

**BANCO GENERAL, S. A.  
AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Condensed Consolidated Interim  
Financial Information**

September 30, 2018

“This document has been prepared with the  
knowledge that its contents shall be made  
available to the investing and general public”

# **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

## Table of Contents

Condensed Consolidated Statement of Financial Position
Condensed Consolidated Statement of Income
Condensed Consolidated Statement of Comprehensive Income
Condensed Consolidated Statement of Changes in Equity
Condensed Consolidated Statement of Cash Flows
Notes to the Condensed Consolidated Interim Financial Information

**BANCO GENERAL, S. A. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Condensed Consolidated Statement of Financial Position**

September 30, 2018, December 31, 2017 and September 30, 2017

(Expressed in Balboas)

<b>Assets</b>	<b>Note</b>	<b>(Unaudited) September 2018</b>	<b>(Audited) December 2017</b>	<b>(Unaudited) September 2017</b>
Cash	5	259,407,530	283,199,967	248,679,345
Deposits with banks:				
Demand deposits		181,115,559	255,502,567	195,777,349
Time deposits		207,727,286	306,685,642	337,661,922
<b>Total deposits with banks</b>	5	388,842,845	562,188,209	533,439,271
<b>Total cash and deposits with banks</b>		648,250,375	845,388,176	782,118,616
Investment securities and other financial assets, net		4,672,062,325	4,414,783,855	4,239,165,060
Loans	6	11,846,118,817	11,506,060,752	11,405,634,133
Less:				
Allowance for loan losses	6	153,711,245	144,832,305	140,936,232
Unearned commissions		40,382,562	38,254,754	38,088,524
<b>Loans, net</b>		11,652,025,010	11,322,973,693	11,226,609,377
Investments in associates		25,953,573	22,075,753	21,834,425
Property, furniture, equipment and improvements, net of accumulated depreciation and amortization	7	230,826,439	223,200,152	219,243,215
Securities and other financial assets sold pending settlement		356,309,537	350,981,692	334,686,684
Accrued interest receivable		78,416,240	67,637,536	69,273,456
Deferred tax assets		36,787,686	33,756,441	32,793,125
Goodwill and other intangible assets, net	8	60,493,060	61,725,358	62,379,706
Other assets		281,305,736	229,399,292	263,705,763
<b>Total assets</b>		18,042,429,981	17,571,921,948	17,251,809,427

*The condensed consolidated statement of financial position should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.*

<b>Liabilities and Equity</b>	<b>Note</b>	<b>(Unaudited) September 2018</b>	<b>(Audited) December 2017</b>	<b>(Unaudited) September 2017</b>
Liabilities:				
Deposits:				
Demand		2,412,003,584	2,494,385,028	2,321,409,292
Savings		3,415,499,079	3,398,554,919	3,373,128,200
Time:				
Customers		5,704,533,947	5,474,415,838	5,462,534,417
Banks		88,218,439	91,071,301	174,082,161
<b>Total deposits</b>		<u>11,620,255,049</u>	<u>11,458,427,086</u>	<u>11,331,154,070</u>
Securities sold under repurchase agreements		0	45,814,600	147,484,220
Borrowings and debt securities issued	10	2,798,964,316	2,661,365,208	2,323,099,777
Perpetual bonds		217,680,000	217,680,000	217,680,000
Securities and other financial assets purchased pending settlement		502,439,743	405,771,013	433,203,774
Accrued interest payable		109,732,151	108,732,837	99,584,986
Liabilities from insurance operations	11	18,107,079	16,999,292	16,969,144
Deferred tax liabilities		3,485,492	3,539,569	3,561,184
Other liabilities	9	583,032,364	607,749,533	625,142,132
<b>Total liabilities</b>		<u>15,853,696,194</u>	<u>15,526,079,138</u>	<u>15,197,879,287</u>
Equity:	13			
Common shares		500,000,000	500,000,000	500,000,000
Legal reserve		181,037,489	179,461,247	178,971,360
Capital reserves		14,234,207	36,796,615	49,185,228
Retained earnings		1,493,462,091	1,329,584,948	1,325,773,552
<b>Total equity</b>		<u>2,188,733,787</u>	<u>2,045,842,810</u>	<u>2,053,930,140</u>
<b>Total liabilities and equity</b>		<u>18,042,429,981</u>	<u>17,571,921,948</u>	<u>17,251,809,427</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Condensed Consolidated Statement of Income**

For nine months ended September 30, 2018 and 2017

(Expressed in Balboas)

		<b>(Unaudited)</b> <b>(3rd Quarter)</b>		<b>(Unaudited)</b> <b>(Accumulated)</b>	
	<b>Note</b>	<b>September 2018</b>	<b>September 2017</b>	<b>September 2018</b>	<b>September 2017</b>
Interest and commission income:					
Interest:					
Loans		199,572,542	180,342,112	578,980,617	521,864,886
Deposits with banks		2,007,601	1,598,309	5,922,916	4,456,902
Securities and other financial assets		42,332,679	33,754,281	122,243,262	98,591,832
Commissions on loans		11,716,794	11,702,122	33,693,579	33,038,308
<b>Total interest and commission income</b>		<b>255,629,616</b>	<b>227,396,824</b>	<b>740,840,374</b>	<b>657,951,928</b>
Interest expenses:					
Deposits		58,674,958	53,073,751	169,200,607	154,048,945
Borrowings and debt securities issued		32,204,759	23,112,883	89,120,892	60,459,172
<b>Total interest expenses</b>		<b>90,879,717</b>	<b>76,186,634</b>	<b>258,321,499</b>	<b>214,508,117</b>
<b>Net interest and commission income</b>		<b>164,749,899</b>	<b>151,210,190</b>	<b>482,518,875</b>	<b>443,443,811</b>
Provision for loan losses, net	6	10,030,942	10,967,323	31,748,222	32,567,476
Provision (reversal) for impairment of securities		(492,711)	0	30,016	940
Provision for foreclosed assets, net		156,777	225,510	564,351	207,410
<b>Net interest and commission income, after provisions</b>		<b>155,054,891</b>	<b>140,017,357</b>	<b>450,176,286</b>	<b>410,667,985</b>
Other income (expenses):					
Fees and other commissions		52,771,503	50,660,884	155,869,418	146,458,161
Insurance premiums, net		7,583,098	6,783,353	21,820,686	19,693,971
(Loss) gain on financial instruments, net		(1,026,347)	10,906,497	(9,172,446)	21,735,497
Other income, net		6,366,996	23,450,614	16,633,193	33,147,515
Commission expenses and other expenses		(21,089,443)	(19,327,739)	(62,726,220)	(57,468,891)
<b>Total other income, net</b>		<b>44,605,807</b>	<b>72,473,609</b>	<b>122,424,631</b>	<b>163,566,253</b>
General and administrative expenses:					
Salaries and other employee expenses		43,845,999	42,087,580	129,035,507	123,424,460
Depreciation and amortization	7	6,289,666	6,861,331	18,065,423	16,008,608
Premises and equipment expenses		6,044,555	5,985,820	19,252,196	18,618,388
Other expenses		17,963,429	17,854,258	52,878,669	51,411,916
<b>Total general and administrative expenses</b>		<b>74,143,649</b>	<b>72,788,989</b>	<b>219,231,795</b>	<b>209,463,372</b>
<b>Operational net income</b>		<b>125,517,049</b>	<b>139,701,977</b>	<b>353,369,122</b>	<b>364,770,866</b>
Equity participation in associates		2,509,826	2,273,837	7,263,068	6,278,678
<b>Net income before income tax</b>		<b>128,026,875</b>	<b>141,975,814</b>	<b>360,632,190</b>	<b>371,049,544</b>
Income tax, net	15	15,834,774	14,618,270	43,308,089	41,674,203
<b>Net income</b>		<b>112,192,101</b>	<b>127,357,544</b>	<b>317,324,101</b>	<b>329,375,341</b>

*The condensed consolidated statement of income should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.*

**BANCO GENERAL, S. A. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Condensed Consolidated Statement of Comprehensive Income**

For nine months ended September 30, 2018 and 2017

(Expressed in Balboas)

	<b>(Unaudited)</b>	
	<b>September 2018</b>	<b>September 2017</b>
Net income	<u>317,324,101</u>	<u>329,375,341</u>
<b>Other comprehensive income (expense):</b>		
Items that are or may be reclassified to profit or loss:		
Valuation of securities and other financial assets:		
Changes net in valuation of securities FVOCI	(33,384,097)	0
Transfer to profit or loss for sales of securities FVOCI	(6,166,231)	0
Credit risk valuation	26,644	0
Changes net in fair value of securities available for sale	0	17,098,085
Transfer to profit or loss for sales of securities available for sale	0	(938,131)
Change in fair value of hedging instruments	0	(261,538)
<b>Total other comprehensive (expense) income, net</b>	<u>(39,523,684)</u>	<u>15,898,416</u>
<b>Total comprehensive income</b>	<u><u>277,800,417</u></u>	<u><u>345,273,757</u></u>

*The condensed consolidated statement of comprehensive income should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.*

**BANCO GENERAL, S. A. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Condensed Consolidated Statement of Changes in Equity**

For nine months ended September 30, 2018 and 2017

(Expressed in Balboas)

	Capital reserves							
	Common shares	Legal reserve	Insurance reserve	Valuation of securities and other financial assets	Valuation for hedging instruments	Total capital reserves	Retained earnings	Total equity
<b>Balance as of December 31, 2017 (Audited)</b>	500,000,000	179,461,247	1,000,000	35,796,615	0	36,796,615	1,329,584,948	2,045,842,810
Changes due to adoption of IFRS 9	0	0	0	16,961,276	0	16,961,276	500,791	17,462,067
<b>Balance as of January 1, 2018 (Unaudited)</b>	500,000,000	179,461,247	1,000,000	52,757,891	0	53,757,891	1,330,085,739	2,063,304,877
Net income	0	0	0	0	0	0	317,324,101	317,324,101
<b>Other comprehensive income (expense)</b>								
Items that are or may be reclassified to profit or loss:								
Valuation of securities and other financial assets:								
Changes net in valuation of securities FVOCI	0	0	0	(33,384,097)	0	(33,384,097)	0	(33,384,097)
Transfer to profit or loss for sales of securities FVOCI	0	0	0	(6,166,231)	0	(6,166,231)	0	(6,166,231)
Credit risk valuation	0	0	0	26,644	0	26,644	0	26,644
<b>Total other comprehensive income (expense), net</b>	0	0	0	(39,523,684)	0	(39,523,684)	0	(39,523,684)
<b>Total comprehensive income</b>	0	0	0	(39,523,684)	0	(39,523,684)	317,324,101	277,800,417
<b>Transactions with owner:</b>								
Dividends paid on common shares	0	0	0	0	0	0	(150,796,800)	(150,796,800)
Complementary tax	0	0	0	0	0	0	(1,574,707)	(1,574,707)
Transfer from retained earnings	0	1,576,242	0	0	0	0	(1,576,242)	0
<b>Total transactions with owner</b>	0	1,576,242	0	0	0	0	(153,947,749)	(152,371,507)
<b>Balance as of September 30, 2018 (Unaudited)</b>	500,000,000	181,037,489	1,000,000	13,234,207	0	14,234,207	1,493,462,091	2,188,733,787
<b>Balance as of December 31, 2016 (Audited)</b>	500,000,000	177,719,221	1,000,000	31,609,732	677,080	33,286,812	1,121,179,809	1,832,185,842
Net income	0	0	0	0	0	0	329,375,341	329,375,341
<b>Other comprehensive income (expense)</b>								
Items that are or may be reclassified to profit or loss:								
Valuation of securities and other financial assets:								
Changes in fair value of securities available for sale	0	0	0	17,098,085	0	17,098,085	0	17,098,085
Transfer to profit or loss for sales of securities available for sale	0	0	0	(938,131)	0	(938,131)	0	(938,131)
Changes in fair value of hedging instruments	0	0	0	0	(261,538)	(261,538)	0	(261,538)
<b>Total other comprehensive income (expense), net</b>	0	0	0	16,159,954	(261,538)	15,898,416	0	15,898,416
<b>Total comprehensive income</b>	0	0	0	16,159,954	(261,538)	15,898,416	329,375,341	345,273,757
<b>Transactions with owner:</b>								
Dividends paid on common shares	0	0	0	0	0	0	(123,930,171)	(123,930,171)
Complementary tax	0	0	0	0	0	0	400,712	400,712
Transfer from retained earnings	0	1,252,139	0	0	0	0	(1,252,139)	0
<b>Total transactions with owner</b>	0	1,252,139	0	0	0	0	(124,781,598)	(123,529,459)
<b>Balance as of September 30, 2017 (Unaudited)</b>	500,000,000	178,971,360	1,000,000	47,769,686	415,542	49,185,228	1,325,773,552	2,053,930,140

