INVERSIONES ATLANTIDA, S. A. AND SUBSIDIARIES

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KPMG

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Independent Auditors' Report on Review of Interim Financial Statements

To the Board of Directors and Shareholders of
Inversiones Atlántida, S. A. and Subsidiaries

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Inversiones Atlántida, S. A. and Subsidiaries ("the Company") as at June 30, 2017, the condensed consolidated comprehensive income statements, changes in stockholders´ equity and cash flows for the six month periods ended June 30, 2017 and June 30, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with the accounting standards, procedures and provisions issued by the National Banking and Insurance Commission of the Republic of Honduras, as condensed following the guidance of the International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Inversiones Atlántida and Subsidiaries as at June 30, 2017, and its financial performance and its cash flows for the six month periods ended June 30, 2017 and June 30, 2016, in accordance with the accounting standards, procedures and provisions issued by the National Banking and Insurance Commission of the Republic of Honduras, as condensed following the guidance of the International Accounting Standard 34, 'Interim Financial Reporting'.

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August 31, 2017

INVERSIONES ATLANTIDA, S.A. AND SUBSIDIARIES
(Tegucigalpa, Honduras)
Condensed Consolidated Statement of Financial Position
As of June 30, 2017
(Expressed in thousands of Lempiras)

Assets	**Note**		**June 30, 2017**		**June 30, 2017**	**December 31, 2016**
Cash and cash equivalents		USD	647,850	L	15,188,521	13,912,281
Investments:						
Certificates, bonds and other, net	5		482,687		11,316,344	8,912,596
Stocks, net	5		12,503		293,121	315,024
Insurance premiums receivable, net			19,719		462,303	442,349
Loans and interest receivable, net	6		2,043,121		47,899,949	45,479,749
Accounts receivable, net			103,259		2,420,857	2,362,063
Property, plant and equipment, net	8		75,932		1,780,191	1,752,275
Assets held for sale, net	7		32,133		753,341	825,292
Deferred income tax			22		517	517
Other assets, net			59,348		1,391,385	1,077,347
Total Assets		USD	3,476,574	L	81,506,529	75,079,493
Liabilities and stockholders´equity						
Deposits from clients and other banks	9	USD	2,535,441	L	59,442,147	53,653,299
Financial obligations						
Sectoral loans	10		172,081		4,034,345	4,045,440
Other interbanks loans	10		102,513		2,403,363	2,978,015
Interest payable			4,526		106,099	99,337
Accounts payable			62,032		1,454,313	1,002,446
Reserves for claims			8,210		192,470	196,174
Technical and mathematical reserves			26,094		611,756	613,468
Obligations with reinsurance and counter-guarantors			11,165		261,765	214,470
Other liabilities			2,110		49,463	29,569
Income tax payable			3,442		80,693	324,960
Deferred income tax			1,367		32,043	31,971
Sundry creditors			15,743		369,088	378,478
Provisions			40,589		951,596	693,237
Special reserves			4,941		115,851	60,422
Bancatlan corporate bonds	11		42,637		999,615	1,001,296
Total Liabilities			3,032,891		71,104,607	65,322,582
Noncontrolling interests			39,198		918,972	862,261
Stockholders' Equity						
Common stock - 29,750,000 authorized and issued shares, at par value of L 200 each one			253,791		5,950,000	5,950,000
Capital surplus due to par value in excess of the shares			344		8,058	8,058
Accumulated other comprehensive income (loss) and other restricted equity						
Tax contingency reserves	16		3,084		72,301	-
Fixed asset revaluation surplus			8,706		204,107	204,107
Other comprehensive income (OCI)			2,670		62,603	65,242
Deferred income tax over OCI			(795)		(18,642)	(19,431)
	12		13,665		320,369	249,918
Retained earnings						
Contingency reserves			133		3,128	3,128
Legal reserves			2,864		67,153	67,185
Retained earnings			133,688		3,134,242	2,616,361
Total retained earnings and other restricted equity			150,350		3,524,892	2,936,592
Total equity			404,485		9,482,950	8,894,650
Contingent liabilities	16					
Total liabilities and equity		USD	3,476,574	L	81,506,529	75,079,493

See accompanying notes to consolidated financial statements.

INVERSIONES ATLANTIDA, S.A. AND SUBSIDIARIES
Condensed Consolidated Comprenhensive Income Statement
Six month period ended June 30, 2017 and 2016
(Expressed in thousands of Lempiras)

	Note		June 30, 2017		June 30, 2017	June 30, 2016
Financial proceeds						
Interest income	13	USD	136,462	L	3,199,279	2,931,987
Interest expense	13		59,187		1,387,617	1,316,848
Financial profit			77,275		1,811,662	1,615,139
Loan impairment charges			8,488		198,992	221,095
Finacial profit, net of loan impairment charges			68,787		1,612,670	1,394,044
Income from insurance activities			57,265		1,342,541	1,695,772
Expenses from insurance activities			46,270		1,084,768	1,464,408
Profit from insurance activities			10,995		257,773	231,364
Commissions and fees:						
Services			2,250		52,739	66,650
Commissions			29,108		682,430	457,849
Leases			4,507		105,653	123,017
Other income			7,320		171,615	310,004
Total proceeds from services			43,185		1,012,437	957,520
Other expenses:						
Staff-expenses			32,890		771,082	680,345
General and administrative expenses			43,311		1,015,396	980,220
Depreciation and amortization			7,473		175,204	190,338
Total other expenses			83,674		1,961,682	1,850,903
Operating income			39,293		921,198	732,025
Non-operating income (expenses):						
Income from dividends			95		2,230	2,209
Gain on assets available for sale			2,141		50,187	26,554
Gain on sale of fixed assets			291		6,833	5,413
Capital gains tax			(1,452)		(34,028)	(16,423)
Other income, net			(171)		(4,004)	135,336
Total non-operating income (expenses):			904		21,218	153,089
Income before income tax, assets tax, net gross income tax, solidarity contribution and noncontrolling interest			40,197		942,416	885,114
Income tax and solidarity contribution	14		12,130		284,387	252,027
Net assets tax			413		9,688	9,222
Deferred income tax	14		42		978	(199)
			12,585		295,053	261,050
Income before noncontrolling interests			27,612		647,363	624,064
Net Income attributable to noncontrolling interests			2,440		57,213	50,841
Net income			25,172		590,150	573,223
Items that may be reclassified subsequently to profit or loss:						
Gains (loss) from sales of financial foreclosed assets			(130)		(3,051)	24,805
Other profit gains (loss)			18		412	(1,496)
Income tax relating to items that may be reclassified			34		789	(6,994)
Total comprehensive income for the period		USD	25,094	L	588,300	589,538

See accompanying notes to consolidated financial statements.

INVERSIONES ATLANTIDA, S.A. AND SUBSIDIARIES
Consolidated statement of changes in stockholder´s equity
Six month period ended June 30, 2017 and 2016
(Expressed in thousands of Lempiras)

		Common stock	Capital surplus due to face value in excess of shares	Other comprehensive income (OCI) and Deferred tax and other restricted equity	Retained earnings: Contingency reserves	Retained earnings: Legal reserves	Retained earnings: Retained earnings	Total	Total USD
Balance as of January 1, 2016	L	5,950,000	8,058	263,711	3,768	34,238	1,650,370	7,910,145	
Net income		-	-	-	-	-	573,223	573,223	
Change in other comprehensive income			-	16,315	-	-	-	16,315	
Transfer		-	6	2	(640)	(3,575)	4,207	-	
Other adjustments		-	-	-	-	-	(197)	(197)	
Cash dividends		-	-	-	-	-	(119,000)	(119,000)	
For creation of other liabilities reserves		-	-	-	-	-	(52,000)	(52,000)	
Balance as of June 30, 2016	L	5,950,000	8,064	280,028	3,128	30,663	2,056,603	8,328,486	
Balance as of January 1, 2017		5,950,000	8,058	249,918	3,128	67,185	2,616,361	8,894,650	379,392
Net income							590,150	590,150	25,172
Transfer from retained earnings		-	-	72,301	-	-	(72,301)	-	-
Transfer		-	-	-	-	(32)	32	-	-
Change in other comprehensive income		-	-	(1,850)	-	-	-	(1,850)	(79)
Balance as of June 30, 2017	L	5,950,000	8,058	320,369	3,128	67,153	3,134,242	9,482,950	404,485

See accompanying notes to consolidated financial statements.

