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

Overview

We are one of the largest financial services groups in Honduras and through our subsidiaries, we provide a comprehensive range of corporate and retail banking, insurance and other financial services to over 1.5 million clients as of June 30, 2017. We were acknowledged as a financial holding company by the Comision Nacional de Bancos y Seguros (the Honduran financial authority), CNBS, in 2012. Our main subsidiary, Banco Atlántida, was founded in 1913 and is currently the largest bank in terms of net assets. Our businesses benefit from significant synergies as a result of being part of a single financial group.

Our operations in Honduras also include Seguros Atlántida, which is also the largest insurance company in Honduras in terms of assets. In addition, Banco Atlántida and Seguros Atlántida rank among the most profitable entities in the Honduran banking and insurance systems, according to figures published by the CNBS. By their publications, as of June 30, 2017, Banco Atlántida holds a distinguished position in the local marketplace, highlighting the following:

	Market Share
Net Assets	18.9%
Net Loans	18.7%
Total Deposits	20.7%

Furthermore, Seguros Atlántida ranks third in terms of total gross premiums written, with a market share of 14.8% and 17.2% as of June 30, 2017 and 2016, respectively, according to the CNBS.

For the six month period ended June 30, 2017 and 2016, Banco Atlántida had a ROAE of 12.9% and 14.1%, respectively, compared to the Honduran banking system as a whole which on average had a ROAE of 13.1% and 13.4%, respectively, according to the same source. For the six months ended June 30, 2017 and 2016, Seguros Atlántida had a ROAE of 32.3% and 28.6%, respectively. As of June 30, 2017, Banco Atlántida has one of the largest banking distribution networks in Honduras, with 2,054 points of service, comprised of 213 branches, 956 ATMs (including 275 proprietary ATMs and 681 third-party network ATMs) and 885 non-bank agents (third-party points of service).

Effects of changes in interest rates

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

- 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 could reduce our financial margin, which comprises the majority of our revenue. A significant portion of our subsidiaries' assets, including loans, are long-term assets. In contrast, most deposits are short-term. When interest rates increase, Banco Atlántida must pay higher interest on deposits while interest earned on assets does not increase as rapidly, which causes profits to decrease. Interest rate increases could result in adverse changes in our financial margin, reducing our growth rate or even resulting in decreases as compared to prior periods.

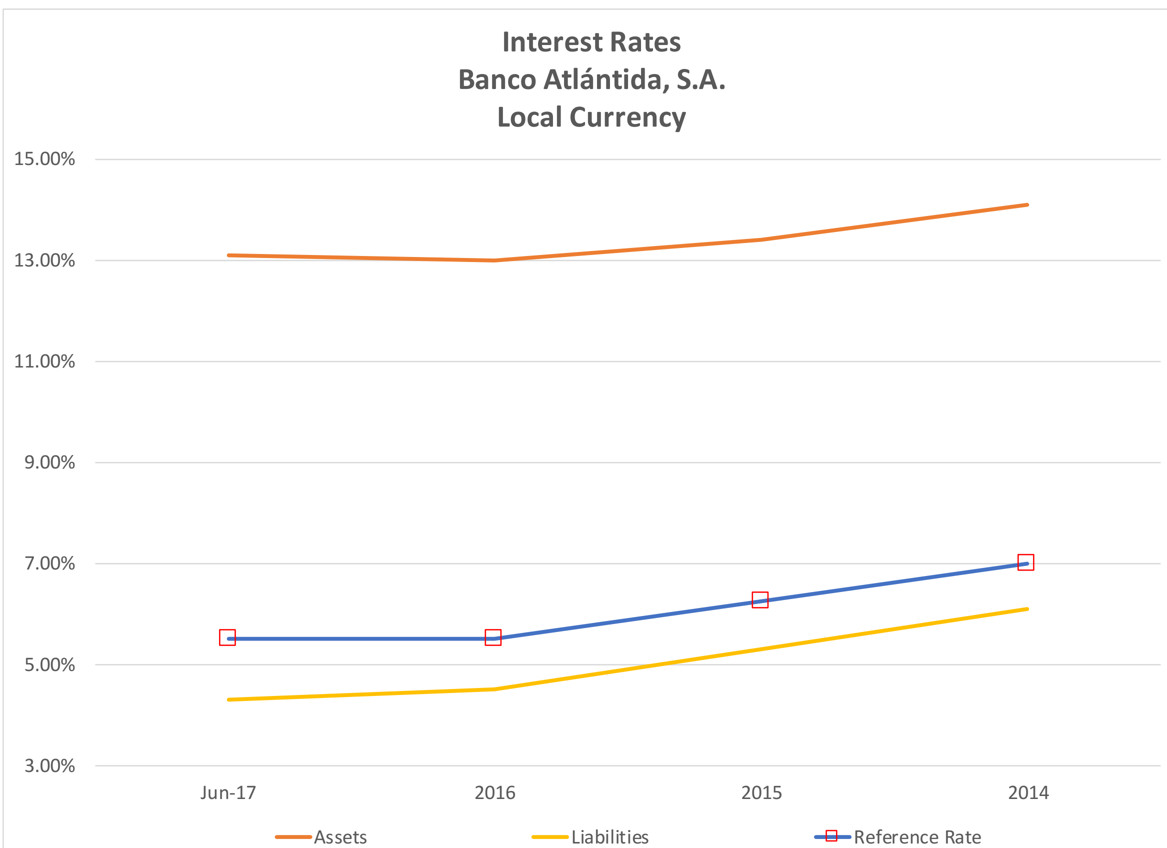
Increases in interest rates may reduce the volume of loans originated by Banco Atlántida. Sustained high interest rates have historically discouraged our clients from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of our assets.

Increases in interest rates may reduce the value of our financial assets. Banco Atlántida holds a substantial portfolio of loans and debt securities that has both fixed and variable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates increase, which may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, could impact our results) as our subsidiaries implement strategies to reduce future interest rate exposure. The market value of an obligation with a variable interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms.

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

Lempira-denominated assets and liabilities in Honduras

The chart below presents the weighted average interest rates on lempira-denominated assets and liabilities of Banco Atlántida as of June 30, 2017, and December 31, 2016, 2015 and 2014.



