



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OUR FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS
AS OF JUNE 30, 2024**

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

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

Overview

We are one of the largest financial services groups in Honduras and, through our subsidiaries, we offer a wide range of corporate and retail banking, insurance, pension fund management and other financial services to more than 4.4 million clients as of June 30, 2024. We were recognized as a Financial Group by the National Banking and Insurance Commission (CNBS by its acronym in Spanish) in 2012 and our main subsidiary, Banco Atlántida, was founded in 1913. We believe that our businesses benefit from important synergies of being part of a Financial Group.

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

Our operations in Honduras include Banco Atlántida, Seguros Atlántida and AFP Atlántida, these entities are among the most profitable entities in the Honduran banking, insurance and pension fund management industries, according to CNBS data. As of June 30, 2024, and 2023, Banco Atlántida had a net income of L847,164 thousand and L806,917 thousand and a ROAE of 12.2% and 11.9%; Seguros Atlántida had a net profit of L119,069 thousand and L44,165 thousand and a ROAE of 18.6% and 7.4% and AFP Atlántida had a net profit of L109,799 thousand and L100,391 thousand and a ROAE of 25.6% and 23.8%, respectively. Banco Atlántida occupies a prominent position in the local market in terms of total assets, loans and interest receivable and deposits, with market shares of 19.5%, 19.8% and 19.9%, respectively, as of June 30, 2024, according to data from the CNBS. Seguros Atlántida is one of the largest insurers in terms of gross written premiums, with a market share of 13.9% and 14.5% as of June 30, 2024, and 2023, respectively, according to CNBS data. AFP Atlántida is the largest private pension fund manager in Honduras with a 58.9% market share in terms of assets under management as of June 30, 2024.

The Group has one of the largest banking distribution networks in Honduras. As of June 30, 2024, we had 6,078 service points in Honduras, which together with our insurance distribution network and other operations in Honduras, El Salvador, Nicaragua, Panama, and Ecuador added 6,261 service points as follows:

- 302 branches (168 agencies, 64 teller windows embedded within corporate client offices, 23 drive thru and 47 branches related to the other business lines of the Group).
- 1,356 ATMs (458 proprietary ATMs and 898 third-party network ATMs); and
- 4,603 non-correspondent banking agents.

As of June 30, 2024, and 2023, Banco Atlántida El Salvador had net income of L62,749 thousand and L78,970 thousand and an ROAE of 4.4% and 6.0%, respectively. Banco Atlántida El Salvador's market share of 5.3%, 5.1% and 4.9%, in total assets, loans and deposits, respectively, as of June 30, 2024, according to SSF data. As of April 30, 2023, AFP Confia had a 51.9% market share in terms of total assets under management and 47.9% in terms of total number of clients according to SSF data. Furthermore, we have two small operations in Nicaragua (Banco Atlántida Nicaragua) and Panama (Pacific Bank).

Key factors affecting our financial condition and results of operations.

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

As of June 30, 2024, the Group has not defaulted on principal and interest payments of its financial obligations. As a result of the regulatory responses, that the Central Bank and the Regulatory agencies implemented to mitigate the macroeconomic and financial impacts generated by the COVID-19 pandemic, the contractual commitments associated with the specific financial indicators are monitored which may be impacted by such implementations.

As of June 30, 2024, the portfolio also has debt relief mechanisms for covid-19 pandemic and Eta and Iota tropical storms had a balance of L10,174,521 thousand, representing 7.0% of the total portfolio, divided into refinanced with L2,617,912 thousand, readjusted L7,416,430 thousand and deferred in installments L140,179 thousand.

As of June 30, 2024, the interests generated by debt relief mechanisms to covid-19 pandemic and Eta & Iota tropical storms had a balance of L253,298 thousand represents 12% of the total interest receivable on portfolio, interest is divided into in refinanced with balance L179,635 thousand, readjusted L72,077 thousand and deferred payments L1,586 thousand.