INVERSIONES ATLANTIDA, S.A. AND SUBSIDIARIES

Condensed Consolidated Cash Flow Statement
Six month period ended June 30, 2017 and 2016
Net increase in cash and cash equivalents
(Expressed in thousands of Lempiras)

		June 30, 2017		June 30, 2017	June 30, 2016
Cash flow from operating activities					
Interest income	USD	137,677	L	3,227,760	2,920,188
Interest expense		(58,899)		(1,380,855)	(1,316,848)
Fee and other income		30,379		712,209	762,309
Cash dividends		95		2,230	2,209
Insurance premiums, net of claims paid and reinsurance		10,930		256,260	193,146
Staff and procurement payments		(68,904)		(1,615,429)	(918,060)
		51,278		1,202,175	1,642,944
Change in operating assets and liabilities					
Loans		(115,373)		(2,704,866)	(2,791,708)
Net increase in client deposits and third-party collections		246,169		5,771,305	1,617,419
Net cash flow from operating activities before income tax		182,074		4,268,614	468,655
Income tax and solidarity contribution paid		(14,154)		(331,827)	(338,556)
Net cash flow from operating activities		**167,920**		**3,936,787**	**130,099**
Cash flow from investment activities:					
Change in investments		(102,529)		(2,403,748)	1,994,839
Cash from sales of fixed assets and assets held for sale		19,077		447,245	88,107
Purchase of property, plant and equipment		(4,953)		(116,114)	(132,662)
Net cash flow (used in) from investment activities		**(88,405)**		**(2,072,617)**	**1,950,284**
Cash flow from financing activities:					
Decrease in loans from banks		(24,984)		(585,747)	(1,437,373)
Change in noncontrolling interest		(21)		(502)	2,386
Paid dividends		-		-	(119,000)
(Decrease) increase in bonds issued		(72)		(1,681)	28,730
Net cash flow used in financing activities		**(25,077)**		**(587,930)**	**(1,525,257)**
Increase in cash and cash equivalents		54,438		1,276,240	555,126
Cash and cash equivalents at the beginning of the period		593,412		13,912,281	10,317,239
Cash and cash equivalents at the end of the period	USD	647,850	L	15,188,521	10,872,365

See accompanying notes to consolidated financial statements.

(Expressed in thousands of Lempiras)

(1) Reporting entity

Inversiones Atlántida, S. A. (the Company) was established under the laws of the Republic of Honduras on October 15th, 1970, for an indefinite period of time. The Company is domiciled at: Hato – San Ignacio, Boulevard Centro America, Tegucigalpa, Republic of Honduras.

These condensed consolidated interim financial statements ("Interim financial statements") as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016, comprise the Company and its Subsidiaries (together referred to as the "Group").

The Group provides mainly services in the banking, insurance, leasing, pension fund administration, storage, and financial intermediation sectors, among others. The subsidiaries operate throughout the Honduran territory and have a presence in the main cities of the country: Tegucigalpa, San Pedro Sula, La Ceiba, Choluteca, Comayagua and Roatán.

(2) Basis of preparation

a) Consolidation principle

The consolidation principle followed by the Group is to include the assets, liabilities, equity and operations of the controlled subsidiaries. The consolidated financial statements of the subsidiaries are included in the consolidated financial statements beginning on the date when control was obtained. All significant transactions among the companies have been eliminated.

The companies included in the consolidated financial statements are the following:

Subsidiary	Percentage participation of the Group in the capital of the subsidiaries
Banco Atlántida, S. A.	87.25%
Corporación de Créditos Atlántida, S. A. de C. V.	100.00%
Administradora de Fondos de Pensiones Atlántida, S. A.	100.00%
Seguros Atlántida, S.A.	100.00%
Arrendamientos y Créditos Atlántida, S.A.	100.00%
Compañía Almacenadora, S.A.	100.00%
Informática Atlántida, S. A.	100.00%
Sonival Casa de Bolsa, S.A.	100.00%
Almacén Temporal Atlántida, S. A.	100.00%

b) Basis of accounting

These interim financial statements have been prepared in accordance with accounting standards, procedures, and accounting provisions issued by the National Banking and Insurance Commission (CNBS as abbreviated in Spanish) of the Republic of Honduras (the Commission), the local regulator responsible of the control and vigilance over the financial and insurance system, including the operations of authorized capital markets participants. They do not include all the information required for a complete set of financial statements as requested by the Commission. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group financial position and performance since the last annual financial statements.

These financial statements were authorized by the board of Director of the Group on August 31, 2017.

c) Bases for measurement

The interim financial statements have been prepared using historical cost except for certain property, plant and equipment that have been subject to revaluation, and certain type of financial assets and liabilities described below that are measured at amortized cost or at fair value.

- Held to maturity investments in bonds and notes from the Central Bank of Honduras and the government of Honduras and obligations are measured at their amortized cost with the impacts reflected in the income statement.

- Available for sale of the Bank investments are registered at fair value.

d) Functional and presentation currencies

The accounts included in the interim financial statements of the Group are measured using the currency of the primary economic environment in Honduras (the Lempira). The interim financial statements are presented in Lempiras, which is the functional and reporting currency of the Group.

The reporting currency of the Group is the Lempira. The amounts disclosed in United States Dollars (USD) in the accompanying condensed consolidated financial statements are presented solely for the convenience of the reader, dividing the Lempira amounts by the exchange rate of L23.4445 per US$1.00, which is the market exchange rate as of June 30, 2017, as calculated by the Central Bank of Honduras. The use of this methodology in converting Lempiras to USD is referred to as the "U.S. dollar conversion methodology," and should not be construed as a representation that Lempira amounts represent, have been, or could be, converted into U.S. dollars at that rate or at any other rate.

e) Use of Management estimates

Preparing the interim financial statements requires Management to make a number of judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from those estimates and assumptions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these interim financial statements, significant judgments made by Management when applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2016.

(3) Significant accounting policies

The accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2016.

(4) Risk management

The Group is exposed to the following risks from financial instruments, for which it conducts risk management efforts:

- credit risk
- comprehensive risk management
- liquidity risk

The Group´s financial risk management objectives and policies are consistent with those disclosed in the interim financial statements as of and for the year ended December 31, 2016.

This section provides details regarding risk exposure and describes the methods used by management to control those risks. The most important types of financial risks to which the Group are exposed are credit risk, liquidity risk, and market risk. Market risk includes exchange rate risk, prices for capital instruments and interest rate risk.

Other significant business risks are those which are related to the prevention and detection of improper use of the Group's products and financial services including: money laundering, fiduciary, operations, technological, interest rate, exchange-rate, reputational, and strategic risks.

Credit risk

Credit risk is the risk of that one of the parties involved in a financial instrument fails to comply with their obligations and causes the other party to incur financial losses. The assets which potentially expose the Group to concentrations of credit risk consist primarily in deposits in national and foreign banks, investments, loans receivable, interest receivable, and insurance premiums receivable.

A large percentage of bank deposits and investments in bonds and notes are placed with the Central Bank of Honduras or with foreign banks.

Comprehensive risk management

Comprehensive risk management is the process through which the management structure of the Group, based on their risk tolerance, establish the amounts of exposure and the strategies by which Senior management and the staff at all levels of the Group implement procedures and systematic tasks to identify, evaluate, mitigate, monitor, and communicate the inherent risks which may affect the achievement of institutional goals.

The Group have formal, comprehensive, administrative risk management processes which allow the identification, measurement, control/mitigation, and monitoring of risk exposure which is assumed based on the risk profile inherent in their business strategy, policies, procedures, organizational structure, target market segment, and based on the products and services offered to their clients.

The Group have a credit committee, which is in charge of establishing and overseeing compliance with credit policies, which establish limits focused on the efficient management of credit risk, while at the same time, some are regulated and the subsidiaries supervised by the Commission.

The magnitude and concentration of exposure of the Group to credit risk can be seen in the balance sheet, which describes the size and composition of the financial assets of the Group by type of investment, the Group in some cases do not have collateral agreements related to their exposure to credit risk.

Liquidity risk

This represents the risk that the Group would have difficulties obtaining the funds necessary to meet commitments associated with the financial instruments. This may be the result of the inability to quickly sell an asset and receive from the sale a value which is similar to its fair value.

The Group finance the loan portfolio primarily through client deposits and loans payable.

Banco Atlántida, S. A. and Arrendamientos y Créditos Atlántida, S.A., are subject to legal reserves and to the capital adequacy ratio required by the regulatory entities.

Inversiones Atlántida, S. A., Banco Atlántida, S.A., and Compañía Almacenadora, S.A., finance their operations with their own funds and loans payable.

(Expressed in thousands of Lempiras)

The following table provides the tenor analysis of financial assets and liabilities according to the period remaining until their maturity.