The condensed consolidated statement of changes in equity should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Condensed Consolidated Statement of Cash Flows**

For nine months ended September 30, 2018 and 2017

(Expressed in Balboas)

		<b>(Unaudited)</b>	
	<b>Note</b>	<b>September 2018</b>	<b>September 2017</b>
<b>Operating activities:</b>			
Net income		317,324,101	329,375,341
Adjustments to reconcile net income to net cash provided from operation activities:			
Provision for loan losses, net	6	31,748,222	32,567,476
Provision for impairment of securities		30,016	940
Provision for impairment of foreclosed assets, net		564,351	207,410
Loss (gain) unrealized on securities and other financial assets		8,534,617	(23,210,820)
(Gain) loss unrealized on derivative instruments		(1,801,055)	9,189,361
Gain on sale of securities and other financial assets fair value		(14,228)	(4,228,353)
Loss on sale of securities and other financial assets FVOCI (2017: Gain on sale available for sale)		5,532,935	(1,325,827)
Gain realized on derivative instruments		(3,079,823)	(2,159,858)
Foreign exchange fluctuations, net		1,690,354	5,499,683
Gain on sale of fixed assets, net		(304,989)	(18,380,283)
Deferred income tax, net		(2,413,329)	(2,545,332)
Depreciation and amortization	7	18,065,423	16,008,608
Amortization of intangible assets	8	1,963,040	1,963,044
Equity participation in associates		(7,263,068)	(6,278,678)
Interest income		(707,146,795)	(624,913,620)
Interest expense		258,321,499	214,508,117
Changes in operating assets and liabilities:			
Time deposits with banks		4,932,363	(10,289,897)
Securities and other financial assets at fair value through profit or loss		(97,497,002)	81,981,510
Loans		(363,339,895)	(657,172,466)
Unearned commissions		2,127,808	2,577,439
Tax credit from preferential interest loans		(30,135,053)	(27,006,191)
Other assets		(74,982,841)	(27,009,688)
Demand deposits		(82,381,444)	(318,200,894)
Savings accounts		16,944,160	93,100,202
Time deposits		227,265,247	483,569,058
Liabilities under insurance operations		1,107,787	2,012,302
Other liabilities		104,003,043	103,990,079
Cash provided by operating activities:			
Interest received		696,368,091	614,211,772
Interest paid		(257,322,185)	(204,641,265)
Dividends received		1,717,973	1,314,697
<b>Total</b>		<b>(246,764,778)</b>	<b>(264,661,474)</b>
<b>Cash flows used from operating activities</b>		<b>70,559,323</b>	<b>64,713,867</b>
<b>Investing activities:</b>			
Purchases of securities and other financial assets FVOCI (2017: available for sale)		(3,722,623,006)	(6,119,157,726)
Sale and redemptions of securities and other financial assets FVOCI (2017: available for sale)		3,578,075,967	5,923,173,355
Purchases of securities to amortized cost (2017: held to maturity)		(56,200,000)	0
Redemptions of securities to amortized cost (2017: held to maturity)		0	7,268,027
Investments in associates		3,385,248	3,034,814
Sale of property, furniture, equipment and improvements		588,091	24,383,943
Purchases of property, furniture, equipment and improvements	7	(25,974,812)	(45,713,588)
Cash paid in business acquisition, net of cash received		(377,215)	0
<b>Cash flows used in investing activities</b>		<b>(223,125,727)</b>	<b>(207,011,175)</b>
<b>Financing activities:</b>			
Proceeds from borrowings and debt securities issued		553,495,765	716,331,137
Repayment and redemptions of bonds and other obligations		(394,948,692)	(349,355,383)
Securities sold under agreements to repurchase		(45,814,600)	(125,815,758)
Dividends paid on common shares		(150,796,800)	(123,930,171)
Complementary tax		(1,574,707)	400,712
<b>Cash flows (used) from in financing activities</b>		<b>(39,639,034)</b>	<b>117,630,537</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(192,205,438)</b>	<b>(24,666,771)</b>
Cash and cash equivalents at beginning of period		672,734,133	634,130,053
<b>Cash and cash equivalents at end of period</b>	5	<b>480,528,695</b>	<b>609,463,282</b>

The condensed consolidated statement of cash flows should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.



# **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

## **Notes to the Condensed Consolidated Interim Financial Information**

September 30, 2018

(Expressed in Balboas)

---

### Index of Notes to the Condensed Consolidated Interim Financial Information:

1. General Information
2. Basis of Preparation
3. Summary of Significant Accounting Policies
4. Balances and Transactions with Related Parties
5. Cash and Cash Equivalents
6. Loans
7. Property, Furniture, Equipment, and Improvements
8. Goodwill and Intangible Assets, Net
9. Other Financial Liabilities at Fair Value
10. Borrowings and Debt Securities Issued
11. Liabilities from Insurance Operations
12. Segment Information
13. Equity
14. Personnel Benefits
15. Income Tax
16. Derivative Financial Instruments
17. Fair Value of Financial Instruments
18. Financial Instruments Risk Management
19. Adoption of IFRS 9 Financial Instruments
20. Main Applicable Laws and Regulations

# **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

## **Notes to the Condensed Consolidated Interim Financial Information**

September 30, 2018

(Expressed in Balboas)

---

### **(1) General Information**

Banco General, S. A. was incorporated under the laws of the Republic of Panama in 1954 and started operations in 1955. The Bank operates under a general license granted by the Superintendence of Banks of Panama which allows it, to engage in the banking business both in Panama and abroad. Banco General, S. A. and its subsidiaries will be referred to collectively as “the Bank”.

The Bank provides a wide variety of financial services, mainly, corporate, mortgage and consumer banking, management of investments and pensions, retirement and severance funds.

The Bank has representation offices in Colombia, Mexico, El Salvador, Guatemala and Peru.

Grupo Financiero BG, S. A., a 60.09% (December 31, 2017: 60.12%) owned subsidiary of Empresa General de Inversiones, S. A., owns 100% of the common shares issued and outstanding of Banco General, S. A.

Banco General, S. A. owns 100% of the following subsidiaries which form part of its consolidation:

- Finanzas Generales, S. A. and subsidiaries: finance leases and loans in Panama. Finanzas Generales, S. A. owns the following subsidiaries:
  - BG Trust, Inc.: trust management in Panama.
  - Vale General, S. A.: administration and marketing of pretax food and health related contributions in Panama.
- BG Investment Co., Inc.: securities brokerage, asset management and brokerage company in Panama.
- General de Seguros, S. A.: insurance and reinsurance in Panama.
- Overseas Capital Markets, Inc. and subsidiaries: holding company in the Cayman Islands. Overseas Capital Markets, Inc. owns the following subsidiaries:
  - Banco General (Overseas), Inc.: international banking business in the Cayman Islands.
  - Commercial Re. Overseas, Ltd.: international reinsurance in the British Virgin Islands.
- BG Valores, S. A.: securities brokerage, asset management and brokerage company in Panama.
- Banco General (Costa Rica), S. A.: banking business in Costa Rica.
- ProFuturo Administradora de Fondos de Pensiones y Cesantía, S. A.: management of pension and retirement, severance and investment funds in Panama.

On July 31, 2018, the subsidiary Finanzas Generales, S.A., through its subsidiary Vale General, S.A., acquired 100% shares of company Pases Alimenticios, S.A.. As of August 1, 2018, incomes and expenses are presented as part of the condensed consolidated statement of income.

## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

As of September 30, 2018, Vale General, S.A. absorbed by merger the subsidiary Pases Alimenticios, S.A., so all assets, liabilities and equity accounts of this company were incorporated into the statement of financial position of the subsidiary Vale General, S.A. as of that date.

The Bank's main office is located at Banco General Tower, Urbanization Marbella, Aquilino de la Guardia Avenue, Panama City, Republic of Panama.

#### **(2) Basis of Preparation**

##### *(a) Statement of Compliance*

The condensed consolidated interim financial information have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

These condensed consolidated interim financial information were authorized by management for issue on October 25, 2018.

##### *(b) Basis of Measurement*

The condensed consolidated interim financial information have been prepared on a historical cost basis except for the assets and liabilities at fair value, available for sale securities and derivative financial instruments, which are measured at fair value; and foreclosed assets, which are measured at the lower of their carrying value or fair value less costs to sell.

The Bank initially recognizes loans, account receivables and deposits on the date on which they originated. All other financial instruments (including assets designated at fair value through profit or loss) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

##### *(c) Functional and Presentation Currency*

The condensed consolidated interim financial information are expressed in balboas (B/.), the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States dollar (US\$). The Republic of Panama does not issue its own paper currency and, in lieu, the dollar (\$) of the United States of America is used as legal tender and functional currency.

#### **(3) Summary of Significant Accounting Policies**

The accounting policies used by the Bank in this condensed consolidated interim financial information are the same as those applied by the Bank in its consolidated financial statements as of December 31, 2017; except, where the policies of financial instruments were modified by the adoption of IFRS 9. The modified policies are detailed as follows:

##### *(a) Investment Securities and Other Financial Assets* *Accounting policies used as of January 1, 2018:*

###### *Classification and measurement - Financial assets under IFRS 9*

Investment securities and other financial assets are classified at their trade date, and are initially measured at fair value plus, in the case of investment securities not recorded at fair value through profit or loss, direct transaction costs attributable to their acquisition.

## BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Information

---

#### (3) Summary of Significant Accounting Policies, continued

The model includes three classification categories for financial assets, namely:

- *Amortized Cost (AC)*

A financial asset is measured at amortized cost if it complies with both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

- *Fair value with changes in other comprehensive income (FVOCI)*

A debt instrument is measured at FVOCI only if it meets with the following conditions, and has not been designated at Fair value through profit or loss (FVTPL):

- The asset is held within a business model whose objective is to collect the contractual cash flows and sell the financial assets; and
- The contractual terms of the financial asset establish specific dates for the receipt of cash flows derived solely from payments of principal and interest on the principal amount outstanding.

During the initial recognition of investments in equity instruments not held for trading, the Bank may irrevocably elect to record the subsequent changes in fair value as part of other comprehensive income. This choice must be made on an instrument-by-instrument basis.

- *Fair value through profit or loss (FVTPL)*

All other financial assets are measured at fair value through profit or loss.

*Evaluation of the business model*

The evaluation at the level of the portfolios and the objective of the business model that applies to financial instruments of said portfolios documenting how they are managed, includes the following:

- The policies and objectives identified for the loan portfolio and the operation of these policies including management's strategy to define:
  - (i) the collection of contractual interest income
  - (ii) maintain a defined performance profile of interest
  - (iii) maintain a specific duration period
  - (iv) be able to sell at any time due to liquidity needs or in order to optimize the risk / return profile of a portfolio based on interest rates, risk margins, current duration and defined objective

## BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Information

---

#### (3) Summary of Significant Accounting Policies, continued

- The way in which the behavior of different portfolios is reported to the senior management;
- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which those risks are managed;
- The frequency and value of sales in previous periods, the reasons for those sales and expectations regarding future sales activities.

Financial assets that are held for trading purposes and whose performance is evaluated solely based on changes in their fair value are measured at fair value through profit or loss as they are neither held to collect contractual cash flows nor both to collect contractual cash flows and to sell the financial assets.

#### *Assessment of whether the contractual cash flows are solely payments of principal and interest (SPPI)*

For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as the consideration of the time value of money and the credit risk associated with the amount of principal outstanding for a particular period of time and other basic risks of a loan agreement and other associated costs, as well as the profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank focused on the instrument's contractual terms.

This assessment considered the following characteristics, among others:

- Contingent events that could change the amount and / or timing of cash flows
- Leverage conditions
- Prepayment and extension terms
- Terms that limit the Bank's ability to collect cash flows from specific assets
- Features that modify considerations for the time value of money

#### (b) *Derivative Financial Instruments*

As of January 1, 2018, hedging relationships that meet the requirements of hedge accounting were incorporated in accordance with IAS 39, which also meet the requirements of hedge accounting in accordance with the criteria of IFRS 9, after taking into account any new rebalancing of the coverage relationship at the time of transition, they are considered as a continuation of the coverage relationships.

At the initial application of hedge accounting under IFRS 9, the coverage ratio in accordance with IAS 39 was considered as the starting point to rebalance the coverage ratio of a continuing hedging relationship. Any gain or loss on this rebalancing will be recognized in profit or loss of the period.

## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

#### **(3) Summary of Significant Accounting Policies, continued**

Hedge accounting is discontinued prospectively only when the relationship or part of the coverage no longer satisfies the rating criteria after any rebalancing. This includes cases when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect the coverage ratio in its entirety or in part, maintaining the coverage ratio for the remainder.

The Bank may choose to designate one or more hedging relationship(s) between a hedging instrument and a hedged item with one or more external entities, as well as opting for hedges between its subsidiaries.