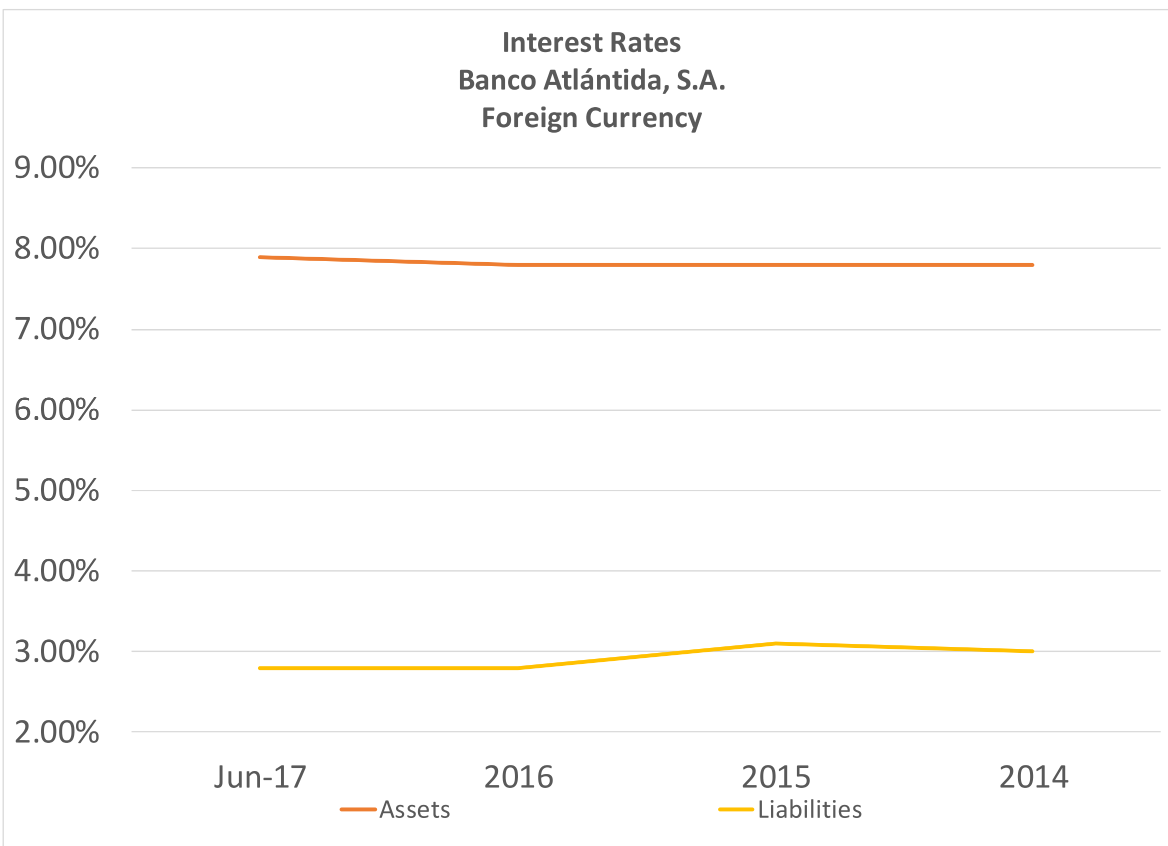
The Honduran banking industry generally does not establish its interest rates by reference to a benchmark rate; however, the weighted average interest rates on lempira-denominated assets and liabilities of the Honduran banking industry are slightly influenced by the minimum allowed bid rate that the Honduran Central Bank allows for its treasury notes. This reference rate has shown a downward trend, decreasing to 5.50% as of June 30, 2017 and December 31, 2016 from 6.25% as of December 31, 2015 and 7.00% as of December 31, 2014.

Banco Atlántida's average interest rate on lempira-denominated assets was 13.1% as of June 30, 2017, 13.0% as of December 31, 2016, 13.4% as of December 31, 2015, and 14.1% as of December 31, 2014. Banco Atlántida continues to pursue higher margin products emphasizing on personal loan products, payroll loans and credit cards. At its current interest level, for the six months ended as of June 30, 2017, Banco Atlántida´s lempira-denominated assets have grown 9.9% outpacing the 4.9% increase reported by the local banking system during the same period.

Banco Atlántida's average interest rate on lempira-denominated liabilities maintained a downward trend due to its diverse retail deposit base, with no significant concentration in any specific type of deposit, with a rate of 4.30% as of June 30, 2017, 4.50% as of December 31, 2016, 5.30% as of December 31, 2015 and 6.10% as of December 31, 2014. Market wide, interest rates continue to decrease due to the outstanding liquidity which in turn also affects the yield of investments were surplus funds can be placed. As of June 30, 2017 compared to December 31, 2016, Banco Atlántida´s local-denominated deposits have grown 12.7% while the local financial system has done so in 8.4% during the same period.

Foreign currency-denominated assets and liabilities in Honduras

The chart below presents the weighted average rates on foreign currency-denominated assets and liabilities of Banco Atlántida as of June 30 2017, December 31, 2016, 2015 and 2014.



As of June 30, 2017, Banco Atlántida's average interest rate on foreign currency-denominated assets increased to 7.9% after remaining stable at 7.8% as of December 31, 2016, 2015, and 2014. Higher capital requirements for loans granted in foreign currency, particularly to non-exporting entities, continues to influence pricing of such transactions and explains why interest rates have remained unchanged. Banco Atlántida´s loan portfolio denominated in US Dollars receded 7.7% between December 31, 2016 and June 30, 2017, while the local financial system did so in 2.4% during the same period.

Conversely, Banco Atlántida's average interest rate on foreign-denominated liabilities stood at 2.80% as of June 30, 2017, just as December 31, 2016. This rate stood at 3.10% and 3.0% as of December 31, 2015 and 2014. Liquidity provided by the increases in USD denominated deposits remains high and explains the decision to recently review our interest pricing structure. Regarding foreign denominated deposits, Banco Atlantida and the local financial system grew at a rate of 6.5% and 6.9%, respectively, between December 31, 2016 and June 30, 2017.