As of June 30, 2017

		Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than 5 years
Financial assets:						
Cash and cash equivalents	L	15,188,521	-	-	-	-
Investments		2,238,809	1,086,086	2,507,688	4,390,840	1,092,921
Loans		3,018,422	2,907,763	11,162,782	20,013,640	12,228,690
Insurance premiums receivable		136,375	306,692	19,236	-	-
Interests receivable		621,875	-	-	-	-
Accounts receivable		12,722	1,524	31,550	1,736,276	22,076
	L	21,216,724	4,302,065	13,721,256	26,140,756	13,343,687
Financial liabilities:						
Deposits	L	8,280,675	10,929,260	10,354,133	17,928,547	11,949,532
Loans from banks		43,068	129,934	587,055	2,940,029	2,737,622
Interest payable		106,099	-	-	-	-
Accounts payable		1,454,313	-	-	-	-
Income tax payable		-	-	80,693	-	-
Bancatlan Corporate Bonds		-	-	-	999,615	-
	L	9,884,155	11,059,194	11,021,881	21,868,191	14,687,154

(Expressed in thousands of Lempiras)

As of December 31, 2016

		Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than 5 years
Financial assets:						
Cash and cash equivalents	L	13,912,281	-	-	-	-
Investments		500,704	489,896	4,038,408	3,852,220	31,368
Loans		5,084,566	2,611,866	8,964,695	19,565,388	10,812,570
Insurance premiums receivable		442,349	-	-	-	-
Interests receivable		541,398	-	-	-	-
Accounts receivable		10,442	118,907	23,355	1,515,515	-
	L	20,491,740	3,220,669	13,026,458	24,933,123	10,843,938
Financial liabilities:						
Deposits	L	10,829,558	13,235,967	17,107,680	6,716,574	5,763,518
Loans from banks		78,753	87,101	908,537	2,926,338	3,022,726
Interest payable		99,337	-	-	-	-
Accounts payable		1,002,446	-	-	-	-
Income tax payable		-	-	324,960	-	-
Bancatlan Corporate Bonds		-	-	-	1,001,296	-
	L	12,010,094	13,323,068	18,341,177	10,644,208	8,786,244

(Expressed in thousands of Lempiras)

Market risk

Market risk is the risk that changes in market prices, such as interest rates, prices for capital instruments, and exchange rates with respect to foreign currency may affect the income of the Group or the value of their participation in financial instruments. The objective of market risk management is to control the exposure within acceptable parameters, while optimizing the return in relation to the risk assumed.

Market risk includes the analysis of the following Components:

a) Exchange rate risk
b) Interest rate risk
c) Price risk

Exchange rate risk

This is the risk to which the Group is exposed because of fluctuations in the value of financial assets and liabilities caused by variations in the exchange rates. The magnitude of this risk depends on:

- The unbalance between assets and liabilities in the foreign currency of the Bank; and
- The exchange rate of the underlying contract for the transactions in foreign exchange at the date of execution of the contract.

As of the June 31, 2017 and December 31, 2016, the total for assets, liabilities, and off-balance sheet operations in foreign currency (USD), are the following:

		June 30, 2017		
Cash & cash equivalents	USD	351,038	L	8,229,904
Investments		72,461		1,698,806
Loans		611,709		14,341,216
Total assets		1,035,208		24,269,926
Deposits		903,837		21,189,985
Loans from banks		97,717		2,290,937
Bancatlan Corporate Bonds		28,775		674,615
Total liabilities		1,030,329		24,155,537
		4,879		**114,389**
Off balance-sheet accounts		(148,170)		(3,473,786)
Net position	**USD**	**(143,291)**	**L**	**(3,359,397)**

(Expressed in thousands of Lempiras)

		December 31, 2016		
Cash & cash equivalents	USD	322,750	L	7,585,567
Investments		27,145		637,991
Loans		661,494		15,547,024
Total assets		1,011,389		23,770,582
Deposits		841,364		19,774,486
Loans from banks		121,848		2,863,784
Bancatlan Corporate Bonds		28,775		676,296
Total liabilities		991,987		23,314,566
		19,402		**456,016**
Off balance-sheet accounts		(138,097)		(3,245,654)
Net position	**USD**	**(118,695)**	**L**	**(2,789,638)**

To adequately manage this risk and reduce appropriately the exposure to exchange rate risk, especially in accounts off the balance sheets, as of June 30, 2017 and December 31, 2016, the Bank holds stand-by letters of credit and pledged deposits in foreign currency for the amounts of USD68,706 (L 1,610,778) and USD 60,511 (L 1,422,188), respectively.

Interest rate risk

This is the risk to which the Group is exposed due to fluctuations in the value of Financial Assets and liabilities resulting from changes in the interest rate.

The magnitude of this risks depends upon:
- The underlying and relevant interest rate of the financial assets and liabilities; and
- The maturities of the portfolio of financial instruments of the banks.

Substantially, all of the financial assets of the Group earn interest. The financial liabilities of the Group include liabilities which do not bare interest, as well as liabilities which bare interest. The assets and liabilities of the Group which bare interest are based on rates which have been established in accordance with market rates.

The maturity structure of the financial assets and liabilities of the Group and the Subsidiaries can be seen in the previous tables.

The financial instruments of the Group include conditions of variable interest rates.

The following table details the weighted average interest rates by type of currency of the financial instruments of the Group:

(Expressed in thousands of Lempiras)

	June 30, 2017		December 31, 2016	
	Lempiras	**Dollars**	**Lempiras**	**Dollars**
Financial Assets				
Cash and cash equivalents	1.6%	1.3%	2.2%	1.7%
Investments	8.5%	1.3%	8.6%	1.2%
Loans receivable	13.1%	7.9%	11.4%	7.6%
Financial Liabilities				
Deposits	4.3%	2.8%	4.5%	2.8%
Bank bonds	9.0%	4.5%	9.8%	5.3%

Price Risk

The Group is exposed to price risk as owner of equity investments in other non-consolidating entities that are trade in international stock exchanges and therefore subject to changes in its pricing.

To mitigate the price risk of these investments, the Group uses a portfolio diversification strategy based on the share´s volatility or beta.

Regulatory risk

The CNBS and the Central Bank periodically establish minimum capital requirements for banking and insurance companies and evaluates these requirements from time to time. Banco Atlántida and Seguros Atlántida are subject to these minimum capital requirements. Pursuant to CNBS Resolution No. 734/14-09-2016, the minimum regulatory capital requirement for banks was set at L500 million. As of June 30, 2017, Banco Atlántida had a capital surplus of L6,000 million, which represented a 1,200% surplus with respect to the applicable minimum regulatory capital requirement. Pursuant to Central Bank Resolution No. 214/5-2015, the minimum regulatory capital requirement for insurance companies was set at L140 million. As of June 30, 2017, Seguros Atlántida had a capital surplus of L560 million, which represented a 400% surplus with respect to the applicable minimum regulatory capital requirement. According to CNBS Resolution 734/14-09-2016, Arrendamientos y Créditos Atlántida, S.A. (ACRESA) is subject to a minimum capital requirement of L 70 million. As of June 30, 2017, ACRESA has a capital surplus of L 130 million.

If Banco Atlántida, ACRESA or Seguros Atlántida fails to comply with these minimum capital requirements, the CNBS or the Central Bank may request that Banco Atlántida, ACRESA or Seguros Atlántida, respectively, take certain corrective actions to ensure compliance. In addition, the CNBS or the Central Bank may impose certain regulatory sanctions in their discretion, which would have a material adverse effect on our regulatory license, financial condition and results of operations.

Insurance risk

Technical risks are those risks which arise from the actual activity of the insurance business and are a direct result of the underwritten policies and include:

a) Underwriting risk: is the risk derived from underwriting policies for life insurance, indemnity insurance, and performance bonds.

b) Concentration and catastrophic risk: corresponds to the probability of losses that may be incurred by the Group as the result of a concentration of assumed risks, whether that is by age groups, by regions, or by the occurrence of catastrophic events that affect a high number of insured policyholders.

c) Risk of insufficiency of technical reserves: corresponds to the probability of losses as a result of underestimating in the calculation of technical reserves and other contractual obligations, such as guaranteed benefits or returns.

d) Reinsurance risk: corresponds to the probability of losses for inadequate management of reinsurance, normally due to the following factors: errors in the contracts written, changes between the originally accepted contract conditions by the policy owners and those which are accepted by the reinsurance companies, and noncompliance with the obligations of the reinsurance Group due to insolvency or financial problems on their part.

Underwriting risk in any one of its different modalities, is the possibility that an insured event occurs and therefore the uncertainty regarding the total number of possible claims is resolved, while by the very nature of this type of contract, the actual risk is random and therefore unpredictable.