#### **(c) *Impairment of Financial Assets***

Accounting policies used as of January 1, 2018:

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model.

The new impairment model is applicable to the following financial assets that are not measured at FVTPL:

- Loans;
- Debt instruments;
- Leases receivable;
- Financial guarantee contracts issued; and
- Loan commitments issued

Impairment losses on investments in equity instruments are not recognized.

The assessment of whether the credit risk of a financial asset has increased significantly is one of the critical judgments implemented in the impairment model.

Loss allowances are recognized for the amount equivalent to the 12-month ECL in the following cases:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments over which the credit risk has not increased significantly since its initial recognition.

For all other cases, allowances are recognized at an amount equal to the assets' lifetime ECL.

The 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within a 12-month period after the reporting date.

## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

#### **(3) Summary of Significant Accounting Policies, continued**

The standard introduces three stages of impairment for financial assets that are applied from the date of origin or acquisition. These stages are summarized below:

- Stage 1: The Bank recognizes a credit loss allowance at an amount equal to the 12-month ECL. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.
- Stage 2: The Bank recognizes a credit loss allowance at an amount equal to the lifetime expected credit losses (LTECL) for those Financial Assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) which represents the probability of default occurring over the remaining lifetime of the Financial Asset. The allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered as compared to 12-months in Stage 1.
- Stage 3: The Bank recognizes a credit loss allowance at an amount equal to the lifetime expected credit losses, based on a Probability of Default (PD) of 100% of the recoverable cash flows of the asset.

#### *Significant Increase in Credit Risk*

The determination of whether the credit risk of a financial asset has increased significantly since its initial recognition, considers as main indicators, variations in days of delinquency, collection score and risk rating, analysis of quantitative and qualitative characteristics in the historical experience and the evaluation of the credibility of future information.

#### *Credit Risk Rating*

The Bank assigns a credit risk rating to each financial asset based on a model that incorporates a series of predictive data on the incurrence of losses. The models were developed and applied over several periods to evaluate their reasonableness. Risk ratings are used to identify significant increases in credit risk.

Credit risk ratings are defined using qualitative and quantitative factors that are indicative of risk of loss. These factors may vary depending on the nature of the exposure and the type of borrower. Regarding foreign investments and bank deposits, the international risk ratings of Fitch, Standard and Poor's or Moody's and associated changes to the ratings were used to establish whether there was a significant increase in risk and in the calculation of the Probability of Default (PD).

Credit risk ratings are defined and calibrated such that the risk of loss increases exponentially as the credit risk deteriorates.

## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

#### **(3) Summary of Significant Accounting Policies, continued**

Each exposure will be assigned a credit risk rating at the time of initial recognition based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in an exposure being moved to a different credit risk rating.

##### *Determine if the credit risk has increased significantly*

The Bank determines a significant increase in an exposure to credit risk has occurred since its initial recognition if, based on credit risk classification models and / or days of delinquency, a significant deterioration has occurred.

In certain instances, based on expert judgment and where possible, relevant historical experience, the Bank determines an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers relevant and whose effect would not be fully reflected otherwise.

As a rule, and as required by IFRS 9, a significant increase in credit risk occurs when an asset shows delinquency of more than 30 days, except for residential mortgages and personal loans, which are measured at more than 60 days. The Bank determines the delinquency period by counting the number of days since the last payment.

The effectiveness of the criteria used to identify significant increases in credit risk is monitored through regular reviews.

##### *Definition of loss*

The Bank considers a financial asset to be in default when:

- It is likely that a debtor will not fully pay its credit obligations to the Bank without taking actions to repossess collateral (if available); or
- The debtor has more than 90 days delinquency in all credit obligations, except for overdrafts that are measured at more than 30 days and residential mortgages at more than 120 days.

In assessing whether a debtor is in default, the Bank considers the following indicators:

- Quantitative – past due status and non-payment of other obligations of the same issuer; and
- Qualitative – breach of contract or legal situation

The inputs used in the assessment of whether financial instruments are in default are specific to the type of portfolio, and their importance may vary over time to reflect changes in circumstances and trends.



## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

#### **(3) Summary of Significant Accounting Policies, continued**

##### *Measurement of the ECL*

The ECL is a probability-weighted estimate of credit loss which is measured according to the following items:

- Financial assets that are not credit-impaired at the reporting date
- Financial assets that are impaired at the reporting date
- Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank in the event that the commitment is drawn down and the cash flows the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount the Bank expects to recover.

##### *Generating the term structure of the PD*

The days of delinquency is the main input to determine the term structure of the PD for exposures in the consumer loan portfolio. For the corporate loan portfolio, the following factors are taken as primary inputs: risk classification, days of delinquency, restructurings, indicators of non-compliance and materiality thresholds. The Bank seeks to obtain performance and loss information on exposures to credit risk in order to complete the analysis on days of delinquency, segment, type of product and debtor as well as credit risk rating.

The Bank designed and evaluated statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of credit exposures, and how they are expected to change over time.

The PD of foreign investments and placed deposits was estimated using liquid market proxies (Credit Default Swaps "CDS") based on international risk ratings and the industry relating to the investment or deposit.

##### *Inputs in the measurement of the ECL*

The key inputs in the measurement of ECL are the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

PD estimates are calculated at a specific date, using statistical rating models and tools adapted to the different categories of counterparties and exposure. Statistical models were acquired from internationally recognized firms or developed internally based on historical data. These models incorporate quantitative factors, and can also consider qualitative factors. If an exposure migrates between rating categories, then this may lead to a change in the estimate of the associated PD. The PD is estimated considering contractual maturities and estimated prepayment rates. In the case of foreign investments and placed deposits, the ECL is obtained from the probability of default implicit in the CDS used as proxies for each bond or deposit based on its international credit rating and industry.

## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

#### **(3) Summary of Significant Accounting Policies, continued**

The levels of LGD are estimated based on historical recovery rates:

- Observed: corresponding to the portion of EAD in default that is effectively recovered
- Estimated: corresponding to the portion of EAD in default estimated to be recoverable.

The LGD model considers the financial asset, related collateral and recovery costs of any collateral. The Bank can calibrate the LGD estimate for different economic scenarios. The Bank used the LGD implicit in the CDS for foreign investments and placed deposits.

In most cases, the EAD is equivalent to the outstanding balance of the contract; with the exception of credit cards and contingencies, which consider variables such as the current balance, available balance and the CCF (credit conversion factor), in order to estimate the exposure at the time of default on existing operations. The EAD is determined on current exposures to the counterparty and potential changes to the current amount permitted under the contract, including any amortization.

Overdrafts and credit card facilities are products that include both the loan and undrawn commitment component. These facilities do not have a fixed term or repayment structure and are managed on a collective basis; the Bank can cancel them unilaterally at any time.

#### *Forward-looking information*

The Bank could incorporate forward-looking information in its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and ECL measurement.

External information may include economic data and projections published by government entities and monetary authorities in the countries in which the Bank operates, supranational organizations such as the OECD and the International Monetary Fund, as well as academic and private sector projections.

#### *(d) Financial Liabilities*

IFRS 9 largely preserves the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all changes in the fair value of liabilities designated as FVTPL are recognized in income, whereas under IFRS 9 these changes in fair value are presented as follows:

- The amount of the change in fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of the change in fair value is presented in profit or loss.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(4) Balances and Transactions with Related Parties**

The condensed consolidated statement of financial position and the condensed consolidated statement of income include balances and transactions with related parties, which are summarized as follows:

	<b>September 30, 2018</b>			
	<b>Directors and Management</b>	<b>Related Companies</b>	<b>Affiliated Companies</b>	<b>Total</b>
<b><u>Assets:</u></b>				
Investment securities and other financial assets	<u>0</u>	<u>257,320,480</u>	<u>36,642,094</u>	<u>293,962,574</u>
Loans	<u>7,713,713</u>	<u>133,237,868</u>	<u>20,929,412</u>	<u>161,880,993</u>
Investments in associates	<u>0</u>	<u>25,953,573</u>	<u>0</u>	<u>25,953,573</u>
<b><u>Liabilities:</u></b>				
Deposits:				
Demand	1,096,315	82,461,872	91,416,298	174,974,485
Savings	4,831,493	61,290,027	45,479	66,166,999
Time	<u>1,816,541</u>	<u>293,094,987</u>	<u>63,819,838</u>	<u>358,731,366</u>
	<u>7,744,349</u>	<u>436,846,886</u>	<u>155,281,615</u>	<u>599,872,850</u>
Perpetual bonds	<u>0</u>	<u>0</u>	<u>90,000,000</u>	<u>90,000,000</u>
Commitments and contingencies	<u>1,360,000</u>	<u>63,184,711</u>	<u>27,101,966</u>	<u>91,646,677</u>
<b><u>Interest income:</u></b>				
Loans	<u>271,889</u>	<u>6,460,602</u>	<u>884,888</u>	<u>7,617,379</u>
Investment securities and other financial assets	<u>0</u>	<u>9,431,809</u>	<u>1,740,187</u>	<u>11,171,996</u>
<b><u>Interest expense:</u></b>				
Deposits	<u>59,607</u>	<u>8,681,228</u>	<u>793,151</u>	<u>9,533,986</u>
Borrowings and debt in securities in issue	<u>0</u>	<u>0</u>	<u>4,387,500</u>	<u>4,387,500</u>
<b><u>Other income:</u></b>				
Equity participation in associates	<u>0</u>	<u>7,263,068</u>	<u>0</u>	<u>7,263,068</u>
Dividends	<u>0</u>	<u>745,527</u>	<u>0</u>	<u>745,527</u>
<b><u>General and administrative expenses:</u></b>				
Directors' fees	<u>204,600</u>	<u>0</u>	<u>0</u>	<u>204,600</u>
Benefits to key management personnel	<u>1,824,552</u>	<u>0</u>	<u>0</u>	<u>1,824,552</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(4) Balances and Transactions with Related Parties, continued**

	<b>December 31, 2017</b>			
	<b><u>Directors and Management</u></b>	<b><u>Related Companies</u></b>	<b><u>Affiliated Companies</u></b>	<b><u>Total</u></b>
<b><u>Assets:</u></b>				
Investment securities and other financial assets	<u>0</u>	<u>262,034,590</u>	<u>49,628,440</u>	<u>311,663,030</u>
Loans	<u>6,349,512</u>	<u>111,478,360</u>	<u>22,651,923</u>	<u>140,479,795</u>
Investments in associates	<u>0</u>	<u>22,075,753</u>	<u>0</u>	<u>22,075,753</u>
<b><u>Liabilities:</u></b>				
Deposits:				
Demand	3,826,289	93,656,587	72,428,215	169,911,091
Savings	5,355,607	82,626,254	45,479	88,027,340
Time	<u>1,565,061</u>	<u>291,534,192</u>	<u>62,000,000</u>	<u>355,099,253</u>
	<u>10,746,957</u>	<u>467,817,033</u>	<u>134,473,694</u>	<u>613,037,684</u>
Perpetual bonds	<u>0</u>	<u>0</u>	<u>90,000,000</u>	<u>90,000,000</u>
<u>Commitments and contingencies</u>	<u>0</u>	<u>84,554,833</u>	<u>24,828,400</u>	<u>109,383,233</u>
	<b>September 30, 2017</b>			
	<b><u>Directors and Management</u></b>	<b><u>Related Companies</u></b>	<b><u>Affiliated Companies</u></b>	<b><u>Total</u></b>
<b><u>Assets:</u></b>				
Investment securities and other financial assets	<u>0</u>	<u>261,622,255</u>	<u>49,690,628</u>	<u>311,312,883</u>
Loans	<u>7,240,123</u>	<u>124,243,583</u>	<u>4,661,865</u>	<u>136,145,571</u>
Investments in associates	<u>0</u>	<u>21,834,425</u>	<u>0</u>	<u>21,834,425</u>
<b><u>Liabilities:</u></b>				
Deposits:				
Demand	1,252,842	62,572,949	86,232,264	150,058,055
Savings	4,595,371	94,852,689	45,479	99,493,539
Time	<u>1,563,300</u>	<u>287,126,225</u>	<u>62,000,000</u>	<u>350,689,525</u>
	<u>7,411,513</u>	<u>444,551,863</u>	<u>148,277,743</u>	<u>600,241,119</u>
Perpetual bonds	<u>0</u>	<u>0</u>	<u>90,000,000</u>	<u>90,000,000</u>
<u>Commitments</u>	<u>0</u>	<u>107,718,197</u>	<u>23,298,400</u>	<u>131,016,597</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(4) Balances and Transactions with Related Parties, continued**

		<b>September 30, 2017</b>		
	<b>Directors and Management</b>	<b>Related Companies</b>	<b>Affiliated Companies</b>	<b>Total</b>
<b><u>Interest income:</u></b>				
Loans	<u>233,438</u>	<u>4,067,864</u>	<u>129,672</u>	<u>4,430,974</u>
Investment securities and other financial assets	<u>0</u>	<u>9,655,224</u>	<u>1,882,942</u>	<u>11,538,166</u>
<b><u>Interest expense:</u></b>				
Deposits	<u>42,606</u>	<u>7,178,693</u>	<u>712,843</u>	<u>7,934,142</u>
Borrowings and debt in securities in issue	<u>0</u>	<u>0</u>	<u>4,387,500</u>	<u>4,387,500</u>
<b><u>Other income:</u></b>				
Equity participation in associates	<u>0</u>	<u>6,278,678</u>	<u>0</u>	<u>6,278,678</u>
Dividends	<u>0</u>	<u>720,534</u>	<u>0</u>	<u>720,534</u>
<b><u>General and administrative expenses:</u></b>				
Directors' fees	<u>104,300</u>	<u>0</u>	<u>0</u>	<u>104,300</u>
Benefits to key management personnel	<u>1,500,908</u>	<u>0</u>	<u>0</u>	<u>1,500,908</u>

The conditions granted in transactions with related parties are substantially similar to those granted to third parties not related to the Bank.