Effect of family remittances

Total family remittances to Honduras from abroad was US$2,171.0 million for the period ended June 30th, 2017 (an increase of 12.1% from the corresponding period in 2016), US$1,936.6 million for the period ended June 30th, 2016 (an increase of 18.0% from the corresponding period in 2015), US$1,838.6 million for the period ended June 30, 2015 (an increase of 29.0% from the corresponding period in 2014) and US$1,682.0 million for the year period June 30, 2014 (an increase of 45.2% from the corresponding period in 2013) according to the Central Bank.

The revenue we earned from family remittances consisted of commissions on foreign exchange transactions, fees for money orders and other related fees, as well as gains on currency exchange transactions. Through Banco Atlántida, we processed US$487.6 million in family remittances to Honduras from abroad for the period ended June 30, 2017 (22.5% of the market) compared to US$424.2 million in family remittances to Honduras from abroad for the period ended June 30, 2016 (22.2% of the market).

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

Our performance may be impacted by inflation because substantially all our assets are not adjusted for the effects of inflation. In addition, material increases in inflation could result in lower demand for, and affect the pricing of, our services and products. Because much of the costs and expenses of our subsidiaries are fixed, we may not be able to reduce costs in the event of inflation. Increases in inflation could also negatively impact Banco Atlántida's loan portfolios.

The Honduran economy has been characterized by moderate inflation in recent years. As of June 30, 2017, the inflation rate stood at 3.65% compared to 2.45% at June 30, 2016, mainly due to the increase in prices of food and non-alcoholic beverages, accommodation, water, electricity, gas and other fuels. At the end of 2016, the inflation rate was 3.3%, compared to 3.2% at the end of 2015 and 6.1% at the end of 2014, mainly due to lower oil import prices. The primary drivers of inflation were food and non-alcoholic beverages, housing, utilities, gas and other fuels, clothing and transportation. According to the Central Bank, the inflation target for 2017 is 4.0% (± 1 pp).

Exchange Rates

We are exposed to currency risk any time we hold an open position in a currency other than lempira. Volatility in lempira exchange rates in Honduras could result in higher risks associated with such positions.

In addition, any devaluation or depreciation of the lempira against 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 a material adverse effect on our financial condition and results of operations.

In recent years, through a crawling peg regime, the exchange rate of the lempira against the U.S. dollar has depreciated at a stable rate. The lempira exchange rate is characterized by cyclical fluctuations in line with the export seasons of Honduras's main commodities and the high demand of foreign currency to pay for imported goods. The exchange rate was L23.4445 per U.S.$1.00 on June 30, 2017, compared to L22.7892 per U.S. $1.00 on June 30, 2016, as published by the Central Bank.

Demographic trends

As of 2016, Honduras had a population of approximately 8.7 million people, according to the Instituto Nacional de Estadistica (INE), which represented an estimated increase of approximately 1.7% compared to 2015. The average annual population growth rate from 2012-2016 was 3.9%, according to the International Monetary Fund (the "IMF"). According to the World Bank, although the poverty rate in Honduras decreased to 60.9% in 2016, from approximately 66.5% in 2012, the unemployment rate increased from 4.0% in 2012 to 7.4% in 2016. GDP per capita in U.S. dollars increased from U.S.$ 2,208 in 2012 to U.S.$ 2,465 in 2016, reflecting an increase in purchasing power.

As of 2015, Honduras had a population of approximately 8.4 million people, according to the IMF, which represented an estimated increase of approximately 2.0% compared to 2014. The average annual population growth rate from 2012-2015 was 4%, according to the IMF. According to the World Bank, although the poverty rate in Honduras increased to 68.7% in 2015, from approximately 67.6% in 2011, the unemployment rate decreased from 4.4% in 2011 to 4.0% in 2015. GDP per capita in U.S. dollars increased from U.S.$2,269.51 in 2011 to U.S.$2,406.62 in 2015, reflecting an increase in purchasing power.

As of 2014, Honduras had a population of approximately 8.3 million people, according to the IMF, which represented an estimated increase of approximately 2.1% compared to 2013. The average annual population growth rate from 2012-2014 was 2.0%, according to the IMF. According to the World Bank, the poverty rate in Honduras increased to 62.8% in 2014, from approximately 60.0% in 2010, and the unemployment rate decreased from 4.8% in 2010 to 4.1% in 2014. GDP per capita in U.S. dollars increased from U.S.$2,063.93 in 2010 to U.S.$2,360.98 in 2014, reflecting an increase in purchasing power.

We expect these trends to benefit our business, particularly Banco Atlántida's retail and corporate banking segments and Seguros Atlántida's insurance segments.

Bank loans

The growth rates of Banco Atlántida's loan portfolio, specifically for its retail banking segment, can be attributed to a low banking penetration. In terms of banking penetration, the ratio of loans (as published by the CNBS) to GDP (as published by the Central Bank) was 59.3%, as of December 31, 2016.

According to the Central Bank, for the six months ended June 30, 2017, the growth rate of bank loans to the private sector was 9.7%, compared to the growth rate of 8.4% for the six months ended June 30, 2016. For the years ended December 31, 2016 and 2015, the growth rate was 11.1% and 10.1%, respectively. The main reason for the slowdown has been a decrease in the growth of domestic corporate loans over the corresponding period. Demand for such loans in Honduras has declined, as certain large corporations have decided to access the international markets to obtain loans to meet their funding needs. Despite the decrease in the growth rate, private sector bank loans continued to experience growth rates higher than that of the country´s GDP, experiencing a recovery as of June 30, 2017 when compared to June 30, 2016 as stated above.

Results of Operations for the Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

The following table shows the principal components of our consolidated income statement for the six months ended June 30, 2017 and 2016.