As far as the case of a portfolio of insurance policies where the theory of large numbers and probabilities is applied to set prices and make provisions, the primary risk faced by the Group is that the rates, premiums, and reserves are insufficient to cover all of the claims and payments of the beneficiaries covered by the policies. This could occur to the extent that the frequency and/or severity of claims and beneficiaries is greater than what has been calculated. The factors which are considered to evaluate the insurance risks are:

- The frequency and severity of claims and incidents by business area.

- The accumulation of risks and the ability of the Group to absorb these.

- The number of incidents by contract and by business area, and the adequacy of premiums.

The Group has contracted reinsurance coverage which protects against losses related to frequency and severity. The negotiations for reinsurance include coverage for excessive losses and catastrophes. The objective of these negotiations for reinsurance is that the total net insurance losses do not affect the equity and liquidity of the Group in any given year. In addition to the program of total reinsurance by the Group, the Group also acquires additional reinsurance protection under the modality of options contracts or whenever an evaluation of risks shows that this is necessary. The reinsurance companies with which the Group contracts for this coverage are first level companies and are included in the registry of reinsurance companies of the National Banking and Insurance Commission.

(Expressed in thousands of Lempiras)

The factors which increase the risks of insurance and performance bonds include the lack of diversification of risk in terms of the types and amounts of risk, geographic location, and the quality of the contracting party for the risks, among others. The underwriting strategy attempts to guarantee that the underwritten risks are well diversified in terms of types and amounts of risk. The underwriting limits are used to set the selection criteria for adequate risks, and in addition the Group has the right to refuse any underwriting requests for insurance policies and performance bonds which present unacceptable risk conditions according to the acceptability criteria, and also has the right to adjust rates and premiums in policy renewals, as well as the value or percentage of deductibles and also the right to refuse claims for fraudulent incidents or when these incidents occur under conditions not foreseen in the insurance policy.

Most the insurance policies currently underwritten by the Group are short term policies, limiting the responsibility to the agreed insurance amounts in each insurance policy.

The process of claims for incidents carried out, is made up of a series of controls applied by management in order to verify the occurrence of the incident, and assure that the circumstances of the event which caused the incident are covered by the general conditions and/or particular clauses of the insurance policy, and that the proper coverage amount is duly established in order to carry out the corresponding liquidation.

(5) Investments

Financial investments composition is as follows:

By classification		**June 30, 2017**	**December 31, 2016**
Obligatory investments	L	1,661,116	941,290
Non-obligatory investments		8,333,227	7,681,585
Investments in special funds		1,322,001	289,721
1. Financial Investments at Amortized Cost	**L**	**11,316,344**	**8,912,596**
2. Financial Investments at Fair Value			
Stocks and shares	L	95,574	85,539
3. Financial Investments at Cost			
Stocks and shares		359,695	359,695
		455,269	445,234
Less investment reserve		162,148	130,210
	L	**293,121**	**315,024**

(Expressed in thousands of Lempiras)

Similarly, investments at amortized cost are grouped by issuer, as follows:

As of June 30, 2017:

Certificates and Bonds:		**Balance**	**Weighted Average Interest Rate**	**Minimum Interest Rate**	**Maximum Interest Rate**	**Nearest Maturity Date**	**Furthest Maturity Date**
Notes from the Central Bank of Honduras	L	4,197,813	6.2%	5.47%	6.77%	03/07/2017	23/10/2020
Bonds from the Ministry of Finance		5,396,091	10.92%	4.00%	15.00%	20/07/2017	02/09/2036
Certificates of deposit		1,722,440	5.02%	1.04%	11.00%	07/07/2017	26/07/2021
Total	**L**	**11,316,344**					

The weighted average return on investment as of June 30, 2017 was 7.7%.

As of December 31, 2016

Certificates and Bonds:		**Balance**	**Weighted Average Interest Rate**	**Minimum Interest Rate**	**Maximum Interest Rate**	**Nearest Maturity Date**	**Furthest Maturity Date**
Notes from the Central Bank of Honduras	L	1,246,333	6.6%	5.5%	6.6%	02/01/2017	14/06/2017
Bonds from the Ministry of Finance		6,569,690	9.0%	6.5%	15.0%	20/07/2017	02/09/2036
Certificates of deposit		1,096,573	5.6%	2.9%	11.5%	02/01/2017	26/07/2021
Total	**L**	**8,912,596**					

The weighted average return on investment as of December 31, 2016 was 8.3%.

The investments in stock and shares are detailed as follows:

Financial investments at fair value		**June 30, 2017**	**December 31, 2016**
Banco Latinoamericano de Exportaciones, S. A. (BLADEX)	L	23,567	25,406
Visa Inc.		71,550	59,674
SWIFT		457	459
	L	**95,574**	**85,539**

(Expressed in thousands of Lempiras)

Investments in other entities		**June 30, 2017**	**December 31, 2016**
Desarrollos Turísticos de Tela, S. A.	L	178,476	178,476
Hoteles de Honduras, S. A.		104,914	44,914
Roca Inversiones y Bienes Raíces, S. A.		23,331	23,331
Hospitales de Honduras, S. A.		16,553	16,553
Inversiones Bermejo, S. A.		10,491	10,491
Fondo Crediticio para la Producción		8,765	8,765
Fondo Hondureño de Inversiones Turística, S. A.		4,798	4,798
Sociedad Confianza S.A. de F.G.R.		3,000	3,000
Sociedad Inversora 20/20		2,393	2,393
Inversiones Marítimas Centroamericanas, S.A. de CV		2,000	2,000
Seguros Davivienda Honduras, S. A.		1,872	1,872
Centro de Procesamiento Interbancario, S. A.		1,088	1,088
Others		2,014	62,014
Total	**L**	**359,695**	**359,695**

Changes in financial investments

Changes in investments in financial instruments are summarized as follows:

		At Amortized Cost	**At Fair value**	**At Cost**	**Total**
Balance as of January 1, 2017	**L**	**8,912,596**	**85,539**	**359,695**	**9,357,830**
Plus (minus)					
Purchase of Financial instruments		7,098,204	-	-	7,098,204
Cancellation and/or sales of instruments		(4,694,280)	-		(4,694,280)
Profit (loss) due to exchange rate differences for monetary assets		(176)	258	-	82
Profit (loss) due to changes in fair value		-	9,777	-	9,777
Balance as of June 30, 2017	**L**	**11,316,344**	**95,574**	**359,695**	**11,771,613**

		At Amortized Cost	**At Fair value**	**At Cost**	**Total**
Balance as of January 1, 2016	**L**	**14,740,661**	**78,179**	**282,964**	**15,101,804**
Plus (minus)					
Purchase of Financial instruments		2,975,942	-	79,658	3,055,600
Cancellation and/or sales of instruments		(8,811,164)	-	(2,927)	(8,814,091)
Profit (loss) due to exchange rate differences for monetary assets		7,157	-	-	7,157
Profit (loss) due to changes in fair value		-	7,360	-	7,360
Balance as of December 31, 2016	**L**	**8,912,596**	**85,539**	**359,695**	**9,357,830**

(Expressed in thousands of Lempiras)

(6) Loans and interest receivable-

The details of the loan portfolio shown below correspond to the portfolios administered by the Group.

Loans and interest receivable are detailed as follows:

By Status and Type of Credit		June 30, 2017	December 31, 2016
Current	L	**45,345,748**	**42,995,884**
Commercial		34,531,885	32,795,658
Residential mortgage		3,546,672	3,495,662
Consumer		7,267,191	6,704,564
Past-due[1]		**788,927**	**965,025**
Commercial		271,192	520,656
Residential mortgage		155,905	147,475
Consumer		361,830	296,894
Over-due[2]		**68,221**	**61,338**
Commercial		65,573	59,046
Residential mortgage		140	91
Consumer		2,508	2,201
In Legal execution		**284,259**	**259,763**
Commercial		188,722	162,156
Residential mortgage		73,688	68,168
Consumer		21,849	29,439
Refinanced		**2,844,142**	**2,757,076**
Commercial		2,807,642	2,749,370
Residential mortgage		1,318	1,377
Consumer		35,182	6,329
Total gross portfolio		**49,331,297**	**47,039,086**
(+) Commissions receivable		-	5,404
(+) Interest receivable on loans		621,875	541,398
(-) Allowance for loan and interest losses		(1,849,946)	(1,966,060)
(-) Income from capitalized interest on refinanced loans		(203,277)	(140,079)
Net Total	L	**47,899,949**	**45,479,749**

[1] Past due status occurs when there are some installments in default.
[2] Over-due status is reached when all payments are in default.