**(5) Cash and Cash Equivalents**

Cash and cash equivalents are detailed as follows for purposes of reconciliation with the condensed consolidated statement of cash flows:

	<b>September 30</b>	
	<b>2018</b>	<b>2017</b>
Cash	259,407,530	248,679,345
Demand deposits with banks	181,115,559	195,777,349
Time deposits with banks	<u>207,727,286</u>	<u>337,661,922</u>
Total deposits with banks	<u>388,842,845</u>	<u>533,439,271</u>
Less: time deposits with original maturities of more than three months	<u>167,721,680</u>	<u>172,655,334</u>
Cash and cash equivalents in the condensed consolidated statement of cash flows	<u>480,528,695</u>	<u>609,463,282</u>

Demand deposits with banks include cash collateral accounts in the amount of B/.27.6 million (2017: B/.42.5 million) that secure derivative operations and repos, in addition to the next quarterly payments of principal, interest and expenses of certain obligations. In September 30, 2017, these collateral accounts were presented within investments and other financial assets.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(6) Loans**

The composition of the loan portfolio is summarized as follows:

	<b>September 30 2018</b>	<b>December 31 2017</b>	<b>September 30 2017</b>
Local loans:			
Residential mortgages	4,013,013,589	3,798,892,418	3,713,590,817
Personal, auto and credit cards	1,729,594,238	1,652,578,497	1,618,777,977
Commercial mortgages	1,859,114,364	1,789,765,115	1,760,841,904
Lines of credit and commercial loans	1,590,713,754	1,673,245,046	1,593,399,653
Interim financing	801,732,280	807,677,587	840,311,268
Financial leases, net of unearned interest	109,189,702	120,390,513	122,252,026
Factoring operations, net	0	0	268,536
Other secured loans	200,365,221	185,068,481	176,046,207
Overdrafts	160,385,514	148,591,673	177,574,073
Total local loans	<u>10,464,108,662</u>	<u>10,176,209,330</u>	<u>10,003,062,461</u>
Foreign loans:			
Residential mortgages	251,807,063	254,472,419	254,141,516
Personal, auto and credit cards	17,160,419	17,033,882	16,747,479
Commercial mortgages	264,527,416	259,841,921	267,248,517
Lines of credit and commercial loans	757,279,193	700,260,919	765,099,429
Interim financing	3,099,850	0	0
Other secured loans	22,750,591	31,972,343	31,553,396
Overdrafts	65,385,623	66,269,938	67,781,335
Total foreign loans	<u>1,382,010,155</u>	<u>1,329,851,422</u>	<u>1,402,571,672</u>
Total	<u>11,846,118,817</u>	<u>11,506,060,752</u>	<u>11,405,634,133</u>

The movement of the allowance for loan losses is summarized as follows:

	<b>September 30, 2018</b>				
	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
Balance at beginning of period IAS 39					144,832,305
Changes due to adoption of IFRS 9	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>412,548</u>
<b>Balance at beginning of period IFRS 9</b>	79,103,845	25,839,115	40,301,893	0	145,244,853
Transferred to 12 months ECL	8,321,052	(6,609,692)	(1,711,360)	0	0
Transferred to lifetime ECL not credit impaired	(2,224,420)	4,004,802	(1,780,382)	0	0
Transferred to lifetime ECL credit impaired	(1,736,456)	(2,422,999)	4,159,455	0	0
Net remeasurement of loss allowance	(14,059,062)	11,086,811	41,843,396	0	38,871,145
New Loans	16,454,746	2,321,180	4,806,017	0	23,581,943
Loans paid down	(10,375,421)	(5,780,813)	(14,548,632)	0	(30,704,866)
Recovery of loans charged-off	0	0	16,831,869	0	16,831,869
Loans charged-off	<u>0</u>	<u>0</u>	<u>(40,113,699)</u>	<u>0</u>	<u>(40,113,699)</u>
<b>Balance at the end of period IFRS 9</b>	<u>75,484,284</u>	<u>28,438,404</u>	<u>49,788,557</u>	<u>0</u>	<u>153,711,245</u>

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (6) Loans, continued

#### Consumer loans allowance:

**September 30, 2018**

	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
<b>Balance at beginning of period IFRS 9</b>	65,727,982	17,973,365	16,360,282	0	100,061,629
Transferred to 12 months ECL	7,441,925	(5,730,565)	(1,711,360)	0	0
Transferred to lifetime ECL not credit impaired	(2,059,109)	2,738,863	(679,754)	0	0
Transferred to lifetime ECL credit impaired	(1,727,226)	(2,100,363)	3,827,589	0	0
Net remeasurement of loss allowance	(9,031,608)	12,972,483	37,278,485	0	41,219,360
New Loans	12,496,098	1,124,395	588,994	0	14,209,487
Loans paid down	(7,075,792)	(4,936,410)	(10,670,838)	0	(22,683,040)
Recovery of loans charged-off	0	0	16,722,023	0	16,722,023
Loans charged-off	0	0	(39,055,420)	0	(39,055,420)
<b>Balance at the end of period IFRS 9</b>	<u>65,772,270</u>	<u>22,041,768</u>	<u>22,660,001</u>	<u>0</u>	<u>110,474,039</u>

#### Corporate loans allowance:

**September 30, 2018**

	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
<b>Balance at beginning of period IFRS 9</b>	13,375,863	7,865,750	23,941,611	0	45,183,224
Transferred to 12 months ECL	879,127	(879,127)	0	0	0
Transferred to lifetime ECL not credit impaired	(165,311)	1,265,939	(1,100,628)	0	0
Transferred to lifetime ECL credit impaired	(9,230)	(322,636)	331,866	0	0
Net remeasurement of loss allowance	(5,027,454)	(1,885,672)	4,564,911	0	(2,348,215)
New Loans	3,958,648	1,196,785	4,217,023	0	9,372,456
Loans paid down	(3,299,629)	(844,403)	(3,877,794)	0	(8,021,826)
Recovery of loans charged-off	0	0	109,846	0	109,846
Loans charged-off	0	0	(1,058,279)	0	(1,058,279)
<b>Balance at the end of period IFRS 9</b>	<u>9,712,014</u>	<u>6,396,636</u>	<u>27,128,556</u>	<u>0</u>	<u>43,237,206</u>

**December 31  
2017**

**September 30  
2017**

Balance at beginning of period	128,917,367	128,917,367
Provision charged to expenses, net	44,484,763	32,567,476
Recovery of loans charged-off	21,367,866	16,239,918
Loans charged-off	(49,937,691)	(36,788,529)
<b>Balance at end of period</b>	<u>144,832,305</u>	<u>140,936,232</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(7) Property, Furniture, Equipment and Improvements**

Property, furniture, equipment and improvements are summarized as follows:

	<b>September 30, 2018</b>					
	<b>Land</b>	<b>Buildings</b>	<b>Licenses and Internally developed projects</b>	<b>Furniture and Equipment</b>	<b>Improvements</b>	<b>Total</b>
Cost:						
At beginning of period	32,076,810	130,415,437	87,218,844	115,290,423	36,573,777	401,575,291
Additions	220,679	4,911,259	15,663,966	3,357,889	1,821,019	25,974,812
Sales and disposals	<u>150,000</u>	<u>0</u>	<u>2,572</u>	<u>2,830,313</u>	<u>661,667</u>	<u>3,644,552</u>
At end of period	<u>32,147,489</u>	<u>135,326,696</u>	<u>102,880,238</u>	<u>115,817,999</u>	<u>37,733,129</u>	<u>423,905,551</u>
Accumulated depreciation and amortization:						
At beginning of period	0	26,510,195	56,121,288	68,748,375	26,995,281	178,375,139
Expense of the period	0	2,679,862	6,280,541	7,711,798	1,393,222	18,065,423
Sales and disposals	<u>0</u>	<u>0</u>	<u>2,572</u>	<u>2,697,211</u>	<u>661,667</u>	<u>3,361,450</u>
At end of period	<u>0</u>	<u>29,190,057</u>	<u>62,399,257</u>	<u>73,762,962</u>	<u>27,726,836</u>	<u>193,079,112</u>
Net balance	<u>32,147,489</u>	<u>106,136,639</u>	<u>40,480,981</u>	<u>42,055,037</u>	<u>10,006,293</u>	<u>230,826,439</u>

  

	<b>December 31, 2017</b>					
	<b>Land</b>	<b>Buildings</b>	<b>Licenses and Internally developed projects</b>	<b>Furniture and Equipment</b>	<b>Improvements</b>	<b>Total</b>
Cost:						
At beginning of year	36,142,044	128,747,027	71,575,101	89,350,561	36,583,555	362,398,288
Additions	0	7,599,962	16,729,142	29,350,825	2,942,572	56,622,501
Sales and disposals	<u>4,065,234</u>	<u>5,931,552</u>	<u>1,085,399</u>	<u>3,410,963</u>	<u>2,952,350</u>	<u>17,445,498</u>
At end of year	<u>32,076,810</u>	<u>130,415,437</u>	<u>87,218,844</u>	<u>115,290,423</u>	<u>36,573,777</u>	<u>401,575,291</u>
Accumulated depreciation and amortization:						
At beginning of year	0	27,277,540	48,584,123	62,698,862	28,295,868	166,856,393
Expense of the year	0	2,641,014	8,621,730	9,328,071	1,623,629	22,214,444
Sales and disposals	<u>0</u>	<u>3,408,359</u>	<u>1,084,565</u>	<u>3,278,558</u>	<u>2,924,216</u>	<u>10,695,698</u>
At end of year	<u>0</u>	<u>26,510,195</u>	<u>56,121,288</u>	<u>68,748,375</u>	<u>26,995,281</u>	<u>178,375,139</u>
Net balance	<u>32,076,810</u>	<u>103,905,242</u>	<u>31,097,556</u>	<u>46,542,048</u>	<u>9,578,496</u>	<u>223,200,152</u>

  

	<b>September 30, 2017</b>					
	<b>Land</b>	<b>Buildings</b>	<b>Licenses and Internally developed projects</b>	<b>Furniture and Equipment</b>	<b>Improvements</b>	<b>Total</b>
Cost:						
At beginning of period	36,142,044	128,747,027	71,575,101	89,350,561	36,583,555	362,398,288
Additions	0	7,213,806	12,171,544	25,620,163	708,075	45,713,588
Sales and disposals	<u>4,065,234</u>	<u>5,223,595</u>	<u>1,545</u>	<u>1,938,654</u>	<u>2,859,328</u>	<u>14,088,356</u>
At end of period	<u>32,076,810</u>	<u>130,737,238</u>	<u>83,745,100</u>	<u>113,032,070</u>	<u>34,432,302</u>	<u>394,023,520</u>
Accumulated depreciation and amortization:						
At beginning of period	0	27,277,540	48,584,123	62,698,862	28,295,868	166,856,393
Expense of the period	0	1,765,265	6,386,162	6,654,579	1,202,602	16,008,608
Sales and disposals	<u>0</u>	<u>3,408,359</u>	<u>712</u>	<u>1,844,432</u>	<u>2,831,193</u>	<u>8,084,696</u>
At end of period	<u>0</u>	<u>25,634,446</u>	<u>54,969,573</u>	<u>67,509,009</u>	<u>26,667,277</u>	<u>174,780,305</u>
Net balance	<u>32,076,810</u>	<u>105,102,792</u>	<u>28,775,527</u>	<u>45,523,061</u>	<u>7,765,025</u>	<u>219,243,215</u>



**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(8) Goodwill and Intangible Assets, net**

The following table summarizes the goodwill generated from the acquisition of the following entities:

<u>Company</u>	<u>Date of acquisition</u>	<u>Equity</u>	<u>% Acquisition</u>	<u>Balance</u>
Banco General, S. A.	March 2004	ProFuturo-Administradora de Fondos de Pensiones y Cesantías, S. A.	17%	679,018
Banco General, S. A.	March 2005	BankBoston, N.A. – Panama (banking operations)	100%	12,056,144
ProFuturo - Administradora de Fondos de Pensiones y Cesantías, S. A.	March 2005	Purchase of trust fund	100%	861,615
Banco General, S. A.	March 2007	Banco Continental de Panama, S. A. and subsidiaries (banking and fiduciary activities)	100%	27,494,722
Vale General, S.A.	July 2018	Pases Alimenticios, S. A. (administration and marketing of food vouchers)	100%	730,742
<b>Total</b>				<b><u>41,822,241</u></b>

On July 31, 2018, the subsidiary Finanzas Generales, S.A., through its subsidiary Vale General, S.A., acquired all shares of company Pases Alimenticios, S.A.

