits increased by 701.5%, or L135,518 thousand, for the six months ended June 30, 2023, compared to the same period ended June 30, 2022, due to an increase of L154,607 thousand, as a result of the upward trend in the interest rates, partially offset by a decrease of L19,088 thousand in interest income due to a 27.3% decrease in deposits volume.

Interest expense

	June 30,		Change	
	2023	2022	HNL	%
Deposits	1,807,070	1,379,708	427,362	31.0%
Loans from banks	575,649	306,956	268,693	87.5%
Bonds and guaranteed notes	596,778	417,116	179,662	43.1%
Total,	2,979,497	2,103,780	875,717	41.6%

(In Thousands of HNL except percentages)

Interest expense increased by 41.6%, or L875,717 thousand, for the six months ended June 30, 2023, compared to the same period ended June 30, 2022, primarily due to an increase in interest expenses on deposits by 31.0%, and an increase by 87.5% in interest expenses on loans from banks, as explained below.

Interest expense on deposits decreased 31.0% or L427,362 thousand, for the six months ended June 30, 2023, compared to the same period ended June 30, 2022, mainly due to the upward trend of the interest rates and an increase in the volume of deposits, which led to an increase in interest expense of L216,371 thousand and L210,991 thousand, respectively.

Interest expense on loans from banks increased by 87.5% or L268,693 thousand, for the six months ended June 30, 2023, compared to the same period ended June 30, 2022, mainly as a result of the upward trend of interest rate and an increase in the volume of loans from banks, which led to an increase in interest expense of L127,918 thousand and L140,775 thousand, respectively.

Interest expense on bonds and secured notes increased by 43.1% or L179,662 thousand, mainly due to: (i) an increase in the volume of bonds and notes which led to an increase in interest expenses of L18,338 thousand in foreign currency and L18,829 thousand in local currency and (ii) an increase of L142,495 thousand in interest expenses, due to the upward trend in interest rates.

Loan impairment charges

	June 30,		Change	
	2023	2022		%
Loan impairment charges	563,187	711,481	(148,294)	-20.8%
NPL ratio (1)	2.4%	2.4%	-	-
Coverage ratio (2)	111.4%	124.3%	-	-
Provision for loan losses	3,458,009	3,584,536	(126,527)	-3.5%

(In thousands of HNL's except percentages)

Comparative data for 2022 corresponds to December 31, 2022, except for loan impairment charges which corresponds to June 30, 2022. (1) The NPL ratio is calculated dividing NPLs (including refinanced NPLs) by our gross loan portfolio. (2) The coverage ratio is calculated dividing the provision for loan losses by NPLs (including refinanced NPLs).

Loan impairment charges decreased by 20.8%, or L148,294 thousand, for the six months ended June 30, 2023, compared to the same period ended June 30, 2022, while the delinquency ratio as of June 30, 2023, and December 31, 2022 was 2.4% respectively, on the other hand, the NPL coverage ratio was 111.4% as of June 30, 2023, and 124.3% as of December 31, 2022.

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

- a) Attributable to retail banking L134,371 thousand.
- b) Attributable to SME banking L3,344 thousand.
- c) Attributable to corporate banking L425,472 thousand.

The provision for credit losses decreased by L126,527 thousand as of June 30, 2023, mainly due to the recognition of loan impairment charges by L563,187 thousand, partially offset by a decrease in interest included in loans by L6,367 thousand, transfer to retained earnings by L18,780, portfolio charge-offs by L627,355 thousand, release of reserves by L29,265 thousand and transfer to assets held for sale, lease reserves and accounts receivable by L7,939 thousand.

Proceeds from services.

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

	June 30,		Change	
	2023	2022	HNL	%
Services	55,623	55,833	(210)	-0.4%
Commissions	2,158,113	2,170,167	(12,054)	-0.6%
Leases	5,062	3,203	1,859	58.0%
Other income ⁽¹⁾	237,427	446,751	(209,324)	-46.9%
Total	2,456,225	2,675,954	(219,729)	-8.2%

(In thousands of HNL except percentages)

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

Proceeds from services decreased by 8.2%, or L219,729 thousand, for the six months ended June 30, 2023, compared to the same period 2022, primarily due to a decrease in other income by L209,324 thousand or 46.9% mainly due to: (i) a decrease of L99,801 thousand in profits from the purchase and sale of foreign currency of Banco Atlántida, S.A.; (ii) a decrease in income from account management charges of L29,137 and (iii) a decrease in other income of L80,386 thousands.