(Expressed in thousands of Lempiras)

The credit portfolio by economic activity is detailed below:

		June 30, 2017		December 31, 2016	
		Balance	**%**	**Balance**	**%**
Agriculture	L	3,125,177	6.3%	3,070,606	6.5%
Industry and Exports		7,618,537	15.4%	7,415,614	15.8%
Commerce and Consumer		12,600,312	25.5%	11,496,106	24.4%
Residential mortgage		3,777,723	7.7%	3,712,772	7.9%
Services		4,631,526	9.4%	4,497,485	9.6%
Real Estate Property		8,811,507	17.9%	8,656,108	18.4%
Others		8,766,515	17.8%	8,190,395	17.4%
Total loan portfolio	**L**	**49,331,297**	**100.0%**	**47,039,086**	**100.0%**

The Non-performing Loan portfolio is detailed as follows:

		June 30, 2017	December 31, 2016
By status			
Performing loans	L	47,816,574	45,508,998
Non-performing loans: Past-due		858,702	988,254
Non-performing loans: Over-due		108,138	174,451
Non-Performing loans: Over-due in legal execution		547,883	367,383
Total	**L**	**49,331,297**	**47,039,086**

As of June 30, 2017 and December 31, 2016, the non-performing loan ratio was 3.1% and 3.3%, respectively.

As of June 30, 2017 and December 31, 2016, the coverage rate, defined as the allowance for loan and interest losses amount divided by the total amounts past due, of the gross portfolio was 122.1% and 128.5%, respectively.

As of June 30, 2017 and December 31, 2016, the weighted average yield 11.5% and 11.2%, respectively.

As of June 30, 2017 and December 31, 2016, loans guaranteed by client deposits totaled L193,130 and L 302,025, respectively.

Interest earned by the loan portfolio and not recognized in the condensed consolidated comprehensive income statement for the three months ended June 30, 2017 and 2016 totaled L68,781 and L65,233, respectively.

(Expressed in thousands of Lempiras)

As of June 30, 2017 and December 31, 2016, the balance of loans receivable includes balances to related parties approved by the Board of Directors for L1,381,610 and L1,275,278, respectively. These transactions are under arm´s length conditions and most of them are backed by collateral guarantees.

As of June 30, 2017 and December 31, 2016, the balances of loans receivable in the amounts of L4,972,125 and L5,103,070, respectively, are assigned as guarantees for loans from banks.

As of June 30, 2017 and December 31, 2016, the category of loans and interests receivable includes balances in USD for the amounts of L 14,341,216 (USD 611,709) and L 15,721,395 (USD 668,913), respectively.

The distribution of loans receivable from the largest borrowers is as follows:

Number of Borrowers		30th of June 2017	% of Gross Portfolio	31st of December 2016	% of Gross Portfolio
10 Largest Clients	L	7,624,184	15.46%	7,481,762	15.91%
11th – 20th Largest Clients		4,875,702	9.88%	4,818,791	10.24%
21st – 50th Largest Clients		8,906,992	18.06%	8,817,998	18.75%
51st Largest Client and above		27,924,419	56.60%	25,920,535	55.10%
Total	**L**	**49,331,297**	**100.00%**	**47,039,086**	**100.00%**

The distribution of risk related to the largest borrowers is as follows:

Risk Category		30th of June 2017	% of Gross Portfolio	31st of December 2016	% of Gross Portfolio
I Good Credit	L	40,279,295	81.7%	38,103,029	81.00%
II Credit with Special Mention		5,473,473	11.1%	5,386,412	11.45%
III Sub-standard Credit		2,141,372	4.3%	2,064,936	4.39%
IV Doubtful Collection		795,521	1.6%	778,475	1.65%
V Loss/Write-off Credit		641,636	1.3%	706,234	1.50%
Total	**L**	**49,331,297**	**100.0%**	**47,039,086**	**100.00%**

(Expressed in thousands of Lempiras)

As of June 30, 2017 and December 31, 2016, the Group maintained allowance for loan and interest losses for a total of L1,849,946 and L1,966,060, respectively. The composition of these risks is shown below:

Item		**June 30, 2017**			**December 31, 2016**	
	Loans	**Off-balance sheet items**	**Total**	**Loans**	**Off-balance sheet items**	**Total**
I. By sector						
a) Commercial	L 1,234,828	15,013	1,249,841	1,402,779	15,275	1,418,054
b) Residential mortgage	506,524	-	506,524	89,972	-	89,972
c) Consumer	93,581	-	93,581	458,034	-	458,034
Total	1,834,933	15,013	1,849,946	1,950,785	15,275	1,966,060
II. By risk category						
Category I	215,557	6,076	221,633	212,730	5,764	218,494
Category II	298,525	509	299,034	304,296	591	304,887
Category III	407,827	5,827	413,654	405,991	6,435	412,426
Category IV	346,041	2,601	348,642	381,707	2,485	384,192
Category V	566,983	-	566,983	646,061	-	646,061
Total	1,834,933	15,013	1,849,946	1,950,785	15,275	1,966,060
III. By collateral type						
Mortgage	246,267	794	247,061	244,857	812	245,669
Pledged	19,297	1	19,298	24,799	1	24,800
Accessory	428,757	-	428,757	461,842	-	461,842
Non-collateral	988,615	-	988,615	43,416	-	43,416
Other	151,997	14,218	166,215	1,175,871	14,462	1,190,333
Total	**L 1,834,933**	**15,013**	**1,849,946**	**1,950,785**	**15,275**	**1,966,060**

Changes in the allowance for loan and interest losses are detailed below:

Item	**June 30, 2017**	**December 31, 2016**
Balance at the beginning of the period and year	L 1,966,060	2,107,465
Provision for the period and year	198,992	569,341
Less losses on loans and interest	315,106	710,733
Adjustments	-	13
Balance at the end of the period and year	**L 1,849,946**	**1,966,060**

After exhausting all possible means of recuperation, during the period and the year as of June 30, 2017 and December 31, 2016, the Group made use of the corresponding provisions (portfolio write-offs) in the amounts of L315,106 and L 710,733, respectively, after writing off loans to clients for L437,384 and L 1,087,554, the differences were applied to the statement of comprehensive income.

(Expressed in thousands of Lempiras)

(7) Assets held-for-sale

This account includes foreclosed assets held for sale and asset that the leasing business has repossessed. These are detailed as follows:

Item		June 30, 2017	December 31, 2016
Securities	L	714	1,578
Movable assets		100,891	75,172
Real estate		1,386,036	1,432,451
Total		1,487,641	1,509,201
Less amortization		734,300	683,909
Net balance	**L**	**753,341**	**825,292**

The changes in assets held-for-sale are summarized in the following table:

		June 30, 2017	December 31, 2016
Securities:			
Balance at the beginning of the period and year	L	1,578	519
Transfers from loans		194	1,059
Sales and disposals		(1,058)	-
Balance at the end of the period and year		714	1,578
Movable assets:			
Balance at the beginning of the period and year		75,172	52,241
Reclassification from real estate		47,686	-
Transfers from loans and		1,045	-
Net variation in assets to be assigned in financial lease contracts		249,641	24,655
Assets recovered from financial lease		1,622	-
Other		(4,491)	-
Sales and disposals		(269,784)	(1,724)
Balance at the end of the period and year		100,891	75,172
Real estate:			
Balance at the beginning of the period and year		1,432,451	1,259,411
Reclassification to movable assets		(47,686)	-
Transfers from loans		96,504	285,519
Transfers to property, plant and equipment		(60,281)	-
Other		2,871	-
Sales and disposals		(37,823)	(112,479)
Balance at the end of the period and year	**L**	**1,386,036**	**1,432,451**

Changes in the amortization of assets held for sale is detailed as follows:

		June 30, 2017	December 31, 2016
At the beginning of the period and year	L	683,909	570,187
Expenses during the year		67,747	154,225
Transfer to property, plant and equipment		(6,695)	-
Other		6,566	-
Less disposals by sale		(17,227)	(40,503)
At the end of the period and year	**L**	**734,300**	**683,909**

(Expressed in thousands of Lempiras)

(8) Property, plant, and equipment

a. Acquisitions and disposals

During the six months ended June 30, 2017, the Company acquired assets with a cost of L 227,823 (six months ended June 30, 2016 of L 138,409).

Assets with a carrying amount of L 1,317 were disposed of during the six months ended June 30, 2017 (six months ended June 30, 2016 L 1,416), resulting in a gain on disposal of L 6,833 (six months ended June 30, 2016 L5,413), which is included in 'other income (expenses)' in the condensed consolidated statements of comprehensive income.

b. Depreciation

The depreciation of property, plant and equipment at March 31, 2017 and 2016 was L107,338 and L 118,891, respectively.

c. Impairment loss and subsequent reversals

June 30, 2017 and 2016 there are no losses from impairment in the value of long-lived assets, evaluated in accordance with the provisions Impairment of Assets.