	For the six-month period ended June,		Change	
	2017	2016		
	(L in thousands)		(L in thousands)	%
Interest income	3,199,279	2,931,987	267,292	9.1%
Interest expense	1,387,617	1,316,848	70,769	5.4%
Financial profit	**1,811,662**	**1,615,139**	**196,523**	**12.2%**
Loan impairment charges	198,992	221,095	(22,103)	(10.0%)
Financial profit, net of impairment charges	**1,612,670**	**1,394,044**	**218,627**	**15.7%**
Income from insurance activities	1,342,541	1,695,772	(353,231)	(20.8%)
Expenses from insurance activities	1,084,768	1,464,408	(379,640)	(25.9%)
Profit from insurance activities	**257,773**	**231,364**	**26,409**	**11.4%**
Services	52,739	66,650	(13,911)	(20.9%)
Commissions	682,430	457,849	224,581	49.1%
Leases	105,653	123,017	(17,364)	(14.1%)
Other income	171,615	310,004	(138,389)	(44.6%)
Total Proceeds from services	**1,012,437**	**957,520**	**54,916**	**5.7%**
Staff-expenses	771,082	680,345	90,737	13.3%
General and administrative expenses	1,015,396	980,220	35,177	3.6%
Depreciation and amortization	175,204	190,338	(15,133)	(8.0%)
Total other expenses	**1,961,682**	**1,850,903**	**110,780**	**6.0%**
Operating income	**921,198**	**732,025**	**189,172**	**25.8%**
Income from dividends	2,230	2,209	21	0.9%
Gain on sale of other and contingent assets	50,187	26,554	23,632	89.0%
Gain on sale of fixed assets	6,833	5,413	1,420	26.2%
Other income, net	(38,031)	118,913	(156,944)	(132.0%)
Total non-operating income (expenses)	**21,218**	**153,089**	**(131,872)**	**(86.1%)**
Income before income tax	**942,416**	**885,114**	**57,300**	**6.5%**
Income tax/capital gain/net assets tax	295,053	261,050	34,004	13.0%
Income before minority interest	**647,363**	**624,064**	**23,296**	**3.7%**
Net income attributable to noncontrolling interests	57,213	50,841	6,372	12.5%
Net Income	**590,150**	**573,223**	**16,923**	**3.0%**

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

Financial proceeds

The following table presents the components of our interest income for the six months ended June 30, 2017 and 2016.

	For the six-months ended June 30,		Change	
	2017	2016		
Interest income	(L in thousands)		(L in thousands)	%
Loans	2,743,188	2,261,409	481,781	21.30%
Investment securities	415,319	625,252	(209,933)	(33.58%)
Interest earning deposits	40,772	45,326	(4,555)	(10.05%)
Total interest income	**3,199,279**	**2,931,987**	**267,292**	**9.12%**

Interest income increased by 9.12% to L3,199,279 thousand for the six months ended June 30, 2017 from L2,931,987 thousand for the corresponding period in 2016. This increase in interest income was mainly due to a trade-off between funds held through investments and the growth of our loan portfolio, particularly as the banking business has sought higher interest yielding assets through retail segment loans.

Interest on our loan portfolio increased by L481,781 thousand, or 21.3%, for the six months ended June 30, 2017 as compared to the corresponding period in 2016, mainly due to a higher volume of loans disbursed in local currency whose average balance grew by 21.8% compared to the six months ended June 30, 2016, adding L385,452 to our interest income. In addition, an increase in the nominal average rate on our local currency loan portfolio, to 13.1% for the six months ended June 30, 2017 from 12.8% for the corresponding period in 2016, accounted for L38,279 thousand in interest income. With regards to the changes that arise from foreign-currency denominated assets as of June 30, 2017, compared to June 30, 2016 an increase of L19,282 is attributed to a higher interest rate, while an increase of L38,768 is attributed to an additional volume of loans. The average yield of our total loan portfolio for the six months ended on June 30, 2017 increased to 11.5% compared to 10.9% for the six months ended June 30, 2016.

Interest on investment securities decreased by L209,933 thousand, or 33.6%, for the six months ended June 30, 2017 compared to the corresponding period in 2016, as the banking business pursued a strategy of shifting its assets to higher yielding retail loans, which in turn led the average balance of investments to decrease by 22.3% for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. In addition, interest on investment securities decreased given the decline in rates to 7.7% as of June 30, 2017 compared to 9.0% as of June 30, 2016.

Interest income from cash and cash equivalents decreased, in terms of absolute value, by L4,555 thousand, or 10.5%, for the six months ended June 30, 2017 as compared to the corresponding period in 2016. This decrease in interest income from cash and cash equivalents was mainly due to a decrease in average interest rates which stood at 1.3% during the six months ended June 30, 2017 compared to 1.6% during the six months ended June 31, 2016, which in turn led to a decrease in income of L6,439 thousand.

Interest expense

The following table presents the components of our interest expense for the six months ended June 30, 2017 and 2016.

Interest expense	For the six-months ended June 30, 2017	2016	Change (L in thousands)	%
	(L in thousands)			
Deposits from customers	1,068,142	986,604	81,538	8.26%
Loans obtained from banks	52,205	43,836	8,368	19.09%
Financial obligations	267,270	286,408	(19,138)	(6.68%)
Total Interest expense	**1,387,617**	**1,316,848**	**70,769**	**5.37%**

Interest expense increased by L70,769 thousand to L1,387,617 thousand for the six months ended June 30, 2017 from L1,316,84 thousand for the corresponding period in 2016, primarily due to a increase in interest paid on Deposits from customers.

Interest expense from deposits from customers increased by L81,538 thousand, or 8.26%, for the six months ended June 30, 2017 as compared to the corresponding period in 2016. This increase is attributed to a higher volume of savings accounts whose average balance comprised a larger share of client deposits given that they grew to L26,411,164 thousand as of June 30, 2017 compared to L22,177,115 thousand as of June 30, 2016. Overall, interest expense in respect of our savings deposits increased L53,165 thousand, or 14.6%, for the six months ended June 30, 2017, compared to the corresponding period in 2016. This increase was partially offset by (i) a decrease in the average cost of our demand deposits of L15,974 thousand during the six months ended on June 30, 2017 compared to the six months period ended June 30, 2016, which in turn resulted primarily from a decrease in the average balance of certain corporate and institutional client accounts that earn higher interest rates when they surpass a contractually agreed threshold and (ii) a decrease in the average rate of term deposits to 5.6% for the six months ended June 30, 2017, from 6.0% for the six months ended June 30, 2016, which led to a decrease in interest paid of L13,637 thousand.

Interest expense from loans obtained from banks increased by L8,368 thousand for the six months ended June 30, 2017 as compared to the corresponding period in 2016 following an increase in indebtedness to match fund residential mortgage loans in local currency given Banco Atlántida's ongoing strategy to increase its market share in this segment by building synergies between its business units, specifically the corporate segment provides loans to real estate developers who then sell homes to individual clients, who can subsequently become retail clients of Banco Atlántida.