Effects of changes in interest rates

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

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

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

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

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

Asset and Liability Rates

Given that 77.1% of our consolidated interest income for the six months ended June 30, 2024, comes from Banco Atlántida, our analysis is focused on the behavior of Banco Atlántida's interest rates. The following tables establish the weighted average interest rates of assets and liabilities in *lempiras* and USD as of June 30, 2024, December 31, 2023, and 2022, compared to the average rates of the Honduran Financial System published by the Central Bank of Honduras.

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

	2024	2023	2022
Assets (Loans-BASA)	10.5%	9.9%	10.1%
System Average Assets Rate ^p	11.9%	11.4%	11.2%
Liabilities (Deposits-BASA)	3.9%	3.1%	2.2%
Monetary Policy Rate	3.0%	3.0%	3.0%

(p) preliminary data

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

Banco Atlántida's average interest rate on assets (loans) denominated in lempiras was 10.5% as of June 30, 2024, compared to 9.9% as of December 31, 2023. For the six months ended June 30, 2024, the loan portfolio denominated in lempiras grew 1.4% while the local financial system grew 22.0% during the same period, according to CNBS data.

Banco Atlántida's average interest rate on Lempira-denominated liabilities (deposits) increased to 3.9% as of June 30, 2024, compared to 3.1% as of December 31, 2023. As of June 30, 2024, deposits denominated in lempiras decreased 0.1%, while the local financial system grew 3.0% during the same period, according to CNBS data.

The assets and liabilities rates in USD are as follows:

	2024	2023	2022
Assets (Loans-BASA)	8.5%	7.5%	8.4%
System Average Assets Rate ^p	10.0%	9.4%	6.9%
Liabilities (Deposits-BASA)	3.2%	2.3%	1.8%
System Average Liabilities Rate ^p	2.8%	2.4%	1.9%

(p) preliminary data

As of June 30, 2024, and December 31, 2023, Banco Atlántida's average interest rate on assets (loans) denominated in USD was 8.5%, and 7.5%, respectively. The loan portfolio denominated in USD grew 7.7% as of December 31, 2023, while the local financial system increased 3.4% during the same period, according to data from the CNBS.

Banco Atlántida's average interest rate on liabilities (deposits) denominated in USD was 3.2% as of June 30, 2024, and 2.3% as of December 31, 2023. Deposits denominated in USD decreased by 5.5% as of June 30, 2024, while deposits for the local financial system grew 4.2% during the same period, according to CNBS data.

Effect of family remittances

As of June 20, 2024, family remittances that entered Honduras were USD4,413.7 million, which represented an increase of 3.8% compared to the corresponding period in 2023, while for the previous comparative periods, they were as shown in the following table:

Period	Amount*		Change %
20/06/2024	4,413.7	(p)	3.8%
20/06/2023	4,250.8	(r)	8.0%
20/06/2022	3,937.1	(r)	17.7%
23/06/2021	3,345.4	(r)	41.8%

Expressed in millions of USD

(p) preliminary data

(r) revised data

The income obtained by Banco Atlántida as a result of handling family remittances consisted mainly of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Banco Atlántida processed USD1,304.5 million in family remittances during the period ended June 30, 2024, 14% more than the corresponding period of 2023, during which USD1,139.2 million were processed. As of June 20, 2024, Banco Atlántida's market share was 27.8% (p), while for the corresponding period of 2023 it was 25.4%.

Competition

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

Inflation

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

The Honduran economy has been characterized by having moderate levels of inflation, however, this changed in 2022, due to several external shocks that influenced the growth rate in the price index. During 2023, the inflation has begun to return to previously experienced levels. According to the Central Bank, at the end of the fourth quarter of 2023, the inflation rate was slightly above the target 5.2% since the inflation target was set within a range of (4.0% +/- 1.0 pp), according to the review of the Monetary Program made by the government with the International Monetary Fund (IMF). As of June 30, 2024, the inflation rate was 4.9%, in June 2023, the inflation rate was 5.6%. This result is explained by clothing and footwear; furniture and articles for home conservation; recreation and culture; hotels, cafes and restaurants and personal care. For 2024, the inflation target is set within a range of (4.0% +/- 1.0 pp), according to the Monetary Program made by the government with the IMF.