(9) Deposits

The portfolio of deposits of the Group is distributed as follows:

		June 30, 2017	December 31, 2016
By counterpart			
I. At Amortized Cost			
a) From the public	L	58,828,454	53,059,654
b) From financial institutions		156,044	125,884
c) From official entities		5,089	5,763
d) Restricted deposits		452,560	461,998
Totals	**L**	**59,442,147**	**53,653,299**
By classification			
a) Deposits in checking accounts	L	8,255,088	8,289,943
b) Deposits in savings accounts		27,810,852	24,668,921
c) Fixed term deposits		22,920,383	20,228,830
d)Term deposits at maturity		3,264	3,607
e) Restricted deposits		452,560	461,998
Totals	**L**	**59,442,147**	**53,653,299**

Foreign currency deposits in USD, represent 36.1% as of June 30, 2017 and 36.9% in December 31, 2016, of the total deposits of the Bank.

(Expressed in thousands of Lempiras)

The main depositors with the Group have the following amounts deposited:

Number of Depositors		Balance on June 30, 2017	% of Gross Deposits	Balance on Dec. 31, 2016	% of Gross Deposits
10 largest the depositors	L	13,219,511	22.2%	12,698,105	23.67%
20 largest depositors		2,438,663	4.1%	3,780,871	7.05%
50 largest depositors		3,428,073	5.8%	3,341,729	6.23%
All other depositors		40,355,900	67.9%	33,832,594	63.06%
Total	**L**	**59,442,147**	**100.0%**	**53,653,299**	**100%**

As of June 30, 2017 and December 31, 2016, the deposits which were pledged in favor of the Group against loans provided total L 221,403 and L 151,464, respectively.

The average weighted cost percentage for the six month period ended June 30, 2017 was 3.8% and for the year 2016 was 3.9%, respectively.

(10) Financial obligations

Financial obligations are detailed as follows:

		June 30, 2017	December 31, 2016
Sectoral (assigned) loans:	L	4,034,345	4,045,440
Other interbank loans	L	2,403,363	2,978,015

The maturity dates of the financial obligations are as follows:

The assigned loans, have been obtained from financial institutions, for which the proceeds have been used for financing specific activities of the Group, such loans mature between 2016 and 2036.

The other interbank loans, are obtained from commercial and development banks in and outside Honduras, mature between 2017 and 2026 and include loans for which the Group has provided as guarantee a lien over the holding´s company shares in Seguros Atlántida, S.A. with a book value of L 697,083 as of June 30, 2017 (L 697,083 as of December 31, 2016) over an outstanding debt value of L1,288,666 as of the same date (L 1,034,128 as of December 31, 2016).

The assigned loans in local currency return interest rates between 6.07% and 7.98% (between 6.07% and 7.38% in 2016).

The other financial obligations return interest rates between 2.19% and 6.34% (between 1.12% and 5.34% in 2016).

As of June 30, 2017 and December 31, 2016, the assigned loans and other financial obligations include balances payable in USD, in the amounts of L 2,290,937 (USD97,717) and L 2,863,784 (USD121,848), respectively. These loans have been used to provide loans in US Dollars to clients of the Group.

Lines of credit and Loan Agreements managed by the Bank

International Finance Corporation (IFC)

On the 27th of March, 2009, the Bank signed a line of credit with the International Finance Corporation (IFC) through which it also acquired the obligation to comply with a series of covenants related to financial indicators defined by the lender regarding the management of banking risks. On the 6th of July, 2012, the amount of the authorized credit line was increased to USD 35,000 (L820,558), targeted to financing foreign trade operations, and with maximum loan periods of one year. As of June 30, 2017, there is no outstanding balance with this facility.

On 24 May, 2012, both entities signed a new financing agreement in the amount of USD50,000 (L1,172,225) with a variable interest rate established by the IFC and whose maturity date is December 15, 2018, for financing renewable energy Projects and energy efficiency; as of June 30, 2017 and December 31, 2016, the balances of this facility is L351,668 and L470,968,respectively. The weighted average interest rate as of June 30, 2017, is 5.42% and December 31, 2016, is 5.30%.

Global Climate Partnership Fund SA, SICAV – SIF (GCPF)

On the 20th of March, 2014, a loan agreement was signed with the Global Climate Partnership Fund SA, SICAV – SIF (GCPF) for an amount of USD 15,000 (L 351,668), earmarked to finance renewable energy and energy efficiency projects. As of June 30, 2017, the funds from this line of credit have been completely utilized. The weighted average interest rates as of June 30, 2017 and December 31, 2016, were 5.95% and 5.40% respectively.

Société de Promotion et de Participation pour la Coopération Economique S.A (PROPARCO)

On the 30th of June, 2015, a loan agreement was subscribed with Société de Promotion et de Participation pour la Cooperation Economique S.A (PROPARCO), for an amount of US$50,000 (L1,172,225), with a variable interest rate and a ten (10) year term, earmarked to finance renewable energy and energy efficiency projects. As of June 30, 2017, L586,113 of this facility has been used at an interest rate of 6.34%.

(Expressed in thousands of Lempiras)

<u>OPEC Fund for International Development (OFID)</u>

On the 23rd of December, 2015, Banco Atlántida signed a loan agreement with the OPEC Fund for International Development (OFID), for a total amount of USD 15,000 (L 351,668); to be used to finance foreign trade operations. As of June 30, 2017, L 175,834 is the total amount outstanding at an interest rate of 3.57%.

(11) Bancatlan Corporate Bonds

The Board of Directors of Banco Atlántida, S.A. held a meeting on the 29th of November, 2007, authorizing the issuance of Bank bonds called "Bancatlán Corporate Bonds" for an amount of up to L 400,000 in local currency and L 472,378 (USD 25,000) in USD in accordance with the Shareholders Extraordinary Assembly resolution issued on the 27th of September, 2007. Through Resolution No. 930/29-07-2008 issued on the 29th of July, 2008, the Commission authorized the Bank to register the issue of Bank bonds in the Public Registry of the Stock Market. Interest rate and maturity are described as follows:

- Interest rate: Variable in local currency and parting from a reference rate (1 yr. Central Bank Notes) plus a spread (total of 9% and 9% as of June 30, 2017 and December 31, 2016, respectively) and variable in foreign currency starting from a reference rate (12 m Libor) plus a spread (total of 4.5% and 4.5% as of June 30, 2017 and December 31, 2016, respectively).

- Maturity: Between 5 and 7 years spread between 3 tranches that reach their expiration date on November 2016, October and November 2018.

A new issue of these bonds was carried out in October and in November of 2011, and they were used to rollover the first issue, which expired in those same two months. There is an incentive for using bond issues for long-term funding as they are waived from legal reserve requirements if their maturity date is above 3 years. This issue was authorized by the Commission as per Resolution No. 1795/11-10-2011.

Interest is payable on a quarterly basis in the months of March, June, September and December of each year.

As of June 30, 2017 and December 31, 2016, the balances of the debt acquired through these bonds are as follows:

		June 30, 2017	**December 31, 2016**
Local Currency	L	325,000	325,000
Foreign Currency		674,615	676,296
	L	999,615	1,001,296

(Expressed in thousands of Lempiras)

As of June 30, 2017, the balance of the bonds issued in foreign currency totals USD 28,775.

(12) Other comprehensive income and restricted equity

As of June 30, 2017, the other comprehensive income of the Group is comprised as follows:

Other comprehensive income		**As of January 1, 2017**	**Additions**	**Releases**	**Net**	**As of June 30, 2017**
Fixed asset revaluation surplus	L	204,107	-	-	-	204,107
Adjustments for valuation of other comprehensive income		65,654	2,319	5,370	(3,051)	62,603
Adjustments for the initial adoption of the new accounting framework		(412)	-	(412)	412	-
		65,242	2,319	4,958	(2,639)	62,603
Deferred Income Tax		(19,431)	(696)	(1,485)	789	(18,642)
Total other comprehensive income		249,918	1,623	3,473	(1,850)	248,068
Tax contingency reserves (transfer from retained earnings) Note 16		-	72,301	-	-	72,301
Restricted equity	L	249,918	73,924	3,473	(1,850)	320,369

As of June 30, 2017, Seguros Atlántida, S.A., following a requirement by the local regulator, created a tax contingency reserve of L 72,301 thousand that is further addressed in Note 16.