Interest expense from financial obligations decreased by L19,138 thousand, or 6.7%, for the six months ended June 30, 2017, as compared to the corresponding period in 2016, primarily due to a decrease in the average balance on these obligations by L.337,055 thousand, or 6.2% during the six months ended June 30, 2017 as compared to the corresponding period in 2016.

Net interest margin for the six months ended June 30, 2017 was 5.6% as compared to 5.3% for the corresponding period in 2016. This increase was due to the combination of a higher yield from interest earning assets, reaching 9.9% as of June 30, 2017 from 9.6% as of June 30, 2016; while turning to interest bearing liabilities with a lower cost, decreasing from 4.6% during the six months period ended June 30, 2016 to 4.3% during the six months period June 30, 2017. The change in the net interest margin of our local currency-denominated assets contributed L207,925 thousand of the total increase, which was partially offset by a L11,401 thousand decrease in the net interest margin of our U.S. dollar denominated assets. The end result was a net increase of L196,523 thousand, or 12.2%, as of June 31, 2017.

Allowance for loan and interest losses

The following table presents our loan impairment charges, our NPL ratio, our coverage ratio and our loan and interest loan provision for the six months ended June 30, 2017 and 2016.

	For the six-months ended June 30,		Change	
	2017	2016		
	(L in thousands)		(L in thousands)	%
Loan impairment charges..........................	198,992	221,095	(22,103)	(10.0)%
NPL ratio...	3.1%	4.2%	-	-
Coverage ratio..	122.1%	108.0%	-	-
Allowance for loan and interest losses.......	1,849,945	1,953,673	(103,728)	(5.3)%

Loan impairment charges decreased by 10.0% to L198,992 thousand for the six months ended June 30, 2017 from L221,095 thousand for the corresponding period in 2016. Due to a lower non-performing loan ratio, our coverage ratio remained above 120% compared to 108% reported as of June 30, 2016.

The main contributor to the decrease in loan impairment charges was Banco Atlántida's SME loan segment, whose related expense decreased L43,451 thousand, or 72.4%, compared to the same six-month period in 2016. The quality of the portfolio has increased and this is attributed to the origination of new loans after a thorough credit analysis to assure the fulfilment of their payment schedule as demonstrated by a NPL ratio of 6.6% for the six months ended June 30, 2017 compared to 9.9% for the six months ended June 30, 2016. Thus, fewer allowances for loan and interest losses have been required. Additionally, charge off´s have decreased to L 64,361 thousand as of June 30, 2017 compared to L 85,313 thousand as of June 30, 2016.

Meanwhile, the corporate banking segment contributed with a L6,559 thousand, or a 10.9%, increase in loan impairment charges. Even though the quality of the corporate loan portfolio has improved as shown by an NPL ratio of 1.7% compared to a 3.2% of the corresponding period in 2016, additional allowance for loan and interest losses have been required to replace loan charge-off's which increased L9,813 thousand, or 5.6%, to L185,934 thousand during the six months ended on June 30, 2017 compared to L176,121 thousand during the six months ended on June 30, 2016 as a result of real estate loans that have been written-off from the outstanding portfolio after recuperating their value through foreclosed assets.

The retail banking segment required L15,426 thousand, or 17.2%, in additional loan impairment charges as of June 30, 2017, compared to the corresponding period in 2016. The NPL ratio for consumer loans, which includes credit cards, increased to 5.0% during the six months ended June 30, 2017 from 4.6% during the six months ended June 30, 2016 as a consequence of a rise in past due loans belonging to the banking operation, particularly that of non-secured loans which did so in L 125,228 thousand (a decrease in credit card past due balances of L 25,705 thousand compensated for this increase). Retail loans represented 23.2% of the total loan balance, while their assigned allowance for loan and interest losses represented 32.7% of the total allowance for loan and interest losses.

The balance of the non-performing loan portfolio decreased by 16.3% to L1,514,723 thousand during the six months ended June 30, 2017 from L1,809,287 thousand during the corresponding period in 2016 as all entities keep a front-and-center approach that upholds loan quality through well-defined policies, complemented with an investment in tools and training to enhance credit analysis, as well as recovery efforts. The non-performing loan ratio decreased to 3.1% for the six months ended June 30, 2017 as compared to 4.2% for the corresponding period in 2016.

Allowance for loan and interest losses decreased by 5.3% to L1,849,945 thousand for the six months ended June 30, 2017 from L1,953,673 thousand for the corresponding period in 2016. As the entities continue to write-off non-performing loans (L 315,106 thousand were charged off during the six months ended June 30, 2017; a decrease of L 58,394 thousand compared to the corresponding period the year before), the higher quality of the outstanding loan portfolio requires a lower amount to be compensated for: non-performing loan portfolio decreased 16.3% to L1,514,723 thousand during the six months ended June 30, 2017 from L1,809,287 thousand during the corresponding period in 2016. Thus, loan impairment charges have decreased 10.0% to L 198,992 thousand as of June 30, 2017, compared to L 221,095 thousand as of June 30, 2016. Overall, our coverage ratio improved to 122.1% as of June 30, 2017, compared to 108.0% as of June 30, 2016.

Proceeds from services

The following table presents the components of our fee and commission income for the six months ended June 30, 2017 and 2016.

	For the six-months ended June 30,		Change	
	2017	2016		
	(L in thousands)		(L in thousands)	%
Services	52,739	66,650	(13,911)	(20.9)%
Commissions	682,430	457,849	224,581	49.1%
Leases	105,653	123,017	(17,364)	(14.1)%
Other income(1)	171,615	310,004	(138,389)	(44.6)%
Total proceeds from services	**1,012,437**	**957,520**	**54,916**	**5.7%**

(1) Other income includes income from the pension fund administration business and the bonding warehouse unit. As of January 1, 2017, the credit card processing revenues attributed to Banco Atlántida which were previously recorded under the line item "other income" have been reclassified to the line item "commissions."

Proceeds from services increased by 5.7% to L1,012,437 thousand for the six months ended June 30, 2017 from L957,520 thousand for the corresponding period in 2016, primarily due to a 49.1% increase in commissions. This increase was partially offset by a decrease in other income of 44.6%.