Exchange Rates

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

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

In 2020, the exchange rate of the lempira compared to the U.S. dollar 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 L24.7436 per US\$1.00 on June 30, 2024, compared to L24.5932 per US\$1.00 on June 30, 2023, according to the Central Bank.

Demographic trends

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

Period	Population (millions)	% Change	GDP ¹ (USD)	% Change	Poverty rate ²	% Change	Unemployment rate	% Change
2023	9.7	1.0%	3,538	8.1%	N/A	N/A	6.8%	-4.2%
2022	9.6	1.1%	3,272	10.0%	52.4%	-1.7%	7.1%	-10.1%
2021	9.5	2.2%	2,974	18.4%	53.3%	-7.6%	7.9%	-26.2%
2020	9.3	1.1%	2,512	-7.6%	57.7%	16.6%	10.7%	91.1%

1-GDP per capita

2-N/A not available for 2023, The World Bank updated its database on April 2, 2024, which is why the demographic variables presented in the table above underwent changes due to new data obtained to update the calculation methodology for this indicator.

Bank loans.

The growth rate of the loan portfolio of Banco Atlántida, specifically for its retail banking segment, can be attributed to low bank penetration. In terms of bank penetration, the proportion of loans (as published by the Commission) to GDP (as published by the Central Bank) was 65.2%, as of December 31, 2023.

According to the Central Bank, as of June 30, 2024, the growth rate of bank loans to the private sector was 16.5%, compared to the growth rate of 19.6% as of June 2023 respectively. It should be noted that the total credit granted to the companies reported year-on-year growth of 10.9% and to households 23.3%. Meanwhile, the credit in foreign currency to companies increased by 8.7% and that granted to households at 1.2%.

Results of operations for the six months ended June 30, 2024, compared to the same period ended June 30, 2023.

	June 30,		Change	
	2024	2023	HNL	%
Interest income	8,339,944	6,739,507	1,600,437	23.7%
Interest expense	4,410,033	2,979,497	1,430,536	48.0%
Financial profit	3,929,911	3,760,010	169,901	4.5%
Loan impairment charges	1,033,175	563,187	469,988	83.5%
Financial profit, net of impairment charges	2,896,737	3,196,823	(300,086)	-9.4%
Income from insurance activities	2,428,337	2,205,246	223,091	10.1%
Expenses from insurance activities	2,186,256	2,062,281	123,975	6.0%
Profit from insurance activities	242,081	142,965	99,116	69.3%
Services	144,785	55,623	89,162	160.3%
Commissions	2,595,010	2,158,113	436,897	20.2%
Leases	8,962	5,062	3,900	77.0%
Other income	265,144	237,427	27,717	11.7%
Total proceeds from services	3,013,901	2,456,225	557,676	22.7%
Staff-expenses	1,994,834	1,733,752	261,082	15.1%
General and administrative expenses	3,227,533	2,863,843	363,690	12.7%
Depreciation and amortization	486,875	470,256	16,619	3.5%
Total operating expenses	5,709,242	5,067,851	641,391	12.7%
Operating income	443,476	728,162	(284,686)	-39.1%
Income from dividends	2,546	3,390	(844)	-24.9%
Gain on sale of assets available for sale	131,121	513,286	(382,165)	-74.5%
Gain on sale of property, plant and equipment	57,645	9,439	48,206	510.7%
Other income, net	872,168	161,484	710,684	440.1%
Total non-operating income	1,063,480	687,599	375,881	54.7%
Income before income tax	1,506,956	1,415,760	91,196	6.4%
Income tax/capital gain/net assets tax	516,257	577,120	(60,863)	-10.5%
Income before non-controlling interest	990,699	838,640	152,059	18.1%
Net income attributable to noncontrolling interest	153,144	137,073	16,071	11.7%
Net income	837,555	701,567	135,988	19.4%

thousands of L except percentages

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

Interest income

The following table shows the components of the interest income for the six months ended, June 30, 2024, and 2023:

	June 30,		Change	
	2024	2023	HNL	%
Loans	7,030,660	5,697,841	1,332,819	23.4%
Certificates, bonds and others	878,934	705,549	173,385	24.6%
Finance leasing	275,517	181,279	94,238	52.0%
Deposits	154,833	154,838	(5)	0.0%
Total	8,339,944	6,739,507	1,600,437	23.7%

(In Thousands of L except percentages)

Interest income increased 23.7%, or L1,600,437 thousand, for the six months ended June 30, 2024, compared to same period of 2023, mainly due to a 23.4% increase in income from interest on loans, 24.6% increase in income from interest on certificates, bonds and others, 52.0% increase in interest income on finance leasing.

Interest income on loans increased by 23.4%, or L1,332,819 thousand, for the six months ended June 30, 2024, compared to the same period of 2023, as a result of an increase in loans volume in local and foreign currency by 14.5% and 9.6%, respectively, which led to an increase of L722,148 thousand in interest income, and an increase of L610,671 thousand in interest income because a slight upward trend in interest rates.

Interest income on certificates, bonds and others increased by 24.6%, or L173,385 thousand, for the six months ended June 30, 2024, compared to the same period of 2023, due to the upward trend in interest rates of local and foreign investments and an increase in the volume of investments which led an increase in interest income by L44,229 thousand and L129,156 thousand, respectively.

Interest income from financial leases increased by 52.0%, or L94,238 thousand, for the six months ended June 30, 2024, compared to the same period, June 30, 2023, due to an increase of L69,963 thousand a result of an increase by 34.0% in the volume of financial leases, and an increase of L24,749 thousand because of the upward trend in interest rate.

Interest expense

	June 30,		Change	
	2024	2023	HNL	%
Deposits	2,889,022	1,807,070	1,081,952	59.9%
Loans obtained from banks	886,173	575,649	310,524	54.0%
Bonds and guaranteed notes	634,838	596,778	38,060	6.4%
Total,	4,410,033	2,979,497	1,430,536	48.0%

(In Thousands of L except percentages)

Interest expense increased by 48.0%, or L1,430,536 thousand, for the six months ended June 30, 2024, compared to the same period ended June 30, 2023, primarily due to an increase in interest expenses on deposits by 59.9%, an increase by 54.0% in interest expenses on loans from banks and an increase by 6.4% in interest expense on bonds and guaranteed notes, as explained below.

Interest expense on deposits increased 59.9% or L1,081,952 thousand, for the six months ended June 30, 2024, compared to the same period 2023, mainly due to the upward trend of the interest rates, which led an increase in interest expense of L588,397 thousand, and an increase in interest expense of L493,555 thousand due to an increase in the volume of deposits.

Interest expense on loans from banks increased by 54.0% or L310,569 thousand, for the six months ended June 30, 2024, compared to the same period ended June 30, 2023, mainly as a result of the upward trend of interest rate and an increase in the volume of loans from banks, which led to an increase in interest expense of L174,565 thousand and L136,004 thousand, respectively.

Interest expense on bonds and secured notes increased by 6.4% or L38,060 thousand, mainly due to: (i) an increase in the volume of bonds and notes which led to an increase in interest expenses of L122,369 thousand in foreign currency; partially offset a decrease by L7,357 thousand in local currency and (ii) a decrease of L76,953 thousand in interest expenses, due to the upward trend in interest rates.

Loan impairment charges

	June 30, 2024	December 31, 2023	Change	%
Loan impairment charges	1,033,175	563,187	469,988	83.5%
NPL ratio ¹	2.5%	2.4%	-	-
Coverage ratio ²	112.0%	111.1%	-	-
Provision for loan losses	3,991,000	3,764,394	226,606	6.0%

(In thousands of L except percentages)

(1) The NPL ratio is calculated dividing NPLs (including refinanced NPLs) by our gross loan portfolio.

(2) The coverage ratio is calculated dividing the provision for loan losses by NPLs (including refinanced NPLs).