Profit from insurance activities

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

	June 30,		Change	
	2023	2022	(HNL)	%
Income from insurance activities	2,205,246	2,538,629	(333,383)	-13.1%
Expenses from insurance activities	2,062,281	2,258,896	(196,615)	-8.7%
Profit from insurance activities	142,965	279,733	(136,768)	-51.1%

(In thousands of HNL except percentages)

Income from insurance activities decreased by 51.1%, or L136,768 thousand, for the six months ended June 30, 2023, compared to same period June 30, 2022, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities decreased L333,383 thousand, for the six months ended June 30, 2023, compared to the same period of 2022, primarily due to a decrease in premiums issued by Atlántida Vida by L377,157 thousand; offset by an increase in premiums issued by Seguros Atlántida by L5,364 thousand, a decrease in the variation of reserves for risk in progress by L74,672 thousands, a decrease in variation of reserves for claims pending liquidation by L5,003, offset partially by an increase of L114,884 in recovered claims from reinsurers, an increase of L2,360 thousand in ceded reinsurance commissions, an increase in salvage and claim recovery by L1,098 thousand.

Expenses from insurance activities decrease by 8.7%, or L196,615 thousand, for the six months ended June 30, 2023, compared to the same period of 2022, primarily due to a decrease in variation of reserve for risk in progress by L275,790 thousand, a decrease in ceded premiums by L49,123 thousand, a decrease in cancellations of insurance premium by L20,795 thousand, a decrease in insurance commissions by L7,449 thousand; partially offset by an increase in claims by L115,600 thousand, an increase in claims incurred but not reported claims by L40,082 thousand, an increase in premiums for excess of loss contracts by L2,287 thousand.

Operating expenses

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

	June 30,		Change	
	2023	2022	HNL's	%
Staff expenses	1,733,752	1,448,675	285,077	19.7%
General and administrative expenses	2,863,844	2,617,735	246,109	9.4%
Depreciations and amortizations	470,256	402,844	67,412	16.7%
Total	5,067,852	4,469,254	598,598	13.4%

(In thousands of HNL except percentages)

Operating expenses increased by 13.4%, or L598,598 thousand, for six months ended June 30, 2023, compared same period of 2022, primarily due to an increase by 19.7% in staff expenses and increase in general and administrative expenses by 9.4%, as explained below.

Staff expenses increased by 19.7% or L285,077 thousand, for the six months ended June 30, 2023, compared same period of 2022, mainly due to an increase in salaries expense by L151,008 thousand due to salary adjustments and increase in the headcount; an increase by L57,367 thousand in expenses for bonuses; an increase by L27,245 thousand in travel expenses; an increase by L48,269 thousand in medical care for Group's employees.

General and administrative expenses increased 9.4%, or L246,108 thousand, for the six months ended June 30, 2023, compared same period of 2022, mainly due to: (i) an increase by L149,669 thousand in various expenses of Banco Atlántida because of increases in commission expenses by L157,339 thousand; loyalty programs expenses by L13,457 thousands; and a decrease miscellaneous expenses by L21,214 thousand; (ii) an increase by L317,646 thousand in other expense for services of Banco Atlántida, mainly due to the following increases: an increase in license subscriptions expenses by L130,578 thousand, die-cutting of credit and debit card expenses by L12,978 thousand and international assistance plan expenses by L12,272 thousand, L20,330 thousand in maintenance of vehicles, L23,859 thousand in maintenance of furniture and office equipment, L49,014 thousand in advertising and marketing expenses, L7,299 thousand in real estate maintenance, L20,754 in miscellaneous expenses, L9,748 thousand in security expenses (iii) an increase by L25,394 thousand in other administrative expenses;(iv) a decrease in expenses for outsourced services of Banco Atlántida El Salvador and CONFIA by L4,336 thousand and L415,936 thousand, respectively; (v) an increase in expenses for professional fees by L14,906 thousands, (vi) an increase in expenses for taxes and contributions to the local governments by L134,574 thousand, (vii) an increase in expenses for contributions to regulators by L 8,824 thousand, and (viii) an increase in board of directors expenses by L8,530 thousand.