The fair value of the assets and liabilities acquired in this transaction are detailed as follows:

Cash and deposits in bank	372,785
Account receivable, net	132,810
Other assets	9,516
Other liabilities	<u>(495,853)</u>
Total net assets acquired	19,258
Consideration effectively transferred	<u>(750,000)</u>
Goodwill	<u>(730,742)</u>

The movement of goodwill and intangible assets is summarized as follows:

	<b><u>September 30, 2018</u></b>		
	<b><u>Goodwill</u></b>	<b><u>Intangible assets</u></b>	<b><u>Total</u></b>
<b>Cost:</b>			
Balance at the beginning and end of period	41,091,499	47,462,084	88,553,583
Addition by acquisition	<u>730,742</u>	<u>0</u>	<u>730,742</u>
Net balance at the end of period	41,822,241	47,462,084	89,284,325
<b>Accumulated amortization:</b>			
Balance at beginning of period	0	26,828,225	26,828,225
Expense of the period	<u>0</u>	<u>1,963,040</u>	<u>1,963,040</u>
Balance at the end of period	<u>0</u>	<u>28,791,265</u>	<u>28,791,265</u>
Net balance at the end of period	<u>41,822,241</u>	<u>18,670,819</u>	<u>60,493,060</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(8) Goodwill and Intangible Assets, net, continued**

		<b><u>December 31, 2017</u></b>		
		<b><u>Goodwill</u></b>	<b><u>Intangible assets</u></b>	<b><u>Total</u></b>
<b>Cost:</b>				
Balance at the beginning and end of year		41,091,499	47,462,084	88,553,583
<b>Accumulated amortization:</b>				
Balance at beginning of year		0	24,210,833	24,210,833
Expense of the year		0	<u>2,617,392</u>	<u>2,617,392</u>
Balance at the end of year		0	<u>26,828,225</u>	<u>26,828,225</u>
Net balance at the end of year		<u>41,091,499</u>	<u>20,633,859</u>	<u>61,725,358</u>

  

		<b><u>September 30, 2017</u></b>		
		<b><u>Goodwill</u></b>	<b><u>Intangible assets</u></b>	<b><u>Total</u></b>
<b>Cost:</b>				
Balance at the beginning and end of period		41,091,499	47,462,084	88,553,583
<b>Accumulated amortization:</b>				
Balance at beginning of period		0	24,210,833	24,210,833
Expense of the period		0	<u>1,963,044</u>	<u>1,963,044</u>
Balance at the end of period		0	<u>26,173,877</u>	<u>26,173,877</u>
Net balance at the end of period		<u>41,091,499</u>	<u>21,288,207</u>	<u>62,379,706</u>

It is the Bank's policy to conduct an impairment test on an annual basis or when there is evidence of impairment. As of September 30, 2018, no evaluation was necessary.

**(9) Other Financial Liabilities at Fair Value**

The Bank holds, within the other liabilities caption, financial liabilities of debt instruments at fair value arising from short sales, which are summarized as follows:

	<b><u>Level</u></b>	<b><u>September 30 2018</u></b>	<b><u>December 31 2017</u></b>	<b><u>September 30 2017</u></b>
"Mortgage Backed Securities" (MBS)	2	81,086,764	124,725,921	108,776,196
Bonds issued by the US Government	1	0	13,541,088	13,698,738
Foreign Fixed Income Funds	3	0	0	3,122
Total		<u>81,086,764</u>	<u>138,267,009</u>	<u>122,478,056</u>

See the description of the Levels in Note 17.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(10) Borrowings and Debt Securities Issued**

The Bank issued bonds payable and other borrowings, as follows:

	<b>September 30 2018</b>	<b>December 31 2017</b>	<b>September 30 2017</b>
Corporate bonds with maturities in 2018, at an annual interest rate of 1.625%, issued in CHF 180MM	0	184,710,108	185,892,802
Corporate bonds with maturities in 2018, at an annual interest rate of 2.50%	0	5,200,000	5,200,000
Corporate bonds with maturities in 2019, at an annual interest rate of 2.75%	25,000,000	25,000,000	25,000,000
Corporate bonds with maturities in 2021, at an interest rate of 3 month Libor plus a margin	75,000	75,000	75,000
Corporate bonds with maturities in 2026, at an interest rate of 3 month Libor plus a margin	2,680,000	2,680,000	2,680,000
Corporate bonds with maturities in 2027, at an annual interest rate of 4.125%	550,000,000	550,000,000	550,000,000
Borrowing with maturity in 2017, at interest rates of 3, 6 and 12 month Libor plus a margin	0	0	56,317,500
Borrowing with maturity in 2018, at interest rates of 3 and 6 month Libor plus a margin	111,500,000	290,828,863	697,328,863
Borrowing with maturity in 2019, at interest rates of 3 and 6 month Libor plus a margin	254,780,452	267,515,625	265,250,000
Borrowing with maturity in 2020, at interest rates of 6 month Libor plus a margin	1,391,475,729	904,444,444	104,444,444
Borrowing with maturity in 2021, at interest rates of 6 month Libor plus a margin	60,703,125	0	0
Borrowing with maturity in 2022, at interest rates of 3 and 6 month Libor plus a margin	90,384,615	101,923,077	101,923,077
Borrowing with maturity in 2023, at interest rates of 3 month Libor plus a margin	50,000,000	50,000,000	50,000,000
Borrowing under USAID (guarantor) program with maturity in 2025, at a fixed annual interest rate of 7.65%	3,603,252	3,988,091	3,988,091
Notes with maturities in 2024, at a fixed interest rate	200,000,000	200,000,000	200,000,000
Notes with maturities in 2027, at a fixed interest rate	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>
<b>Subtotal borrowings and debt securities issued</b>	<b>2,815,202,173</b>	<b>2,661,365,208</b>	<b>2,323,099,777</b>
Less: revaluation coverage	<u>16,237,857</u>	<u>0</u>	<u>0</u>
<b>Total borrowings and debt securities issued</b>	<b><u>2,798,964,316</u></b>	<b><u>2,661,365,208</u></b>	<b><u>2,323,099,777</u></b>

The Bank had no default events and is in compliance as to principal, interest or other contractual clauses relating to its borrowings and debt securities issued.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(10) Borrowing and Debt Securities Issued, continued**

The movement of the borrowings and debt securities issued is detailed below for the reconciliation with the condensed consolidated statement of cash flows:

	<b><u>September 30</u></b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
Balance at beginning of period	2,661,365,208	1,950,624,340
Product of borrowings and debt securities in issue	553,495,765	716,331,137
Redemption of debt securities in issue and cancellation of borrowings	(394,948,692)	(349,355,383)
Product of currency exchange fluctuations	(4,710,108)	5,499,683
Revaluation coverage	<u>(16,237,857)</u>	<u>0</u>
Balance at end of period	<u><u>2,798,964,316</u></u>	<u><u>2,323,099,777</u></u>

**(11) Liabilities from Insurance Operations**

Liabilities from insurance operations amounted to B/.18,107,079 (December 31, 2017: B/.16,999,292) and (September 30, 2017: B/.16,969,144) and are comprised of unearned premiums and estimated insurance claims incurred. The movement of the reserves for insurance operations is summarized as follows:

	<b><u>September 30</u></b>	<b><u>December 31</u></b>	<b><u>September 30</u></b>
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2017</u></b>
<b>Unearned Premiums</b>			
Balance at beginning of period	19,043,645	18,137,706	18,137,706
Issued premiums	28,338,474	36,703,164	28,491,424
Earned premiums	<u>(27,946,932)</u>	<u>(35,797,225)</u>	<u>(27,015,893)</u>
Balance at end of period	19,435,187	19,043,645	19,613,237
Reinsurers participation	<u>(3,968,063)</u>	<u>(4,379,851)</u>	<u>(4,819,674)</u>
Unearned premiums, net	<u><u>15,467,124</u></u>	<u><u>14,663,794</u></u>	<u><u>14,793,563</u></u>
<b>Insurance Claims Incurred, Estimated</b>			
Balance at beginning of period	2,530,640	1,868,969	1,868,969
Incurred claims	5,514,655	6,930,692	5,093,691
Paid claims	<u>(4,695,055)</u>	<u>(6,269,021)</u>	<u>(4,548,608)</u>
Balance at end of period	3,350,240	2,530,640	2,414,052
Reinsurer participation	<u>(710,285)</u>	<u>(195,142)</u>	<u>(238,471)</u>
Insurance claims incurred, net estimated	<u><u>2,639,955</u></u>	<u><u>2,335,498</u></u>	<u><u>2,175,581</u></u>
<b>Total liabilities from insurance operations</b>	<u><u>18,107,079</u></u>	<u><u>16,999,292</u></u>	<u><u>16,969,144</u></u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(12) Segment Information**

The Bank maintains three business segments for its financial analysis, which offer different products and services and are managed separately, consistent with the way in which management receives data, budgets and assesses their performance.

**Segments****Operations****Banking and Financial Activities**

Various financial services, mainly corporate, mortgage and consumer banking, financial leases, administration of trusts, administration and marketing of pretax food and health related contributions and securities brokerage

**Insurance and Reinsurance**

Insurance and reinsurance of policies of general lines, collective life and various risks

**Pension and Retirement Fund Management**

Administration of pension and retirement, severance and investment funds

The Bank's management prepared the following segment information based on the bank's businesses for its financial analysis:

	<b><u>September 30, 2018</u></b>				
	<b><u>Banking and financial activities</u></b>	<b><u>Insurance and reinsurance</u></b>	<b><u>Pension and retirement fund management</u></b>	<b><u>Eliminations</u></b>	<b><u>Total</u></b>
Interest and commission income	738,197,506	4,261,835	712,947	2,331,914	740,840,374
Interest and provision expenses	292,998,397	(2,395)	0	2,331,914	290,664,088
Other income, net	95,150,319	17,849,117	9,433,379	8,184	122,424,631
General and administrative expenses	195,167,031	2,079,606	3,927,919	8,184	201,166,372
Depreciation and amortization expense	17,702,167	171,006	192,250	0	18,065,423
Equity participation in associates	<u>7,263,068</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,263,068</u>
Net income before income tax	334,743,298	19,862,735	6,026,157	0	360,632,190
Net Income tax	<u>38,772,983</u>	<u>3,181,631</u>	<u>1,353,475</u>	<u>0</u>	<u>43,308,089</u>
Net income	<u>295,970,315</u>	<u>16,681,104</u>	<u>4,672,682</u>	<u>0</u>	<u>317,324,101</u>
Total assets	<u>17,910,282,496</u>	<u>251,213,425</u>	<u>33,384,759</u>	<u>152,450,699</u>	<u>18,042,429,981</u>
Total liabilities	<u>15,926,649,826</u>	<u>57,530,158</u>	<u>2,560,847</u>	<u>133,044,637</u>	<u>15,853,696,194</u>

	<b><u>September 30, 2017</u></b>				
	<b><u>Banking and financial activities</u></b>	<b><u>Insurance and reinsurance</u></b>	<b><u>Pension and retirement fund management</u></b>	<b><u>Eliminations</u></b>	<b><u>Total</u></b>
Interest and commission income	655,265,449	3,737,777	561,955	1,613,253	657,951,928
Interest and provision expenses	248,897,196	0	0	1,613,253	247,283,943
Other income, net	138,265,831	16,524,450	8,783,666	7,694	163,566,253
General and administrative expenses	187,692,956	2,064,664	3,704,838	7,694	193,454,764
Depreciation and amortization expense	15,675,002	171,297	162,309	0	16,008,608
Equity participation in associates	<u>6,278,678</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,278,678</u>
Net income before income tax	347,544,804	18,026,266	5,478,474	0	371,049,544
Net Income tax	<u>37,520,596</u>	<u>2,856,852</u>	<u>1,296,755</u>	<u>0</u>	<u>41,674,203</u>
Net income	<u>310,024,208</u>	<u>15,169,414</u>	<u>4,181,719</u>	<u>0</u>	<u>329,375,341</u>
Total assets	<u>17,110,989,703</u>	<u>227,228,972</u>	<u>27,531,536</u>	<u>113,940,784</u>	<u>17,251,809,427</u>
Total liabilities	<u>15,234,545,428</u>	<u>55,334,325</u>	<u>2,534,256</u>	<u>94,534,722</u>	<u>15,197,879,287</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(12) Segment Information, continued**

The composition of the secondary segment based on geographical distribution is as follows:

	<b>September 30, 2018</b>			<b>Total</b>
	<b>Panama</b>	<b>Latin America and the Caribbean</b>	<b>United States of America and Others</b>	
Total income, net	<u>724,538,341</u>	<u>85,335,652</u>	<u>60,654,080</u>	<u>870,528,073</u>
Non financial assets	<u>286,235,933</u>	<u>5,083,566</u>	<u>0</u>	<u>291,319,499</u>

  

	<b>September 30, 2017</b>			<b>Total</b>
	<b>Panama</b>	<b>Latin America and the Caribbean</b>	<b>United States of America and Others</b>	
Total income, net	<u>705,929,656</u>	<u>66,764,216</u>	<u>55,102,987</u>	<u>827,796,859</u>
Non financial assets	<u>275,712,200</u>	<u>5,910,721</u>	<u>0</u>	<u>281,622,921</u>

**(13) Equity**

The authorized share capital of Banco General, S. A. is represented by 10,000,000 common shares without par value (December 31, 2017: 10,000,000 common shares); of which there are 9,787,108 shares issued and outstanding (December 31, 2017: 9,787,108 common shares).