Loan impairment charges increased by 83.5%, or L469,988 thousand, for the six months ended June 30, 2024, compared to the same period ended June 30, 2023, while the delinquency ratio as of June 30, 2024, was 2.5% compared as of December 31, 2023 was 2.4%, on the other hand, the NPL coverage ratio as of June 30, 2024, and December 31, 2023 was 112.0%, and 111.1%, respectively.

For the six months ended June 30, 2024, loan portfolio impairment charges were allocated as follows:

- a) Attributable to retail banking L789,865 thousand.
- b) Attributable to SME banking L 67,980 thousand.
- c) Attributable to corporate banking (L387,857) thousand.

The provision for credit losses increased by L226,606 thousand as of June 30, 2024, mainly due to the recognition of loan impairment charges by L1,033,175 thousand, and an increase by L245 thousand due to exchange fluctuation effect, an increase in interest included in loans by L6,983 thousand, increase in incorporation the new company by L264,940 thousand and increase in charged to retained earnings by L3,134 thousand, partially offset a decrease in transfer to retained earnings by L220 thousand, by portfolio charge-offs by L1,018,083 thousand, and release of reserves by L63,568 thousand .

Proceeds from services.

The following table presents the components of income from services for the six months ended, June 30, 2024, and 2023:

	June 30,		Change	
	2024	2023	HNL	%
Services	144,785	55,623	89,162	160.3%
Commissions	2,595,010	2,158,113	436,897	20.2%
Leases	8,962	5,062	3,900	77.0%
Other income ⁽¹⁾	265,144	237,427	27,717	11.7%
Total	3,013,901	2,456,225	557,676	22.7%

(In thousands of L except percentages)

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

Proceeds from services increased by 22.7%, or L557,676 thousand, for the six months ended June 30, 2024, compared to the same period 2023, primarily due to an increase in services and commissions by 20.2% and 160.3%, respectively, and an increase of 11.7% in other income, as explained bellow.

The increase in proceeds from service of 160.3% or L89,162 thousand, for the six months ended June 30, 2024, compared to the same period 2023, is due to the incorporation of Grupo Sur Atlantida and Subsidiaries and Lynx Labs which led to an increase in other services by L 92,807 thousand, and L 3,013 thousand, respectively, and an increase in other services of GUIP by L3,972 thousand, partially offset by a decrease of other services from COALSA by L4,971 thousand, a decrease in warehouse services by L5,654 thousand mainly due to the decrease in volume of clients and a decrease of other services from Ifatlan Mexico by L3,010 thousand.

The increase in commission income of 20.2%, or L436,897 thousand, for the six months ended June 30, 2024, compared to the same period June 30, 2023, is mainly explained as follow:

Loan commissions	65,712
Produced by services	99,830
Affiliate commissions	(25,714)
Credit and debit card commissions	203,361
Other commissions	93,708
Total	436,897

(In thousands of L)

The increase in other income of 11.7% or L27,717 thousand for the six months ended June 30, 2024, compared to the same period June 30, 2023, mainly due to an increase in other income as a follow: (i) an increase L7,789 thousand in profits from the purchase and sale of foreign currency, (ii) an increase of L711 thousand, in income from account management charges and (iii) an increase of L15,189 thousand in other income.

Profit from insurance activities.

The following table presents the components of income from insurance activities for the six months ended June 30, 2024, and 2023:

	June 30,		Change	
	2024	2023	(HNL)	%
Income from insurance activities	2,428,337	2,205,246	223,091	10.1%
Expenses from insurance activities	2,186,256	2,062,281	123,975	6.0%
Profit from insurance activities	242,081	142,965	99,116	69.3%

(In thousands of L except percentages)

Income from insurance activities increased by 69.3%, or L99,116 thousand, for the six months ended June 30, 2024, compared to same period June 30, 2023, mainly due to movements in the income and expenses as discussed below:

Income from insurance activities increased L223,091 thousand, for the six months ended June 30, 2024, compared to the same period of 2023, primarily due to an increase in premiums issued by Seguros Atlantida by L112,643 thousand; an increase of L166,283 thousand due to the incorporation of premiums issued by Seguros Atlantida El Salvador and an increase of L1,487 of Atlántida Vida, an increase by L22,295 thousand in ceded reinsurance commissions; partially offset by a decrease of L56,219 thousand in recovered claims from reinsurers, L22,892 thousand in the variation of reserves for risk in progress, and a decrease in salvage and claims recovery by L5,229 thousand.