As of December 31, 2016, the other comprehensive income of the Group is comprised as follows:

Other comprehensive income		**As of January 1, 2015**	**Additions**	**Releases**	**Net**	**As of December 31, 2016**
Fixed asset revaluation surplus	L	204,107	-	-	-	204,107
Adjustments for valuation of other comprehensive income		84,021	30,544	(48,911)	(18,367)	65,654
Adjustments for the Initial adoption of the new accounting framework		1,085		(1,497)	(1,497)	(412)
		85,106	30,544	(50,408)	(19,864)	65,242
Deferred income tax		(25,502)	(9,032)	15,103	6,071	(19,431)
Total other comprehensive Income and restricted equity	L	263,711	21,512	(35,305)	(13,793)	249,918

(Expressed in thousands of Lempiras)

(13) Financial income and expenses

Financial income is organized in the following manner:

Interest Income		June 30 2017	June 30 2016
Loans and advances to customers	L	2,743,188	2,261,409
Investment securities		447,891	670,088
Interest earning deposits		8,200	490
Total interest income	**L**	**3,199,279**	**2,931,987**

Financial expense is organized in the following manner:

Interest Expenditure		June 30, 2017	June 30, 2016
Deposits from customers	L	1,068,142	986,604
Loans obtained from banks		52,205	43,836
Financial obligations		267,270	286,408
Total interest expenses	**L**	**1,387,617**	**1,316,848**

(14) Income tax and solidarity contribution

Income tax expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Group's consolidated effective tax rate for the six months ended June 30, 2017 was 31.2% (six months ended June 30, 2016 29.0%). As such, the effective tax rate in the interim financial statements may differ from management´s estimate of the effective tax rate for the annual financial statements. The change was caused mainly by an increase in non-deductible expenses and a decrease in non-taxable income at the Bank´s level which causes a significant effect in the calculation of the consolidated effective tax rate.

(15) Significant transactions with related parties

The balance sheets and income statements include balances and transactions with related parties, as follows:

		March 31 2017	March 31 2016
Assets:			
Loans	L	1,381,610	1,168,844
Accounts receivable		1,087,148	1,171,028
Liabilities:			
Deposits		813,851	763,931
Bancatlan Corporate Bonds		3,165	17,575
Income (expenses), net		39,866	27,671

(Expressed in thousands of Lempiras)

As of date, for all significant related-parties transactions that have originated and that stand as an ongoing concern, arm´s length conditions and terms have prevailed. This is particularly the case of loans, whereas the local regulation determines the pricing conditions at which disbursements can be performed.

(16) Commitments and contingencies

Contingent Liability

According to Decree No. 150-2008, issued on the 5th of November, 2008, employees dismissed without a justified cause shall receive severance payment equivalent to one month of salary for each year employed by the Group, with a maximum of twenty-five months. The Companies and Subsidiaries must also pay 35% of the corresponding amount for the years of service, to those employees who have been with the Group for more than fifteen years, when they freely decide to terminate their work agreement. 75% of the severance payment corresponds to the deceased employee's beneficiaries who have worked for six (6) months or more for the Group and Subsidiaries. Although the Group and the Subsidiaries are responsible for the contingent liability, under normal conditions the amount payable during any year will not be significant and the Group and the Subsidiaries charge the disbursements to expenditures when they occur.

Income tax returns

The income tax returns, which have not been reviewed by the Tax Administration authorities, are the following:

Group	Years
Inversiones Atlántida, S.A.	From 2010 through 2016
Banco Atlántida, S.A.	From 2010 through 2016
Corporación de Créditos Atlántida, S.A. de C.V.	From 2010 through 2016
Administradora de Fondos de Pensiones Atlántida, S.A.	From 2010 through 2016
Seguros Atlántida, S.A.	From 2014 through 2016
Arrendamientos y Créditos Atlántida, S.A.	From 2014 through 2016
Compañía Almacenadora, S.A.	From 2010 through 2016
Informática Atlántida, S. A.	From 2010 through 2016
Sonival, Casa de Bolsa, S.A.	From 2010 through 2016
Almacen Temporal Atlántida, S.A.	From 2015 through 2016

According to current fiscal legislation, tax returns for income tax are subject to review by fiscal authorities for a period of up to the five (5) most recent years.

Transfer Prices

Decree No. 232-2011, issued on the 8th of December, 2011, contains the Law on the Regulation of Transfer Prices, which came into force on the 1st of January, 2014. Its primary objective is to regulate commercial and financial operations carried out between linked or related parties, assessed in accordance with the principle of free and full competition. The Law states that income taxpayers that are related parties carrying out commercial and financial operations between each other, are under the obligation of determining their income, cost and deductions in order to file their tax returns, applying to those operations and operational results, the prices and profit margins that may have been utilized in comparable commercial and financial operations between independent parties. Resolution No. 027-2015 was published on the 18th of September, 2015, which covers the Regulation of this Law, and the period to present the sworn declaration of annual transfer prices reported for the 2014 fiscal year expired on the 18th of December, 2015. The period of validity for the presentation of the aforementioned declaration was extended through Decree No. 168-2015, published in the official newspaper “La Gaceta”, therefore the new period ends on the 31st of March, 2016, excluding fines, interests and overcharges.

Lawsuits against the Group

Banco Atlántida, S. A.

As of December 31st, 2016, following a ruling issued by a Honduran court, the Office of Seized Assets (or OABI for its abbreviation in Spanish) seized several properties that had been pledged as collateral for several loans with an outstanding balance of L 285,975. Banco Atlántida, pursuant of its lawful rights protected by the Act on Definitive Deprivation of Ownership of Assets of Unlawful Origin, and following due process; presented a petition for these properties to be returned as the transactions that originated the loan a lien were executed under applicable banking regulations and in good faith. As of the date of this report, such situation has not been resolved. Nonetheless, considering the well documented case presented to the authorities, it is the expectation of management that this situation will have favorable outcome.

There are also other legal proceedings or complaints that are not relevant and therefore they do not represent an important impact to be reported.

Lawsuits filed by Banco Atlántida, S. A.

There are several lawsuits filed in different Courts in the country against delinquent debtors, in which the Bank is confident of obtaining favorable resolutions.

Seguros Atlántida, S.A

As of the 31st of December, 2016 and 2015, the attorneys of the Company report several commercial, civil, and labor related lawsuits against the Company, but according to the opinion of the attorneys, the Company has high probabilities of obtaining a favorable resolution. In addition, Seguros Atlántida has the following contingencies:

Fiscal matters

During 2010, sales and income tax returns for the years 2005 through 2009 were reviewed by the fiscal authorities, while in 2013 they reviewed the income tax returns, the temporary solidarity contribution and the net assets and sales for 2010 through 2012. During 2015 they reviewed income tax returns, solidarity contributions and taxes on total net assets as well as sales taxes for the year 2013 (the notification by the fiscal authorities regarding the resolution that they issued for this last review period was received by the Company on the 4th of February, 2016), and because of those reviews, the authority determined that the Company was required to pay additional taxes. Management does not agree with the criteria used by the authorities to determine those additional taxes and has filed the corresponding administrative appeals (regarding the additional taxes determined for the 2013 period) and legal appeals (for the additional taxes determined for the 2005 through 2012 periods), respectively. In order to seek legal recourse, in February, 2016, the Company paid the additional taxes determined by the fiscal authorities or the income tax returns and the temporary solidarity contributions for the 2010, 2011 and 2012 periods, totaling L 109,140.

In the year 2015, the obligations derived from the objections for the 2002 through 2004 periods were paid, after having exhausted all legal remedies, and in 2014, the obligations derived from the objections for the sales tax for 2007 through 2012 periods were paid. In the meantime, while the administrative and legal remedies are resolved, according to the requirements communicated by the National Banking and Insurance Commission, before the 31st of December, 2016, the Company has established provisions, as of that date, to cover any additional taxes determined by the Tax Administration authorities.

In January, 2016, the Company presented a request of a credit note before the Tax Administration authority, for L 72,301, made up of improperly paid overcharges, because in the view of management and according to the attorney who handles the case, as per the relief provided for under Article 48, Decree No. 194-2002, these overcharges should not have been paid for because the resolutions that contain the adjustments to the sales tax presented by the fiscal authority, had not been declared as final resolutions when the payment was made. In addition, we have requested that the Company be granted a fiscal credit totaling L 18,854, for taxes on the net assets that the Company paid for in 2008, 2009 and 2012 as a result of the taxes on net assets. According to legal counsel´s opinion, there is a 90% probability of a favorable outcome.

In February, 2016, a remedy of revocation was presented to the fiscal authority to contest adjustments to income taxes, the temporary solidarity contribution, withholding, and sales taxes, for a total of L 112,451, for which, on March 22nd, 2017, the Company received resolution No. 171-16-10000-3763, declaring the remedies as partially inadmissible, therefore the Company will proceed to file the corresponding appeal.