The legal reserves are established pursuant to regulations of the Superintendence of Banks of Panama, the Superintendence of Insurance and Reinsurance of Panama and the General Superintendence of Financial Entities of Costa Rica.

The detail of the legal reserve and its transfer from retained earnings is summarized as follows:

follows:

	September 30, 2018				
	Reserves				
	Dynamic	Foreclosed Assets	Legal	Insurance	Total
Banco General, S. A.	133,877,476	568,482	0	0	134,445,958
Finanzas Generales, S. A.	2,810,061	0	0	0	2,810,061
General de Seguros, S. A.	0	0	0	28,679,160	28,679,160
Banco General (Overseas), Inc.	9,480,047	0	0	0	9,480,047
Banco General (Costa Rica), S. A.	<u>4,580,865</u>	<u>0</u>	<u>1,041,398</u>	<u>0</u>	<u>5,622,263</u>
<b>Total</b>	<u>150,748,449</u>	<u>568,482</u>	<u>1,041,398</u>	<u>28,679,160</u>	<u>181,037,489</u>

  

	December 31, 2017				
	Reserves				
	Dynamic	Foreclosed Assets	Legal	Insurance	Total
Banco General, S. A.	133,877,476	381,637	0	0	134,259,113
Finanzas Generales, S. A.	2,810,061	0	0	0	2,810,061
General de Seguros, S. A.	0	0	0	27,328,263	27,328,263
Banco General (Overseas), Inc.	9,480,047	0	0	0	9,480,047
Banco General (Costa Rica), S. A.	<u>4,580,865</u>	<u>0</u>	<u>1,002,898</u>	<u>0</u>	<u>5,583,763</u>
<b>Total</b>	<u>150,748,449</u>	<u>381,637</u>	<u>1,002,898</u>	<u>27,328,263</u>	<u>179,461,247</u>

  

<b>Transfer from retained earnings of period</b>	<u><b>0</b></u>	<u><b>186,845</b></u>	<u><b>38,500</b></u>	<u><b>1,350,897</b></u>	<u><b>1,576,242</b></u>
--	-----------------	-----------------------	----------------------	-------------------------	-------------------------

## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

#### **(13) Equity, continued**

The Bank, through its subsidiary General de Seguros, S. A., maintains legal reserves and reserves for statistical deviations and catastrophic risks as established by the Superintendence of Insurance and Reinsurance of Panama. The use and restitution of these reserves shall be regulated by the Superintendence of Insurance and Reinsurance of the Republic of Panama.

The complementary tax corresponds to the advance of the dividend tax that is applied to net income of the previous year and that the taxpayer must retain and pay to the tax authorities within the stipulated periods. The tax is attributable to the shareholder and is applied as a tax credit at the time dividends are distributed.

#### **(14) Personnel Benefits**

Contributions made by the Bank corresponding to personnel benefits are recognized as salaries and other employee expenses in the condensed consolidated statement of income.

##### **Share-Based Compensation Plan**

The total expense relating to options granted to the participants for the purchase of shares of the controlling company, Grupo Financiero BG, S. A., based on their fair value, amounted to B/.6,721 (2017: B/.10,119). This plan will be in effect up to the year 2021.

The total expense relating to options granted to the participants for the purchase of shares of Grupo Financiero BG, S. A., based on their fair value, amounted to B/.1,001,362 (2017: B/.1,089,889). This plan will be in effect up to the year 2022.

##### **Restricted Share Plan**

The Bank did not grant restricted shares in the period ended September 30, 2018 and 2017.

##### **Retirement Plan**

The Bank maintains a closed retirement plan, which was amended and approved by the Board of Directors in 1998; this plan is under independent administration by a fiduciary agent.

The contributions to the retirement plan were B/.100,926 (2017: B/.100,926) and the disbursements to former employees who are covered under the retirement plan amounted to B/.133,517 (2017: B/.133,517).

#### **(15) Income Tax**

Income tax returns of companies incorporated in the Republic of Panama, are subject to examination by local tax authorities for the last three years.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on the following: profits derived from foreign operations, interest earned on deposits with local banks, securities issued by the Government of Panama, securities listed with the Superintendence of the Securities Markets and the Panama stock exchange and, lastly, securities and loans to the Panamanian government and its autonomous and semi-autonomous institutions.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(15) Income Tax, continued**

Companies incorporated in the following jurisdictions are subject to income tax rates imposed by the respective local tax authorities:

<u>Country</u>	<u>Tax rate</u>
Panama	25%
Costa Rica	30%

The companies incorporated in the Cayman Islands and the British Virgin Islands are not subject to the payment of income tax, due to the nature of their foreign operations.

The estimated income tax for the period is calculated based on the effective rate of the previous fiscal year. Based on Management's assessment, historically, this rate has not differed significantly from the current period's effective rate.

Income tax, net is detailed as follows:

	<u>3rd Quarter</u> <u>September 30</u>		<u>Accumulated</u> <u>September 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Estimated income tax	16,098,907	15,190,036	45,475,915	43,968,892
Prior year income tax adjustments	105,043	107,419	245,503	250,643
Deferred income tax	<u>(369,176)</u>	<u>(679,185)</u>	<u>(2,413,329)</u>	<u>(2,545,332)</u>
	<u>15,834,774</u>	<u>14,618,270</u>	<u>43,308,089</u>	<u>41,674,203</u>

**(16) Derivative Financial Instruments**

Summary of derivative contracts is as follow:

	<u>Over the Counter (OTC)</u>							
	<u>Total</u>		<u>Exchange-Traded</u>		<u>Liquidated in a securities exchange</u>		<u>Other bilateral counterparts</u>	
	<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>
<b><u>September 2018</u></b>								
Derivative assets	698,168,000	8,253,539	191,014,397	0	233,143,720	6,170,553	274,009,883	2,082,986
Derivative liabilities	1,096,621,696	21,653,447	66,300,000	0	425,630,876	17,935,903	604,690,820	3,717,544
<b><u>December 2017</u></b>								
Derivative assets	769,712,558	2,713,916	438,500,000	0	112,592,374	2,045,700	218,620,184	668,216
Derivative liabilities	1,560,856,702	32,682,895	360,400,000	0	443,932,810	3,216,998	756,523,892	29,465,897

The Bank held cash and cash equivalents as collateral in institutions that maintain risk ratings between AA- and BBB +, which support derivative operations in the amount of B/.27.6MM (December 31, 2017: B/.38.1 MM).



**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(16) Derivative Financial Instruments, continued**

The following table presents derivatives by type of derivative instrument:

Other Derivatives classified by Risk:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Others derivatives:				
Credit	1,714,646	2,095,762	1,896,547	1,188,420
Interest rate	3,189,445	1,291,417	632,110	3,567,728
Foreign exchange	987,095	1,819,379	174,633	27,926,747
Others	0	9,133	10,626	0
Total	<u>5,891,186</u>	<u>5,215,691</u>	<u>2,713,916</u>	<u>32,682,895</u>

Hedge Derivatives at Fair Value:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Hedge derivatives for risk management:				
Interest rate	<u>2,362,353</u>	<u>16,437,756</u>	<u>0</u>	<u>0</u>
Total	<u>2,362,353</u>	<u>16,437,756</u>	<u>0</u>	<u>0</u>

As of September 30, 2018 the Bank held the following interest rate derivatives as fair value hedges for risk management.

<u>Risk Category</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>Maturity</u> <u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
<b>Interest rate risk</b>					
<b>Hedging of Bonds</b>					
Notional Value	0	0	0	7,250,000	55,000,000
Average interest rate				7.60%	2.43%
<b>Hedging of Bonds and Notes</b>					
Notional Value	0	0	0	0	350,000,000
Average interest rate					3.82%

As of September 30, 2018, the effects of hedge accounting on the financial situation are detailed as follows:

	<u>Notional Value</u>	<u>Book Value</u>		<u>Item in the condensed Consolidated statement of financial position that include hedge instruments</u>	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>			
<b>Interest rate risk:</b>						
Derivatives of interest rate –						
Bonds Hedge	62,250,000	2,012,131	0	Other assets	0	0
Derivatives of interest rate –						
Bonds and notes Hedge	<u>350,000,000</u>	<u>0</u>	<u>16,437,756</u>	Other liabilities	0	0
<b>Total interest rate risk</b>	<u>412,250,000</u>	<u>2,012,131</u>	<u>16,437,756</u>			

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(16) Derivative Financial Instruments, continued**

The amounts relating to items designated as hedged items were as follows:

	<u>Book Value</u>		<u>Accumulated amount of fair value hedge item included in the carrying amount of the hedge item</u>		<u>Item in the statement of financial position in which the hedge item is included</u>	<u>Change in the value used for calculating hedge ineffectiveness</u>	<u>Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedge items that have ceased to be adjusted for hedging gains and losses</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>			
Bonds	66,918,918		0	2,114,723	Investment securities FVOCI	0	0
Bonds and notes		<u>350,000,000</u>	<u>16,237,857</u>	<u>0</u>	Borrowing and debt securities issued	<u>0</u>	<u>0</u>

The three levels of fair value that were categorized for derivatives are as follows:

	<u>Level 1</u>	<u>September 30, 2018</u> <u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>Assets</u></b>				
Other derivatives:				
Credit	0	1,714,646	0	1,714,646
Interest rate	3,125	3,186,320	0	3,189,445
Foreign exchange	<u>0</u>	<u>987,095</u>	<u>0</u>	<u>987,095</u>
Total	<u>3,125</u>	<u>5,888,061</u>	<u>0</u>	<u>5,891,186</u>
Hedge Derivatives for risk management:				
Interest rate	<u>0</u>	<u>2,362,353</u>	<u>0</u>	<u>2,362,353</u>
Total	<u>0</u>	<u>2,362,353</u>	<u>0</u>	<u>2,362,353</u>
<b>Total Derivatives Assets</b>	<b><u>3,125</u></b>	<b><u>8,250,414</u></b>	<b><u>0</u></b>	<b><u>8,253,539</u></b>
<b><u>Liabilities</u></b>				
Other derivatives:				
Credit	0	2,095,762	0	2,095,762
Interest rate	0	1,291,417	0	1,291,417
Foreign exchange	0	1,819,379	0	1,819,379
Other	<u>0</u>	<u>9,133</u>	<u>0</u>	<u>9,133</u>
Total	<u>0</u>	<u>5,215,691</u>	<u>0</u>	<u>5,215,691</u>
Hedge Derivates for risk management:				
Interest rate	<u>0</u>	<u>16,437,756</u>	<u>0</u>	<u>16,437,756</u>
Total	<u>0</u>	<u>16,437,756</u>	<u>0</u>	<u>16,437,756</u>
<b>Total Derivates Liabilities</b>	<b><u>0</u></b>	<b><u>21,653,447</u></b>	<b><u>0</u></b>	<b><u>21,653,447</u></b>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(16) Derivative Financial Instruments, continued**

		<b>December 31, 2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><u>Assets</u></b>				
<b>Trading Derivatives:</b>				
Credit	0	1,896,547	0	1,896,547
Interest rate	0	632,110	0	632,110
Foreign exchange	0	174,633	0	174,633
Other	0	10,626	0	10,626
Total	0	2,713,916	0	2,713,916
<b>Total Derivatives Assets</b>	<b>0</b>	<b>2,713,916</b>	<b>0</b>	<b>2,713,916</b>
<b><u>Liabilities</u></b>				
<b>Trading Derivatives:</b>				
Credit	0	1,188,420	0	1,188,420
Interest rate	0	3,567,728	0	3,567,728
Foreign exchange	0	27,926,747	0	27,926,747
Total	0	32,682,895	0	32,682,895
<b>Total Derivates Liabilities</b>	<b>0</b>	<b>32,682,895</b>	<b>0</b>	<b>32,682,895</b>

**(17) Fair Value of Financial Instruments**

The Bank has in place a documented procedure to determine fair value and the responsibilities of the areas involved in this process. This process has been approved by the Assets and Liabilities Committee, the Risk Committee of the Board of Directors, and the Bank's Board of Directors.