The increase in commissions of L224,581 thousand, or 49.1%, for the six months ended June 30, 2017 from L457,849 thousand for the corresponding period in 2016 was primarily due to Banco Atlántida's income from credit and debit card fees which grew L132,178 thousand, during the second quarter of 2017 compared to the same period of 2016 primarily as a result of a reclassification of L122,613 thousand in credit card processing revenues that until December 31, 2016 were recorded under the line item "other income." Foreign exchange transactions continue to lead commission growth for the bank, posting a 22.7% increase as of June 30, 2017, or L 21,965 thousand, compared to the same period during the preceding year. Meanwhile, income from remittance payments increased by L 11,041 thousand to L73,161 thousand as of June 30, 2017 considering a higher inflow to the country as a whole by 13.5% between June 29th 2017 and June 30th, 2016 according to figures publicly available from the Central Bank. The following other items of Banco Atlántida´s commission income all experienced increases during the six months ended June 30, 2017 compared to the six months ended June 30, 2016, including an increase of L6,342 thousand in public and private collection services; an increase of L6,281 thousand in corresponding banking and an increase of L2,762 thousand in trust administration. By contrast, commissions from loans decreased by L 21,517 thousand as disbursement fees originated during 2017 have been deferred during the duration of the loans as per request of the local regulator to all banks. AFP Atlántida also stands out as it´s commission income from it´s main activity grows 16.3%, or L 12,128 thousand to L 86,307 thousand as of June 30, 2017 from L 74,179 thousand as of June 30, 2016.

The decrease in proceeds from leases of L17,364 thousand, or 14.1%, for the six months ended June 30, 2017 from L123,017 thousand for the corresponding period in 2016 was primarily due to a lower renewal rate of expiring operating lease contracts administered by ACRESA. This decrease is offset by a decrease in depreciation expenses related to leases given the decrease in the volume of leases.

The decrease in other income of L138,389 thousand, or 44.6%, for the six months ended June 30, 2017 from L310,004 thousand for the corresponding period in 2016 stemmed from a reclassification of L122,613 thousand in credit card processing revenues that until December 31, 2016 were recorded under this line item.

Income from insurance activities

The following table presents the components of our net premium income for the six months ended June 30, 2017 and 2016.

	For the six-months ended June 31,		Change	
	2017	2016	(L in thousands)	%
	(L in thousands)			
Income from insurance activities	1,342,541	1,695,772	(353,231)	(20.8)%
Expenses from insurance activities	1,084,768	1,464,408	(379,640)	(25.9)%
Profit from insurance activities	257,773	231,364	26,409	11.4%

Profit from insurance activities increased by 11.4% to L257,773 thousand for the six months ended June 30, 2017 from L231,364 thousand for the corresponding period in 2016. This increase was mainly due to a 25.9% decrease of total expenses from insurance activities, which was partially offset the decrease in income from insurance activities of 20.8% during the six months ended June 30, 2017 compared to the corresponding period in 2016.

Income from insurance activities decreased by 20.8% to L1,342,541 thousand for the six months ended June 30, 2017 from L1,695,772 thousand for the corresponding period in 2016, mainly due to a L259,791 thousand, or 77.6%, decrease in the amount of income we recognized from our restitution of claims reserves. Meanwhile, expenses from reserve requirements have followed the same downward trend during the same period doing so at a higher rate, and is one the reasons for which the profit from insurance activities has performed better as of June 30, 2017 compared to June 30, 2016. Recovered claims of foreign insurance reinsurers decreased by 33.7% to L.29,424 thousand during the six months ended June 30, 2017 compared to the same period during 2016. Insurance premiums decreased by 5.5% to L63,216 thousand during the six months ended June 30, 2017 compared to the same period during 2016.

Expenses for insurance activities decreased by 25.9% to L1,084,768 thousand for the six months ended June 30, 2017 from L1,464,408 thousand for the corresponding period in 2016. This was primarily due to lower premiums yielded to international reinsurer agencies, which fell by L43,017 thousand, or 12.3% for the six months ended June 30, 2017 as compared to the corresponding period in 2016. Reserve requirements for ongoing risks decreased L315,202 thousand, or 83.0%, for the six months ended June 30, 2017, as compared to the corresponding period in 2016. Meanwhile, claim expenses decreased L12,087 thousand, or 3.7% for the six months ended June 30, 2017, as compared to the corresponding period in 2016. Expenses from premiums cancelled and reinstated decreased L11,297 thousand, or 3.8% for the six months ended June 30, 2017, as compared to the corresponding period in 2016 due primarily to modifications to the terms and conditions of our insurance policies which allow for more amendments to policies rather than their cancellations and entry as new ones when a change was requested, hence decreasing cancellation expenses.

Other expenses

The following table presents the components of our operating and administrative expenses for the six months ended June 30, 2017 and 2016.

	For the six-months ended June 30,		Change	
	2017	2016	(L in thousands)	%
	(L in thousands)			
Other expenses:				
Staff-expenses	771,082	680,345	90,737	13.3%
General and administrative expenses	1,015,396	980,220	35,177	3.6%
Depreciation & amortizations	175,204	190,338	(15,133)	(8.0)%
Total other expenses	1,961,683	1,850,902	110,780	6.0%

Other expenses increased by 6.0% to L1,961,683 thousand for the six months ended June 30, 2017 from L 1,850,902 thousand for the corresponding period in 2016. The increase in other expenses was primarily due to the 13.3% increase in staff expenses and a 3.6% increase in general and administrative expenses. This increase was partially offset by an 8.0% decrease in depreciation and amortization expenses.

The increase in general and administrative expenses of L35,177 thousand, or 3.6%, for the six months ended June 30, 2017 as compared to the corresponding period in 2016 was primarily due to the following: (1) a L18,160 thousand increase in software licenses as the bank continues to update its core applications, digitalize it´s front and back office transactions, as well as procuring the automatization of processes; (2) a L26,691 thousand increase in marketing expenses related to Banco Atlántida's update of its corporate logo; and (3) a L16,909 thousand increase in maintenance and repairs, primarily related to changes at Banco Atlántida's branches as part of the corporate logo update. In terms of savings, the bank has reduced its credit card loyalty program expense by L15,406 thousand as of June 30, 2017 with regards to the corresponding period in 2016 after its least profitable credit card branding contract expired on the first half of 2016 and a similar expense did not occur in 2017. Meanwhile, INVATLAN posted a L10,627 thousand increase in its general and administrative expense during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016, primarily resulting from non-recurring expenses related to external consultants.