Expenses from insurance activities increase by 6.0%, or L123,975 thousand, for the six months ended June 30, 2024, compared to the same period of 2023, primarily due to an increase in cancellations of insurance premium by L 46,761 thousand, an increase in premiums ceded to foreign reinsurers by L128,010 thousand, an increase in variation of reserve for risk in progress by L55,580 thousand, an increase in insurance commissions by L20,268 thousand, an increase in other technical expenses by L 13,095 thousand, an increase of allowance for impairment of premiums receivable by L 11,086 thousand, in insurance bonuses for intermediaries by L9,401 thousand and L 2,370 thousand in cancellations of insurance premium; partially offset by decrease in ceded claims by L168,620 thousand.

Operating expenses

The following table presents the components of operating expenses for the six months ended June 30, 2024, and 2023

	June 30,		Change	
	2024	2023	HNL's	%
Staff expenses	1,994,834	1,733,754	261,080	15.1%
General and administrative expenses	3,227,533	2,863,843	363,690	12.7%
Depreciations and amortizations	486,875	470,255	16,610	3.5%
Total	5,709,242	5,067,852	641,390	12.7%

(In thousands of L except percentages)

Operating expenses increased by 12.7%, or L641,390 thousand, for the six months ended June 30, 2024, compared same period of 2023, primarily due to an increase by 15.1% in staff expenses and increase in general and administrative expenses by 12.7%, as explained below.

Staff expenses increased by 15.1% or L261,080 thousand, for the six months ended June 30, 2024, compared same period of 2023, mainly due to an increase in salary adjustments and headcount by L86,392 thousand; L85,163 thousand as a consequence of the incorporation Grupo Sur Atlantida and Subsidiaries; an increase by L75,324 thousand in expenses for bonuses, an increase by L9,783 thousand in medical care for Group's employees and an increase by L18,863 thousand in employer contributions; partially offset by a decrease of L24,024 thousand in travel expenses.

General and administrative expenses increased 12.7%, or L363,690 thousand, for the six months ended June 30, 2024, compared to the same period of 2023, mainly due to increases in: commission expenses by L186,228 thousand; loyalty programs expenses by L31,088 thousand, license subscriptions expenses by L136,045 thousand; security expenses by L12,183 thousand; professional fees expenses by L117,345 thousand; contributions to regulators expenses by L25,588 thousand; and other administrative expenses by L72,276 thousand, partially offset by a decrease in: advertising and marketing expenses by L25,891 thousand; general maintenance expenses by L111,284 thousand; die-cutting of credit and debit card expenses by L22,995 thousand; outsourced services expenses by L13,446 thousand; and taxes and contributions to the local governments by L72,373 thousand.

Non-operating income (expenses)

	June 30,		Change	
	2024	2023	HNL	%
Dividend income	2,546	3,390	-844	-24.9%
profit on sale of assets available for sale	131,121	513,286	-382,165	-74.5%
Profit on sale of property, plant and equipment	57,645	9,439	48,206	510.7%
Other income (expenses), net	872,168	161,484	710,684	440.1%
Total	1,063,480	687,599	375,881	54.7%

(In thousands of L except percentages)

Non-operating income (expenses) increased by 54.7% or L375,881 thousand, for the six months ended June 30, 2024, compared same period of 2023, primarily due to an increase by 440.1% in other income(expenses) net and partially offset by a decrease in profit on sale of assets available for sale by 74.5%, as explained below.

Decrease in profit on sale of assets available for sale by 74.5%, or L382,165 thousand, due to sale of a high price properties in 2023.