The Bank uses price vendors for most of the prices of assets and liabilities at fair value which are processed by the department of Operations and validated by the area of Management and Control of the Treasury and Risk department.

The Bank uses internal valuation methodologies for certain assets and liabilities at fair value classified in Level 3 of the fair value hierarchy. The calculation of fair values using internal methodologies is performed by the area of Management and Control of the Treasury department and validated by the Risk department.

The Bank measures fair value using the fair value hierarchy, which categorizes the variables used in valuation techniques to measure fair value into three levels. The hierarchy is based on the transparency of the inputs used in measuring the fair value of financial assets and financial liabilities at their valuation date. The three levels are defined as follows:

**Level 1:** Inputs that are quoted market prices (unadjusted) in active markets accessible to the Bank, for identical instruments.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(17) Fair Value of Financial Instruments, continued**

**Level 3:** Unobservable inputs for assets or liabilities. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The classification of the valuation of fair value is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The relevance of a variable should be evaluated with respect to the entire fair value measurement.

**Fair Value Measurement of Securities and Other Financial Assets at Fair Value through Profit or Loss**

	<b>September 30</b>			
	<b><u>2018</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Local Corporate Bonds and Fixed Income Funds	54,352,747	0	0	54,352,747
Bonds issued by the Republic of Panama	2,351,979	0	2,351,979	0
Local Corporate Shares	51,371,656	4,205	0	51,367,451
Foreign Treasury Bills	249,752	249,752	0	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	244,980,912	0	244,980,912	0
Asset Backed Securities (ABS)	8,196,943	0	8,196,943	0
Foreign Fixed Income Funds	341,894,825	0	244,313,584	97,581,241
Foreign Corporate Shares and Variable Income Mutual Funds	85,082	0	14,897	70,185
<b>Total</b>	<b><u>703,483,896</u></b>	<b><u>253,957</u></b>	<b><u>499,858,315</u></b>	<b><u>203,371,624</u></b>
	<b>December 31</b>			
	<b><u>2017</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Local Corporate Bonds and Fixed Income Funds	65,977,634	0	0	65,977,634
Bonds issued by the Republic of Panama	2,778,813	0	2,778,813	0
Local Corporate Shares	37,792,019	0	0	37,792,019
Bonds issued by the US Government	8,225,780	8,225,780	0	0
Foreign Commercial Paper, Treasury Bills and Mutual Funds	68,076,805	246,283	67,830,522	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	710,114,094	0	709,298,574	815,520
Asset Backed Securities (ABS)	28,089,707	0	28,089,707	0
Foreign Corporate Bonds and Fixed Income Funds	239,178,089	0	150,027,467	89,150,622
Foreign Variable Income Mutual Funds	11,344	0	486	10,858
<b>Total</b>	<b><u>1,160,244,285</u></b>	<b><u>8,472,063</u></b>	<b><u>958,025,569</u></b>	<b><u>193,746,653</u></b>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(17) Fair Value of Financial Instruments, continued****Fair Value Measurement of Securities and Other Financial Assets at Fair Value through Profit or Loss**

	<b>September 30</b>			
	<b><u>2017</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Local Treasury Bills	25,000	0	0	25,000
Local Corporate Bonds and Fixed Income Funds	64,438,458	0	0	64,438,458
Bonds issued by the Republic of Panama	2,297,404	0	2,297,404	0
Local Corporate Shares	36,959,408	0	0	36,959,408
Bonds issued by US Government and Agencies	8,318,872	8,318,872	0	0
Foreign Commercial Paper, Treasury Bills and Mutual Funds	142,394,903	51,745,390	90,649,513	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	703,222,132	0	702,355,966	866,166
Asset Backed Securities (ABS)	29,113,482	0	29,113,482	0
Foreign Fixed Income Funds	57,367,760	0	0	57,367,760
Foreign Variable Income Mutual Funds	11,666	0	808	10,858
<b>Total</b>	<b><u>1,044,149,085</u></b>	<b><u>60,064,262</u></b>	<b><u>824,417,173</u></b>	<b><u>159,667,650</u></b>

**Fair Value Measurement of Securities and Other Financial Assets Fair Value OCI**

	<b>September 30</b>			
	<b><u>2018</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Local Commercial Paper and Treasury Bills	9,213,288	0	0	9,213,288
Local Corporate Bonds	1,016,146,493	0	126,028,614	890,117,879
Bonds issued by the Republic of Panama	192,646,393	0	192,646,393	0
Bonds issued by US Government	32,076,341	32,076,341	0	0
Foreign Bank Acceptances, Commercial Paper and Treasury Bills	342,232,566	28,089,128	314,143,438	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	1,341,258,111	0	1,340,489,012	769,099
Asset Backed Securities (ABS)	89,844,044	0	89,844,044	0
Foreign Corporate Bonds	813,841,731	0	813,841,731	0
Bonds issued by Other Governments	75,122,834	13,603,782	61,519,052	0
<b>Total</b>	<b><u>3,912,381,801</u></b>	<b><u>73,769,251</u></b>	<b><u>2,938,512,284</u></b>	<b><u>900,100,266</u></b>

**Fair Value Measurement of Securities and Other Financial Assets Available for Sale**

	<b>December 31</b>			
	<b><u>2017</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Local Commercial Paper and Treasury Bills	7,355,857	0	0	7,355,857
Local Corporate Bonds and Fixed Income Funds	1,005,898,732	0	132,997,971	872,900,761
Other local securities	49,512,563	0	0	49,512,563
Bonds issued by the Republic of Panama	136,569,675	0	136,569,675	0
Local Corporate Shares	3,784,212	5,461	0	3,778,751
Bonds issued by US Government and Agencies	30,787,360	30,787,360	0	0
Foreign Commercial Paper and Treasury Bills	196,445,930	29,878,452	166,567,478	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	891,556,118	0	891,556,118	0
Asset Backed Securities (ABS)	78,948,933	0	78,948,933	0
Foreign Corporate Bonds and Fixed Income Funds	743,362,727	0	743,352,210	10,517
Bonds issued by Other Governments	58,130,917	0	44,315,941	13,814,976
Foreign Variable Income Mutual Funds	21,407	0	21,407	0
<b>Total</b>	<b><u>3,202,374,431</u></b>	<b><u>60,671,273</u></b>	<b><u>2,194,329,733</u></b>	<b><u>947,373,425</u></b>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(17) Fair Value of Financial Instruments, continued****Fair Value Measurement of Securities and Other Financial Assets Available for Sale**

	<b>September 30</b>			
	<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Local Commercial Paper and Treasury Bills	7,378,358	0	0	7,378,358
Local Corporate Bonds and Fixed Income Funds	940,982,158	0	134,407,526	806,574,632
Other local securities	49,227,010	0	0	49,227,010
Bonds issued by the Republic of Panama	137,550,096	0	137,550,096	0
Local Corporate Shares	3,754,212	5,917	0	3,748,295
Bonds issued by US Government and Agencies	26,457,972	26,457,972	0	0
Foreign Securities Purchased under Resale Agreements	28,600,000	0	28,600,000	0
Foreign Commercial Paper and Treasury Bills	227,416,239	13,360,693	214,055,546	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	886,322,246	0	886,322,246	0
Asset Backed Securities (ABS)	77,738,516	0	77,738,516	0
Foreign Corporate Bonds and Fixed Income Funds	746,732,895	0	746,722,696	10,199
Bonds issued by Other Governments	51,043,942	0	37,188,779	13,855,163
Foreign Variable Income Mutual Funds	26,173	0	26,173	0
<b>Total</b>	<b>3,183,229,817</b>	<b>39,824,582</b>	<b>2,262,611,578</b>	<b>880,793,657</b>

**Changes in the Fair Value Measurement of the Level 3 hierarchy**

	<b>Investment Securities and Other Financial Assets</b>		
	<b>Fair Value through Profit or Loss</b>	<b>Fair Value OCI</b>	<b>Total</b>
<b>December 31, 2017</b>	<b>193,746,653</b>	<b>947,373,425</b>	<b>1,141,120,078</b>
Changes due to adoption of IFRS 9	518,820	16,303,767	16,822,587
<b>January 1, 2018</b>	<b>194,265,473</b>	<b>963,677,192</b>	<b>1,157,942,665</b>
Gain recognized in income	176,303	34,092	210,395
Loss recognized in equity	0	(594,717)	(594,717)
Transfer from level 3	0	(13,629,063)	(13,629,063)
Purchases	54,128,712	163,475,208	217,603,920
Amortization, sales and redemptions	(45,198,864)	(212,862,446)	(258,061,310)
<b>September 30, 2018</b>	<b>203,371,624</b>	<b>900,100,266</b>	<b>1,103,471,890</b>

<b>Total gains (losses) related to instruments held at September 30, 2018</b>	<b>642,841</b>	<b>(273,463)</b>	<b>369,378</b>
---	----------------	------------------	----------------

	<b>Fair Value through Profit or Loss</b>	<b>Available for Sale</b>	<b>Total</b>
<b>December 31, 2016</b>	<b>203,837,018</b>	<b>906,324,607</b>	<b>1,110,161,625</b>
Gain recognized in income	8,006,852	304,214	8,311,066
Loss recognized in equity	0	(721,310)	(721,310)
Purchases	100,601,967	333,978,366	434,580,333
Amortization, sales and redemptions	(118,699,184)	(292,512,452)	(411,211,636)
<b>December 31, 2017</b>	<b>193,746,653</b>	<b>947,373,425</b>	<b>1,141,120,078</b>

<b>Total gains related to instruments held at December 31, 2017</b>	<b>7,705,032</b>	<b>823,956</b>	<b>8,528,988</b>
---	------------------	----------------	------------------

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (17) Fair Value of Financial Instruments, continued

<u>Changes in the Fair Value Measurement of the Level 3 hierarchy</u>			
<u>Investment Securities and Other</u>			
<u>Financial Assets</u>			
	<u>Fair Value through</u>	<u>Available for</u>	<u>Total</u>
	<u>Profit or Loss</u>	<u>Sale</u>	
<b>December 31, 2016</b>	<b>203,837,018</b>	<b>906,324,607</b>	<b>1,110,161,625</b>
Gain recognized in income/equity	7,467,251	300,800	7,768,051
Gain recognized in equity	0	2,428,597	2,428,597
Purchases	51,320,249	163,023,783	214,344,032
Amortization, sales and redemptions	(102,956,868)	(191,284,130)	(294,240,998)
<b>September 30, 2017</b>	<b><u>159,667,650</u></b>	<b><u>880,793,657</u></b>	<b><u>1,040,461,307</u></b>
<b>Total gains related to instruments held at</b>			
<b>September 30, 2017</b>	<b><u>7,219,748</u></b>	<b><u>3,161,727</u></b>	<b><u>10,381,475</u></b>

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period in which the change has occurred.

During 2018, because of changes in the source of fair value prices of bonds for other Governments insignificant transfers were made from the level 3 to the category level 1 in FVOCI.