Non-operating income (expenses)

	June 30,		Change	
	2023	2022	HNL	%
Dividend income	3,390	1,440	1,950	135.4%
profit on sale of assets available for sale	513,286	72,126	441,160	611.7%
Profit on sale of property, plant and equipment	9,439	13,019	(3,580)	-27.5%
Other income (expenses), net	161,484	60,099	101,385	168.7%
Total	687,599	146,684	540,915	368.8%

(In thousands of HNL except percentages)

Non-operating income (expenses) increased by 368.8% or L540,915 thousand, for six months ended June 30, 2023, compared same period of 2022, mainly due to an increase in profit on sale of assets available for sale by 611.7%, or L441,160 thousand, due to a high volume of sale of properties.

Other income (expense), net, increased 168.7%, or L101,385 thousand, for six months ended June 30, 2023, compared to six months ended June 30, 2022, mainly due to: (i) an decrease in net losses from valuation of financial assets held for sale by L180,211 thousand, (ii) an increase in other financial income/expenses (net) by L34,388 thousand, (iii) an increase in recoveries of written off by L23,341 thousand, (iv) an increase in losses due to theft, assault and fraud by L5,271 thousand; (v) a decrease in other income/expenses (net) by (L99,064) thousand, mainly due to a release of reserves in 2022 as follow: to decreased in release of reserve of financial assets by L88,216 thousand, a decreased in extraordinary assets reserves by L19,773 thousand, a decreased in reserves or investment losses by L4,265 thousand, besides to these an increase by L20,505 thousand of other miscellaneous income/expense (net), and (vi) a decrease in income/expense (net) due to the fluctuation in exchange rates by (L31,756) thousand.

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest decreased 10.5% to L1,415,760 thousand for the six months ended June 30, 2023, compared to L1,581,841 thousand for the same period ended June 30, 2022, as a result of the factors discussed above.

Income tax

Income tax expense decreased by 10.6%, or L68,173 thousand, for the six months ended June 30, 2023, compared to the six months ended June 30, 2022. The effective rate of income tax was 37.7% as of June 30, 2023, compared to 36.2% as of same period ended June 30, 2022.

Net income

Net income decreased 14.1% for the six months ended June 30, 2023, compared to the six months ended June 30, 2022. Average shareholders' equity increased 1.5% to L15,780,038 thousand, for the six months ended June 30, 2023, compared to the six months ended June 30, 2022. ROAE was 8.9% and 10.5% for the six months ended June 30, 2023, and 2022, respectively.

Liquidity and financing

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

The following table shows the main sources of funds of the Group as of June 30, 2023, and December 31, 2022:

	June 30 2023	December 31 2022	Change	%
Demand deposits	23,123,550	23,707,141	(583,591)	-2.4%
Savings deposits	56,004,586	53,218,617	2,785,969	5.2%
Term deposits	52,921,116	41,583,483	11,337,633	27.3%
Other	1,296,707	1,070,761	225,946	21.1%
Total, Deposits	133,345,959	119,539,425	13,806,534	11.5%
Banks loans	20,968,006	22,405,253	(1,437,247)	-6.4%
Bonds and guaranteed notes	12,419,942	12,729,459	(309,517)	-2.4%
	166,733,907	154,674,137	12,059,770	7.8%

(In thousands of HNL except percentages)

Deposits increased 11.5% to L133,345,959 thousand as of June 30, 2023, compared to L119,539,425 thousand as of December 31, 2022, mainly as a result of the recovery of the dynamism of the economies of the countries where the Group operates, after the period of inactivity caused by the COVID-19 pandemic.

Bank loans were L20,968,006 thousand as of June 30, 2023, compared to L22,405,253 thousand as of December 31, 2022. Banco Atlántida has lines of credit with 19 global financial institutions with which it has had correspondent relationships. Some of its main credit line providers include IFC, PROPARCO, BCIE, Global Climate Partnership Fund, Banco Central de Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. y Commerzbank AG. As of June 30, 2023, Banco Atlántida had a total amount of USD \$442,469 thousand (L10,881,104 thousand) in uncommitted credit lines from foreign institutions on a consolidated basis, of which US \$275,040 thousand (L6,763,727 thousand) were available for use.

Bonds and secured notes issued were L12,419,942 thousand as of June 30, 2023, compared to L12,729,459 thousand as of December 31, 2022, which represents a decrease of L309,517 thousand of which a decrease L324,809 thousand correspond to new issuances net of bond cancellations, an increase due to the application of the amortized cost method of L16,737 thousand and a decrease due to the variation in the exchange rate of L1,445 thousand.