Other income (expense), net, increased 440.1%, or L710,684 thousand, for the six months ended June 30, 2024, compared to the six months ended June 30, 2023, mainly due to: (i) an increase in net income from valuation of financial assets held for sale by L591,178 thousand, (ii) an increase in other financial income/expenses (net) by L28,227 thousand, (iii) a decrease in recoveries of written off by L14,009 thousand, (iv) a decrease in losses due to theft, assault and fraud by L972 thousand; (v) an increase in other income/(expenses) net by L115,175 thousand, mainly due to an increase in a release of reserves in 2024 as follow: to increase in release of reserve of financial assets by L35,425 thousand, besides an increase by L75,157 thousand of other miscellaneous income/(expense) net, (vi) a decrease by L2,039 thousand, due to the fluctuation in exchange rates; and (vii) an increase in interest tax by L12,898 thousand.

Income before taxes and non-controlling interest

Income before taxes and non-controlling interest increased 18.1% to L990,699 thousand for the six months ended June 30, 2024, compared to L838,640 thousand for the same period ended June 31, 2023, as a result of the factors discussed above.

Income tax

Income tax expenses decreased by 10.5%, or L60,863 thousand, for the six months ended June 2024, compared to the same period ended June 30, 2023. The effective rate of income tax was 32.7% as of June 30, 2024, compared to 37.7% as of same period ended June 30, 2023.

Net income

Net income increased 19.4% for the six months ended June 30, 2024, compared to the six months ended June 30, 2023. Average shareholders' equity increased 17.3% to L21,449,953thousand, for the six months ended June 30, 2024, compared to the year ended December 31, 2023. ROAE was 7.8% for six months ended June 30, 2024, compared 8.6% for the same period ended June 30,2023.

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, 2024, and December 31, 2023:

	June 30	December		
	2024	31, 2023	Change	%
Demand Deposits	23,795,871	28,545,724	(4,749,853)	-16.6%
Savings Deposits	57,133,676	55,723,694	1,409,982	2.5%
Term Deposits	65,312,667	57,680,409	7,632,258	13.2%
Other	1,778,605	1,445,325	333,280	23.1%
Total, Deposits	148,020,819	143,395,152	4,625,667	5.9%
Banks Loans	28,665,004	26,642,433	2,022,571	7.6%
Bonds and guaranteed notes	13,327,096	13,413,611	(86,515)	-0.6%
	190,012,919	183,451,196	6,561,723	3.6%

(In thousands of L except percentages)

Deposits increased 5.9% to L148,020,819 thousand as of June 30, 2024, compared to L143,395,152 thousand as of December 31, 2023, mainly due to the recovery of the dynamism of the economies of the countries where the Group operates.

Bank loans were L28,665,004 thousand as of June 30, 2024, compared to L26,642,433 thousand as of December 31, 2023. Banco Atlántida has lines of credit with 19 global financial institutions with which it has had correspondent relationships. Some of its main credit line providers include IFC, PROPARCO, BCIE, Global Climate Partnership Fund, Banco Central de Honduras (BCH), Eco Business Fund, Citibank N.A., Wells Fargo Bank N.A. y Commerzbank AG. As of June 30, 2024, Banco Atlántida had a total amount of USD522,461 thousand (L12,928,036 thousand) in uncommitted credit lines from foreign institutions, of which USD284,044 thousand (L7,028,519 thousand) were available for use.

Bonds, and secured notes issued were L13,327,096 thousand as of June 30, 2024, compared to L13,413,611 thousand as of December 31, 2023, which represents an decrease of L86,515 thousand of which a decrease L134,446 thousand correspond to new issuances net of bond cancellations, an increase due to the application of the amortized cost method of L17,634 thousand and an increase due to the variation in the exchange rate of L30,297 thousand.

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

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

Regulatory Capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, in accordance with Honduran, Salvadoran, Nicaraguan, Panamanian capitalization requirements, Banco Atlántida S.A, Banco Atlántida El Salvador, Banco Atlántida Nicaragua, Pacific Bank and Banco de Miro are required to maintain specific levels of regulatory capital as a percentage of their risk-weighted assets (capital adequacy ratio for Honduras, Nicaragua and Panamá and capital fund for El Salvador). As of June 30, 2024, the required capital adequacy ratio for Honduras, Nicaragua, Panama and Ecuador was 12.0%, 10.0%, 8.0% and 9.0%, respectively, while the required capital fund for El Salvador was 12.0%.