Through the report on the assessment of the Company's operations as of the 30th of June, 2015, on the 14th of January, 2016, the Commission notified the Company that it must establish an additional provision for the 2013 and 2014 periods totaling L 51,230, while the fiscal authorities decide on the final adjustment. The Commission also required the Company to record L 72,301 as expenditures. This is the amount for which the Company is requesting the credit note. The Company does not agree with this requirement and has taken legal action to protect its rights and to secure a resolution based on the existing regulation.

(Expressed in thousands of Lempiras)

On the 4th of April, 2016, through Resolution No. 262/04-04-2016, the Commission authorized the Company to create a reserve for L 51,230.

Through a report on the general examination based on the financial statements with figures as of July 31, 2016, the regulatory agency (CNBS – National Commission on Banking and Insurance) gave notice on April 19, 2017, that the Company should establish an additional provision for the payment of income taxes for the 2015 period in the amount of L.31,357, while the taxing authority establishes the definitive adjustment amount: it should be mentioned in clarification that as of the present date, the tax returns for the year mentioned above have not been reviewed by the taxing authority.

The CNBS also required that a provision be recorded in the amount of L.28,162, to cover the total challenged amount which was established by the taxing authority for the 2013 period.

The Company disagrees with the adjustments requested and therefore, following the corresponding administrative procedure, has presented appeals to the CNBS which will evaluate whether or not to accept these and will then proceed to issue a definitive resolution.

As a result of all the above, the following table gathers, as of June 30, 2017 and as of December 31, 2016; all the provisions booked by Seguros Atlántida, S.A. regarded as fiscal contingencies

		June 30, 2017	**December 31, 2016**
Additional income tax (fiscal period 2007 thru 2009)	L	158,103	158,103
Additional income tax (fiscal period 2010 thru 2012)		72,301	72,301
Additional income tax (fiscal period 2013)		85,059	85,059
Income tax – interest income tax (Fiscal period 2014)		29,439	29,439
Other fiscal dues		362	1,021
Total	L	345,264	345,923

On June 28th, 2017, after a reform to article 213 of the tax code, a tax amnesty set to expire on September 2017, was provided to all entities with fiscal contingencies in contest that arose between 2012 and 2016. According to section 2 of Article 1 of the amnesty, insurance companies could waive any payments due pending from the aforementioned periods after paying an amount equal to 1.5% of the highest annual income recorded during that same period (net premiums plus interest income plus fees for premiums ceded to reinsurers). On July 12, 2017, Seguros Atlántida S.A. paid L 59.880 thousands to settle its outstanding liabilities as of December 31, 2016 and received a favorable resolution from the tax authority on August 7th, 2017.

Arrendamientos y Créditos Atlántida, S. A.

Fiscal matters

Tax authorities notified the Company of the results of their review performed on the income tax, solidarity contribution and net assets for the 2013 returns, which requests adjustments with additional tax payments. The Company has filed an appeal with the courts requesting the review of the tax authorities´ decision.

On March 4, 2016, the taxing authority notified the Finance Company of the results of the review of the income tax declarations, net assets, solidarity contribution, withholding, and sales taxes for the 2013 fiscal period, resulting in adjustments in the amount of L.21,051, specifically in the area corresponding to income tax.

Of the amount mentioned above, the amount of L.20,924 is the result of the fact that the current taxing authority does not recognize Resolution DGT-262-C-SG, dated March 18, 1985, issued by the taxing authority at that time, which was the Dirección General de Tributación (General Office of Taxes), through which the Finance Company was authorized to use accelerated depreciation for equipment purchased and put under lease, based on the number of years of the lease contract, and this practice has been in place since the time that the Resolution became effective, and this system of depreciation has never previously been questioned by the taxing authorities, in compliance with the existence of said Resolution; it should be mentioned that the Resolution has not been abrogated and for this to occur it would have to be done through the Procuraduría General de la República (Attorney General's Office of the Republic) and could not be done retroactively, therefore, the Resolution remains in effect.

The Management of the Finance Company disagrees, based on the Law, with the criteria applied by the current taxing authority, which does not acknowledge the currently valid Resolution, which was issued by their own office, and which creates a special regimen for assets under financial leasing contracts, allowing such operations to be viable, and generating net income which is taxable by the state.

Based on the above, the Management of the Finance Company has proceeded to make use of the corresponding appeals process of the taxing authority, which has not yet issued a judgment with respect to that issue, and which implies that the adjustments are not yet final.

The Management of the Finance Company, if necessary, will exhaust all legal means in order that Resolution DGT-262-C-SG, issued by the taxing authority itself, is recognized by them and that they comply with the provisions there-in.

On August 11th, 2017, the company received a favorable resolution from the tax authority waiving any outstanding fiscal contingency that arose between 2012 and 2016 after making a payment of L 5.818 thousands under the terms of a fiscal amnesty approved by the National Congress during June 2017.

Off-balance sheet financial instruments

In the normal course of operations of the Group, there are several commitments, derived from securities, letters of credit, etc., which are not reflected in the consolidated financial statements. The Group does not expect any losses resulting from the development of these transactions. These contingent liabilities are detailed as follows:

(Expressed in thousands of Lempiras)

Other fiscal matters

Two other entities, Compañía Almacenadora, S.A. and Corporación de Créditos Atlántida, S.A. applied and benefited from the fiscal amnesty declared by the government after making payments of L 1.655 thousands and L 1,348 thousands, respectively, equal to 1.5% of the highest annual income recorded between 2012 and 2016. This waives all fiscal contingencies belonging to the same periods, either in contest with the tax authority, or that could have risen before the revision period stated in the tax code prescribed (five years).

		June 30, 2017	December 31, 2016
Letters of credit and idle credit documents	L	620,323	421,163
Sureties and bank guarantees issued		3,046,905	3,003,855
Acceptance debtors		453,685	642,548
Idle credits		3,041,098	2,977,175
Totals	**L**	**7,162,011**	**7,044,741**

(17) Trust fund agreements and portfolio under administration

As of June 30, 2017 and December 31, 2016, the trust fund agreements and asset portfolio under administration, which is comprised mainly by real estate properties, represent L10,881,920 and L 12,001,500, respectively, and are recorded in memorandum accounts. Fee income related to their administration by the Bank was L 20,897 and L 39,284, as of June 30, 2017 and December 31, 2016, respectively.

Financial information of the administrated funds

The balances of the pension funds administrated by the Group, are detailed as follows:

Assets		June 30, 2017	December 31, 2016
Cash	L	1,033,028	802,252
Investments		6,322,040	6,009,083
Documents and accounts collectable		1,343,402	1,101,960
Other assets		27,030	30,053
Total	**L**	**8,725,500**	**7,943,348**
Liability and equity			
Accounts Payable	L	13,200	4,417
Equity belonging to the affiliates		6,007,750	5,383,341
Equity belonging to the employees		2,704,550	2,555,590
Total Equity		**8,712,300**	**7,938,931**
Total	**L**	**8,725,500**	**7,943,348**

(18) Senior secured notes issue

On July 28, 2017, through a senior secured note offering under the Securities Act ("Rule 144A") and listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"), Invatlan (B/B (S&P; Positive Outlook) acquired an obligation with international investors of USD 150 million. These notes will accrue a fixed interest rate of 8.25%, payable on a semi-annual basis with a bullet payment of principal at maturity on July 28, 2022. As collateral, the company has constituted a share pledge of 100% of the capital stock it owns of Seguros Atlantida. Additionally, the following covenants have been agreed to: i. limited covenants on Banco Atlantida and Seguros Atlantida and other unrestricted subsidiaries; ii. customary covenants on Invatlan, including limitations on: (a) restricted payments, (b) asset sales, (c) mergers & acquisitions, and (d) transactions with affiliates.

(19) Monetary unit

The monetary unit of the Republic of Honduras is the Lempira (L) and the exchange rate for USD (US $) is regulated by the Central Bank of Honduras. The Central Bank of Honduras issued Resolution No. 139-4/2005 on the 22nd of April, 2005, approving the regulation for public negotiation of foreign currency in the exchange markets, which establishes that individuals and legal entities may acquire, either directly or through a foreign currency exchange broker, foreign currencies through public auctions carried out by the Central Bank of Honduras. Resolution No. 284-7/2011, issued on the 21st of July, 2011, the Central Bank of Honduras establishes the determining variables of the foreign currency base price, which is reviewed weekly. As of the August 31, 2017, the average purchase price for foreign currency under that system was L23.3801 for USD1.00. As of June 30, 2017 and December 31, 2016, the average purchase price for foreign currency was L 23.4445 and L23.5029 for US $1.00, respectively.