The increase in staff expenses of L90,737 thousand, or 13.3%, for the six months ended June 30, 2017 as compared to the corresponding period in 2016 was primarily due to an increase in the number of full-time employees which reached 3,804 as of June 30, 2017 compared to 2,883 as of June 30, 2016. Banco Atlántida continues to strengthen its staff to increase sales of personal portfolio products (i.e. credit cards, bancassurance) and pursue further business opportunities within its client base. Wages and salaries increased L22,792 thousand during the six months ended June 30, 2017 compared to the six months ended June 30, 2016 and outsourcing contracts increased by L23,741thousand primarily due to additional resources required for Banco Atlántida's credit card business and its loan collection activities given the recent growth in its business. Related fringe benefits such as employer dues and vacation bonus increased by L9,952 thousand and L2,855 thousand, respectively. Additionally, other items such as travel expenses and training increased by L10,022 thousand and L3,840 thousand, respectively during the six months ended June 30, 2017 as compared to the corresponding period in 2016. Three other entities also registered and increase in their staff expenses during the same period of comparison, being these INFATLAN, SEATLAN and ACRESA with a change of L 5,363 thousand, L 3,723 thousand and L 3,260 thousand, respectively.

The decrease in depreciation and amortization expenses of L15,133 thousand, or 8.0%, for the six months ended June 30, 2017 as compared to the corresponding period in 2016 was primarily due to ACRESA's retirement of assets as contracts reached their maturity, which allowed for a decrease of L28,878 thousand. An increase of L 14,739 thousand in the amortization expense of the bank linked to intangible assets, mostly software developments.

Our cost-to-income ratio for the six months ended June 30, 2017 was 63.7%, compared to 66.1% for the corresponding period in 2016 mainly as a result of operating income growing at a higher rate than operating expenses, or 10.1% compared to 6.0%.

Non-operating income (expenses)

The following table presents the components of our Non-operating income (expenses) for the six months ended June 30, 2017 and 2016.

	For the six-months ended June 30,		Change	
	2017	2016	(L in thousands)	%
	(L in thousands)			
Income from dividends	2,230	2,209	21	0.9%
Gain on sale of foreclosed assets	50,187	26,554	23,632	89.0%
Gain on sale of fixed assets	6,833	5,413	1,420	26.2%
Other income, net	(38,031)	118,913	(156,944)	(132.0)%
Total	**21,218**	**153,089**	**(131,873)**	**(86.1)%**

Non-operating income decreased by L131,873 thousand from L153,091 thousand during the six months ended June 31, 2016 to L21,218 thousand during the six months ended June 31, 2017. The decrease in non-operating income is primarily attributed to (1) decreases at the Invatlan holding company level given that it had L60,700 thousand of non-recurring restitutions of investment provisions occurring during the first quarter of 2016, and (2) Banco Atlántida reported a decrease in proceeds from recoveries of loans that had been charged-off of L34,995 thousand as compared to the six months ended June 30, 2016. Additionally, interest recovered from refinanced loans that was registered as other income during the six months ended June 30, 2016 has now been reclassified to interest income during the corresponding period in 2017.

Income before tax

Income before tax increased by 6.5% to L942,416 thousand for the six months ended June 30, 2017 from L885,114 thousand for the corresponding period in 2016.

Income tax

Income tax expense increased to L34,004 thousand, or 13.0%, for the six months ended June 30, 2017 from L115,475 thousand for the corresponding period in 2015, or an effective tax rate of 31.2% as of June 30, 2017 compared to an effective tax rate of 29.7% as of June 30, 2016. This increase is primarily due to the fact that during the first quarter of 2016, INVATLAN recorded a non-recurring adjustment of L60,700 thousand as non-operating income from restitutions of investment provisions which constituted a non-taxable item. Not taking into account this non-recurring adjustment, our tax expense would have increased to L133,685 thousand, or an effective tax rate of 29.7% as of June 30, 2016 primarily due to the increase in our taxable income.

Net Income

Net income increased by 3.0% to L590,150 thousand for the six months ended June 30, 2017 from L573,223 thousand for the corresponding period in 2016. Conversely, average shareholders' equity increased by 12.2% to L9,148,254 as of June 30, 2017, from L8,154,022 thousand for the corresponding period in 2016, our ROAE was 12.9% for the six months ended June 30, 2017, as compared to 14.1% for the corresponding period in 2016.

As net income increased by 3.0% and average total assets increased by 11.8% to L78,425,900 thousand for the six months ended June 30, 2017 from L70,173,548 thousand for the corresponding period in 2016, our ROAA as of June 30, 2017 was 1.5%, compared to 1.6% as of June 30, 2016.

Liquidity and Funding

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

The following table sets forth our primary sources of funding on a consolidated basis as of June 30, 2017 and as of December 31, 2016.

	As of June 30, 2017	As of December 31, 2016	Change	
	(L in thousands)		(L in thousands)	
Demand deposits	8,255,088	8,289,943	(34,855)	(0.42)%
Term deposits	22,920,383	20,228,830	2,691,553	13.3%
Savings deposits	27,810,852	24,668,921	3,141,931	12.7%
Other	455,824	465,604	(9,780)	(2.1)%
Total deposits	**59,442,147**	**53,653,299**	5,788,848	10.8%
Loans and borrowings from banks	6,437,708	7,023,455	(585,747)	(8.3)%
Bancatlan corporate bonds	999,615	1,001,296	(1,681)	(0.2)%
	66,879,470	**61,678,050**	**5,201,420**	**8.4%**

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

Total deposits increased by 10.8% to L59,442,147 thousand as of June 30, 2017 as compared to L53,653,299 thousand as of December 31, 2016 primarily due to Banco Atlántida's commercial strategy to promote growth of demand deposits over term deposits considering their stability and low cost of funds. Deposits included retail and corporate deposits, generated mainly through our distribution network, and our relationships with commercial clients.