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

Banco Atlántida	June 30,	December 31,	
	2024	2023	2022
Total, level 1	9,900,710	9,873,988	9,177,071
Total, level 2	6,490,310	5,633,360	5,971,962
Total, Regulatory Capital	16,391,021	15,507,348	15,149,033
Total, Risk-weighted assets	128,276,212	126,123,669	111,361,967
Regulatory capital as a percentage of risk-weighted assets	12.8%	12.3%	13.6%
(In thousands of L except percentages)			

Banco Atlántida El Salvador	June 30,	December 31,	
	2024	2023	2022
Total, level 1	92,933	92,933	91,922
Total, level 2	20,678	16,362	9,207
Total, Regulatory Capital	113,611	109,295	101,129
Total, Risk-weighted assets	908,028	844,220	752,368
Regulatory capital as a percentage of risk-weighted assets	12.5%	12.9%	13.4%
(In thousands of USD except percentages)			

Banco Atlántida Nicaragua	June 30,	December 31,	
	2024	2023	2022
Total, level 1	807,081	863,784	555,636
Total, level 2	-24,574	-57,138	-48,276
Total, Regulatory Capital	782,507	806,646	507,360
Total, Risk-weighted assets	2,245,998	2,026,662	1,389,478
Regulatory capital as a percentage of risk-weighted assets	34.8%	39.8%	36.5%
(In thousands of córdobas except percentages)			

Pacific Bank (Panamá)	June 30	December 31	
	2024	2023	2022
Total, level 1	29,250	29,250	18,250
Total, level 2	-2,635	-3,286	-4,635
Total, Regulatory Capital	26,615	25,965	13,615
Total, Risk-weighted assets	97,394	87,420	64,225
Regulatory capital as a percentage of risk-weighted assets	27.3%	29.7%	21.2%
(In thousands of B/. except percentages)			

Banco D- Miro	June 30,
	2024
Total, level 1	10,806
Total, level 2	810
Total, Regulatory Capital	11,616
Total, Rick-weighted assets	63,195
Regulatory capital as a percentage of risk-weighted assets	18.4%
(In thousands of USD 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, 2024.

	Less than 30 days	From 31 to 90 days	From 91 days to 1 year	Between 1 and 5 years	More than 5 years	Total
Deposits	31,927,283	29,797,548	47,969,972	26,551,763	11,774,253	148,020,819
Bank loans	8,222,379	956,553	5,234,283	7,237,658	7,014,130	28,665,004
Bonds and guaranteed notes	-	500,665	1,235,328	10,859,180	913,916	13,509,089
Total	40,149,662	31,254,766	54,439,583	44,648,601	19,702,299	190,194,912
% del Total	21.1%	16.4%	28.6%	23.5%	10.4%	100.0%
(In thousands of L except percentages)						

Capital expenditures.

Consolidated capital expenditures increased to L1,284,792 thousand for the six months ended June 30, 2024, compared to L855,110 thousand for same period in 2023, mainly due to a decrease 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, 2024	December 31, 2023
Letters of credit and idle credit documents	L	1,030,321	673,875
Securities and bank guarantees issued		6,331,547	6,479,459
Acceptance debtors		418,674	-
Idle credits		8,411,966	7,592,212
Other responsibilities		251,151	296,108
	L	<u>16,443,659</u>	<u>15,041,654</u>
			(In thousands of L)

The credit risk of both on-and off-balance sheet financial instruments changes based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific requirements for covenants, guarantees and guarantees on a case-by-case basis, depending on the nature of the financial instrument and the solvency of the client. We may also require letters of commitment and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory, and accounts receivable, as well as cash on deposit, stocks, bonds, and other marketable securities that are generally held in our possession or by another appropriate custodian or depositary. 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, 2024.