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

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

Regulatory Capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, in accordance with Honduran, Salvadoran, Nicaraguan, Panama capitalization requirements, Banco Atlántida, Banco Atlántida El Salvador, Banco Atlántida Nicaragua and Pacific Bank are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras, Nicaragua and Panamá and capital fund for El Salvador). As of June 30, 2023, the required capital adequacy ratio for Honduras, Nicaragua and Panama was 11.75%, 10.0% and 8.0%, respectively, while the required capital fund for El Salvador was 12.0%.

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

Banco Atlántida	June 30,	December 31,	
	2023	2022	2021
Total, level 1	9,677,296	9,177,071	8,677,567
Total, level 2	5,131,146	5,971,962	3,035,703
Total, Regulatory Capital	14,808,442	15,149,033	11,713,270
Total, Risk-weighted assets	118,149,547	111,361,967	98,852,163
Regulatory capital as a percentage of risk-weighted assets	12.5%	13.6%	11.8%

(In thousands of L except percentages)

Banco Atlántida El Salvador	June 30,	December 31,	
	2023	2022	2021
Total, level 1	91,922	91,922	76,583
Total, level 2	12,300	9,207	6,270
Total, Regulatory Capital	104,222	101,129	82,853
Total, Rick-weighted assets	799,670	752,368	633,118
Regulatory capital as a percentage of risk-weighted assets	13.0%	13.4%	13.1%
(In thousands of USD except percentages)			

Banco Atlántida Nicaragua	June 30,	December 31,	
	2023	2022	2021
Total, level 1	559,544	555,636	534,237
Total, level 2	(17,790)	(48,276)	(57,441)
Total, Regulatory Capital	541,754	507,360	476,796
Total, Risk-weighted assets	1,610,480	1,389,478	983,314
Regulatory capital as a percentage of risk-weighted assets	33.6%	36.5%	48.5%
	(In thousands of córdobas except percentages)		

Pacific Bank (Panamá)	June 30, 2023	December 31, 2022
Total, level 1	18,250	18,250
Total, level 2	(3,892)	(4,635)
Total, Regulatory Capital	14,358	13,615
Total, Risk-weighted assets	72,057	64,225
Regulatory capital as a percentage of risk-weighted assets	19.9%	21.2%
(In thousands of B/. except percentages)		

Commitments and contractual obligations

The Group assumes a several commitments and contractual obligations that may require future payments in cash. The following table summarizes our commitments and contractual obligations as of June 30, 2023.

(L in thousands, except	Less than 30 days	From 31 to 90 days	From 91 days to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits	29,373,936	28,175,763	41,384,676	20,970,854	13,440,730	133,345,959
Bank loans	4,330,501	707,535	4,665,691	5,603,198	5,661,081	20,968,006
Bonds and guaranteed notes	368,898	201,861	2,213,351	9,862,033	-	12,646,143
Total	34,073,335	29,085,159	48,263,718	36,436,085	19,101,811	166,960,108
% del Total	20.4%	17.4%	28.9%	21.8%	11.4%	100.0%

(In thousands of HNL except percentages)

Capital expenditures

Consolidated capital expenditures increased to L855,110 thousand for six months ended June 30, 2023, compared to L517,157 thousand for same period ended June 2022, mainly due to an increase in development of intangibles assets such as software, licenses, among others and constructions in progress of property plant and equipment.

Off-balance sheet agreements

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

		June 30, 2023	December 31, 2022
Letters of credit and idle credit documents	L	725,099	795,550
Securities and bank guarantees issued		5,559,857	5,717,421
Acceptance debtors		-	4,070
Idle credits		7,507,986	5,774,296
Other responsibilities		236,946	274,497
	L	<u>14,029,888</u>	<u>12,565,834</u>

(In thousands of HNL)

The credit risk of both on-and off-balance sheet financial instruments changes based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific requirements for covenants, guarantees and guarantees on a case-by-case basis, depending on the nature of the financial instrument and the solvency of the client. We may also require letters of commitment and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory, and accounts receivable, as well as cash on deposit, stocks, bonds, and other marketable securities that are generally held in our possession or by another appropriate custodian or 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, 2023.