Loans and borrowings from banks were L6,437,708 thousand as of June 30, 2017, compared to L7,023,455 thousand as of December 31, 2016, representing a decrease of 8.3% primarily due to Banco Atlántida's financial strategy which used existing liquidity to fund loan disbursement needs rather than financing. Nonetheless, the banking business, particularly its corporate segment, continues to use readily available credit facilities to fund infrastructure and energy credits. Loans and borrowings from banks included short-term trade finance, lines of credit and long-term loans from international financial institutions and multilateral organizations. Banco Atlántida has lines of credit with 17 worldwide financial institutions with which it has had longstanding correspondent relationships. Some of its main lines of credit are held with the IFC, IADB, Proparco, Citibank N.A., Wells Fargo Bank N.A. and Commerzbank AGAs. As of June 30, 2017, we had (i) an aggregate amount of U.S.$297,020 thousand (L6,963,491 thousand) in uncommitted lines of credit from foreign institutions on a consolidated basis, of which U.S.$253,805 thousand (L5,950,339 thousand) was available to draw upon, and (ii) an aggregate amount of U.S.$50,000 thousand (L1,172,225 thousand) in a loan we obtained from Proparco on June 30, 2015 which matures on October 15, 2025 and bears interest at a rate of 6.34%, payable semiannually, of which U.S.$25,000 thousand (L586,113 thousand) was outstanding as of June 30, 2017.

Debt securities issued were L999,615 thousand as of June 30, 2017, compared to L1,001,296 thousand as of December 31, 2016, representing a decrease of 0.2%, which was primarily the result of exchange rate variations. Debt securities issued consisted of corporate bond issuances in the local market with a defined maturity date and variable interest payments.

Through our asset and liability management policy, we seek to ensure that sufficient liquidity is available to honor withdrawals of deposits, repay other liabilities at maturity, extend loans or other forms of credit to clients, pay liabilities derived from the insurance policies we issue, and meet working capital needs. The minimum amount of liquidity that our main subsidiaries are required to maintain depends on the reserve requirements established by the Central Bank, as well as the technical and mathematical statutory reserves required by our insurance operations. For more information, see "Regulation and Supervision of the Banking and Insurance Sector in Honduras—General Regulation Applicable to Honduran Insurance Companies—Significant Insurance Company Regulations—Reserves." We meet these requirements by maintaining a proper balance between maturity profile and diversity of our sources of funding.

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

Regulatory capital

As a holding company, we are not required to maintain regulatory capital on a consolidated basis. However, pursuant to Honduran capitalization requirements, Banco Atlántida is required to maintain specified levels of regulatory capital as a percentage of its risk-weighted assets (capital ratio) of 10% or above. As of June 30, 2017, Banco Atlántida's capital ratio was 12.4% compared to 12.4% as of December 31, 2016; 13.4% as of December 31, 2015; and 13.6% as of December 31, 2014.

The following table sets forth Banco Atlántida's capital on an unconsolidated basis as compared to the minimum capital requirements as of the dates indicated.

	As of June 31, 2017	As of December 31, 2016	2015	2014
	(L in thousands, except percentages)			
Total Tier 1	5,988,863	5,686,163	5,386,163	4,993,927
Total Tier 2	1,151,019	987,762	794,972	770,437
Total regulatory capital	7,139,882	6,673,925	6,181,135	5,764,364
Total risk-weighted assets	57,776,661	53,877,580	46,307,367	42,375,602
Regulatory capital as a percentage of risk-weighted assets	12.4	12.4	13.4	13.6

Commitments and contractual obligations

We enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes our commitments and contractual obligations as of June 30, 2017.

(L in millions, except percentages)	**Less than 30 days**	**31 to 90 days**	**91 to 1 year**	**Between 1 and 5 years**	**More than 5 year**	**Total**
Deposits and obligations from customers	8,280,674	10,929,259	10,354,133	17,928,547	11,949,533	59,442,147
Loans and borrowings from banks	43,068	129,934	587,055	2,940,029	2,737,621	6,437,708
Debt securities issued				999,615		999,615
Total	8,323,742	11,059,193	10,941,188	21,868,191	14,687,154	66,879,470
% of Total	**12.4%**	**16.5%**	**16.4%**	**32.7%**	**22.0%**	**100.0%**

Capital expenditures

Our consolidated capital expenditures decreased to L28,961 thousand for the six months ended June 30, 2017 compared to L133,638 thousand for the six months ended June 30, 2016 primarily due to the fact that throughout the first quarter of 2016 our subsidiaries made significant investments in information technology and in expanding their distribution fleet. Capital expenditures totaled L310,059 thousand for the year ended December 31, 2016 compared to L511,197 thousand for the corresponding period in 2015, mainly due to the acquisition of computer equipment, furniture and other equipment, as well as the addition of assets used by our leasing business.

Off-Balance sheet arrangements

In the normal course of business, we are a party to a number of off-balance sheet activities that have credit, market and operational risk and are not reflected in our financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as guarantees, letters of credit and loans under contract pending disbursement, including credit lines and syndicated loans. We provide our clients with services related to the issuance and confirmation of commercial and stand-by letters of credit and to the issuance of guarantees. Our letters of credit operations totaled L453,685 as of June 30, 2017, L421,163 thousand as of December 31, 2016 and L373,204 thousand as of December 31, 2015. Our issuance of guarantees totaled L3,667,229 as of June 30, 2017, L3,003,855 thousand as of December 31, 2016 and L2,084,047 thousand as of December 31, 2015. Our loans under contract pending disbursement totaled L3,041,098 as of June 30, 2017, L2,977,175 thousand as of December 31, 2016 and L2,377,992 thousand as of December 31, 2015.

The credit risk of both on- and off-balance sheet financial instruments varies 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 covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the client's creditworthiness. We may also require commitment letters and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or by another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when appropriate as determined by the credit committee of our subsidiaries.

Qualitative and Quantitative Disclosure about Market Risks

We are exposed to risks in the ordinary course of business, particularly credit risk, liquidity risk, exchange rate risk and interest rate risk. For a discussion on how we regularly assess and manage our exposures to these risks, see note 4 to our audited consolidated financial statements contained elsewhere in this offering memorandum.