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

Type of financial instruments	Valuation technique	Significant unobservable input	Range of estimates for unobservable input						Fair value measurement sensitivity to unobservable inputs
			September 30 2018		December 31 2017		September 30 2017		
Corporate Shares	Dividend discount model and	Equity risk premium	Min	5.51%	Min	5.51%	Min	6.10%	If equity risk premiums increase the price decreases and vice versa
			Max	9.86%	Max	9.86%	Max	8.35%	
	Dividend model free cash flow model (DCF)	Growth rate of assets, liabilities, equity, profits and dividends	Min	(20.50%)	Min	(20.50%)	Min	(6.70%)	If the growth rate increases the price increases and vice versa
			Max	29.32%	Max	29.32%	Max	25.95%	
Fixed Income	Discounted cash flows model	Credit spreads	Min	0.46%	Min	0.37%	Min	0.48%	If the credit spreads increase the price decreases and vice versa
			Max	4.40%	Max	5.87%	Max	5.76%	
			Ave	2.08%	Ave	2.73%	Ave	2.66%	

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(17) Fair Value of Financial Instruments, continued**

The main valuation techniques, assumptions and inputs used to measure the fair value of financial instruments are as follows:

<u>Instrument</u>	<u>Valuation technique</u>	<u>Inputs</u>	<u>Level</u>
<b>Local Fixed Income</b>	Quoted prices in active markets	Observable quoted prices	2-3
	Discounted cash flows model	Benchmark interest rate Liquidity risk premiums Credit spreads	
<b>Local Corporate Shares</b>	Quoted prices in active markets	Quoted prices in active markets	1-3
	Dividend discount model Discount free cash flows model, which are compared with the stock prices	Benchmark interest rate Equity risk premium Growth rate of assets, liabilities, equity, profits and dividends	
<b>Foreign Fixed Income</b>	Quoted prices in active markets	Quoted prices in active markets	1-2
	Quoted prices in active markets for similar instruments	Observable quoted prices	
	Bid and ask prices from market participants	Prices from a broker	
	Discounted cash flows model	Credit spreads Benchmark interest rate Liquidity risk premiums	
<b>Agency MBS / CMOs</b>	Discounted cash flows model	Features of collateral TBA's price Treasury yield Yield curves Prepayment speed Market analysis	2 - 3
<b>Private MBS / CMOs and ABS</b>	Discounted cash flows model	Features of collateral Treasury yield Yield curves Expected cash flow and losses Market assumptions related to discount rates, prepayments, losses and recoveries	2
<b>Foreign Corporate Shares</b>	Quoted prices in active markets	Quoted prices in active markets	3
<b>Investment vehicles</b>	Net asset value	Net asset value	2-3



**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(17) Fair Value of Financial Instruments, continued**

The Bank considers that its methodologies for valuation of investment securities classified as Level 3 are appropriate; however, the use of different estimates of the unobservable variable could lead to different measurements of fair value. For investment securities classified in Level 3, adjustments in the credit spread (in the case of fixed income) and to the equity risk premium (in the case of the corporate shares) of +50bp and -50bp would result in favorable and unfavorable impacts in the Bank's condensed consolidated statement of income and in the consolidated equity, as describe below:

	<b>September 30, 2018</b>			
	<b>Fair Value</b>		<b>FV OCI</b>	
	<b>Effect on profit or loss</b>		<b>Effect in equity</b>	
	<b>Favorable</b>	<b>(Unfavorable)</b>	<b>Favorable</b>	<b>(Unfavorable)</b>
Fixed Income	2	(2)	8,373,981	(9,738,359)
Corporate Shares	<u>4,550,121</u>	<u>(3,799,189)</u>	<u>0</u>	<u>0</u>
Total	<u>4,550,123</u>	<u>(3,799,191)</u>	<u>8,373,981</u>	<u>(9,738,359)</u>

	<b>December 31, 2017</b>			
	<b>Fair Value</b>		<b>Available for sale</b>	
	<b>Effect on profit or loss</b>		<b>Effect in equity</b>	
	<b>Favorable</b>	<b>(Unfavorable)</b>	<b>Favorable</b>	<b>(Unfavorable)</b>
Fixed Income	153,440	(150,633)	8,459,331	(10,166,208)
Corporate Shares	<u>3,310,175</u>	<u>(2,662,145)</u>	<u>68,001</u>	<u>(65,906)</u>
Total	<u>3,463,615</u>	<u>(2,812,778)</u>	<u>8,527,332</u>	<u>(10,232,114)</u>

	<b>September 30, 2017</b>			
	<b>Fair Value</b>		<b>Available for sale</b>	
	<b>Effect on profit or loss</b>		<b>Effect in equity</b>	
	<b>Favorable</b>	<b>(Unfavorable)</b>	<b>Favorable</b>	<b>(Unfavorable)</b>
Fixed Income	167,101	(163,873)	7,959,683	(9,312,846)
Corporate Shares	<u>2,553,297</u>	<u>(2,124,662)</u>	<u>67,057</u>	<u>(64,521)</u>
Total	<u>2,720,398</u>	<u>(2,288,535)</u>	<u>8,026,740</u>	<u>(9,377,367)</u>

The following assumptions, where practical, have been made by Management to estimate the fair value of financial assets and liabilities not measured at fair value:

**(a) Securities and other financial assets**

For securities and other financial assets, the fair value measurement is determined using quoted prices in active markets, prices from third party pricing vendors, brokers, custodians, investment management companies and banks. In addition, in some cases the fair value measurement is determined using valuation techniques mainly by discounting cash flows at the appropriate discount rate for that instrument.

**(b) Demand deposits from customers/savings deposits from customers/securities sold under agreements to repurchase**

For these financial instruments, the carrying value approximates their fair value due to their short-term nature.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(17) Fair Value of Financial Instruments, continued***(c) Loans*

The fair value of the loan portfolio was determined by discounting the future cash flows at an interest rate that represents: (i) current market rates, and (ii) the future expected interest rates, for a term that takes into account the expected anticipated prepayments in the loan portfolio.

*(d) Time deposits from customers and banks/borrowings and debt securities issued/perpetual bonds*

The fair value of these financial instruments was determined by discounting the future cash flows at an interest rate that reflects: (i) current market rates, and (ii) the future expected interest rates, for a term that shows the remaining life of these instruments.

Fair value estimates are made at a specific date based on relevant market estimates and information about the financial instruments. These estimates do not reflect any premium or discount that could result from the offer to sell a specific financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and significant judgment; therefore, these estimates cannot be determined with precision. Changes in the assumptions or criteria could significantly affect the estimates.

The following table summarizes the carrying value and fair value of those financial assets and liabilities not measured at fair value in the Bank's condensed consolidated statement of financial position:

	<b>September 30, 2018</b>		<b>December 31, 2017</b>		<b>September 30, 2017</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
<b>Assets:</b>						
Time deposits	207,727,286	207,310,104	306,685,642	306,934,362	337,661,922	338,202,736
Securities to amortized cost (2017: held to maturity), net	56,196,628	56,200,000	49,982,822	61,425,701	52,099,414	63,677,560
Loans, net	<u>11,652,025,010</u>	<u>11,612,068,887</u>	<u>11,322,973,693</u>	<u>11,295,615,060</u>	<u>11,226,609,377</u>	<u>11,206,829,102</u>
	<u>11,915,948,924</u>	<u>11,875,578,991</u>	<u>11,679,642,157</u>	<u>11,663,975,123</u>	<u>11,616,370,713</u>	<u>11,608,709,398</u>
<b>Liabilities:</b>						
Deposits	11,620,255,049	11,610,453,901	11,458,427,086	11,474,663,716	11,331,154,070	11,346,488,570
Securities sold under repurchase agreements, borrowings and debt securities in issue	<u>3,016,644,316</u>	<u>2,965,587,424</u>	<u>2,924,859,808</u>	<u>2,871,051,545</u>	<u>2,688,263,997</u>	<u>2,650,543,022</u>
	<u>14,636,899,365</u>	<u>14,576,041,325</u>	<u>14,383,286,894</u>	<u>14,345,715,261</u>	<u>14,019,418,067</u>	<u>13,997,031,592</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(17) Fair Value of Financial Instruments, continued**

The table below summarizes the fair value hierarchy of financial instruments which are not measured at fair value in the Bank's condensed consolidated statement of financial position:

	<b>September 30 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b><u>Assets:</u></b>				
Time deposits	207,310,104	0	0	207,310,104
Securities at amortized cost	56,200,000	0	56,200,000	0
Loans, net	<u>11,612,068,887</u>	<u>0</u>	<u>0</u>	<u>11,612,068,887</u>
	<u>11,875,578,991</u>	<u>0</u>	<u>56,200,000</u>	<u>11,819,378,991</u>
<b><u>Liabilities:</u></b>				
Deposits	11,610,453,901	0	0	11,610,453,901
Securities sold under repurchase agreements, borrowings and debt securities in issue	<u>2,965,587,424</u>	<u>0</u>	<u>0</u>	<u>2,965,587,424</u>
	<u>14,576,041,325</u>	<u>0</u>	<u>0</u>	<u>14,576,041,325</u>
	<b>December 31 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b><u>Assets:</u></b>				
Time deposits	306,934,362	0	0	306,934,362
Securities held to maturity, net	61,425,701	0	52,545,138	8,880,563
Loans, net	<u>11,295,615,060</u>	<u>0</u>	<u>0</u>	<u>11,295,615,060</u>
	<u>11,663,975,123</u>	<u>0</u>	<u>52,545,138</u>	<u>11,611,429,985</u>
<b><u>Liabilities:</u></b>				
Deposits	11,474,663,716	0	0	11,474,663,716
Securities sold under repurchase agreements, borrowings and debt securities in issue	<u>2,871,051,545</u>	<u>0</u>	<u>0</u>	<u>2,871,051,545</u>
	<u>14,345,715,261</u>	<u>0</u>	<u>0</u>	<u>14,345,715,261</u>
	<b>September 30 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b><u>Assets:</u></b>				
Time deposits	338,202,736	0	0	338,202,736
Securities held to maturity, net	63,677,560	0	54,195,346	9,482,214
Loans, net	<u>11,206,829,102</u>	<u>0</u>	<u>0</u>	<u>11,206,829,102</u>
	<u>11,608,709,398</u>	<u>0</u>	<u>54,195,346</u>	<u>11,554,514,052</u>
<b><u>Liabilities:</u></b>				
Deposits	11,346,488,570	0	0	11,346,488,570
Securities sold under repurchase agreements, borrowings and debt securities in issue	<u>2,650,543,022</u>	<u>0</u>	<u>0</u>	<u>2,650,543,022</u>
	<u>13,997,031,592</u>	<u>0</u>	<u>0</u>	<u>13,997,031,592</u>

## **BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Information**

---

#### **(18) Financial Instruments Risk Management**

A financial instrument is any contract that originates a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. The Bank's condensed consolidated statement of financial position is primarily composed of financial instruments.

Financial instruments expose the Bank to various types of risk. The Bank's Board of Directors has approved a Risk Management Policy to identify each significant risk the Bank is exposed to. In order to manage and monitor the several risks faced by the Bank, the Board of Directors has created the Credit Risk Committee of the Board of Directors, to oversee the liquidity, market, interest rate, exchange rate and counterparty risks. Likewise, the Board of Directors has established executive Committees, which are composed of key executives that monitor several risks faced by the Bank. These committees have established policies and limits in order to monitor, control and manage these risks. There is also an Audit Committee, composed of members of the Bank's Board of Directors that oversees the establishment of appropriate internal controls for reporting the Bank's financial information.

The main risks identified by the Bank are credit, counter-party, market, liquidity and financing, operational and capital management risks which are described as follows:

##### *(a) Credit Risk*

Is the risk that the debtor or issuer of a financial asset owned by the Bank does not fully and timely comply with any required payment, in conformity with terms and conditions agreed upon when the respective financial asset was acquired or originated by the Bank.

To mitigate credit risk, risk management policies establish limits by country, industry, and debtor. The Credit Committee appointed by the Board of Directors, periodically watches over the financial condition of debtors and issuers of financial instruments in the condensed consolidated statement of financial position of the Bank.

##### *Allowance for Loan Losses*

At the condensed consolidated statement of financial position date, it is assessed whether there is objective evidence that a loan or portfolio of loans is impaired. The allowance method is used to account for impairment. The amount of loan losses determined during the period is recognized as a provision expense in the results of operations and is credited to the allowance for loan losses.

The allowance is presented as a deduction from gross loans receivable in the condensed consolidated statement of financial position. The Bank periodically reviews its impaired portfolio to identify those loans that require to be charged-off against the allowance for loan losses. Recoveries of loans previously charged-off as non-recoverable, are credited to the allowance.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(18) Financial Instruments Risk Management, continued***Credit Quality Analysis*

The table below sets out information about the credit quality of the loan portfolio and the allowance for impairment loss held by the Bank against those assets:

	September 30, 2018				
	(in thousand)				
	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
<b>Loans at amortized cost</b>					
Grade 1: Standard	11,038,293	57,299	0	0	11,095,592
Grade 2: Special mention	25,288	336,197	7,953	0	369,438
Grade 3: Sub-standard	11,733	31,392	101,385	0	144,510
Grade 4: Doubtful	6,379	5,235	67,622	0	79,236
Grade 5: Loss	<u>2,071</u>	<u>567</u>	<u>45,516</u>	<u>0</u>	<u>48,154</u>
Gross amount	11,083,764	430,690	222,476	0	11,736,930
Allowance for impairment	<u>(75,278)</u>	<u>(28,366)</u>	<u>(49,656)</u>	<u>0</u>	<u>(153,300)</u>
Net carrying amount	<u>11,008,486</u>	<u>402,324</u>	<u>172,820</u>	<u>0</u>	<u>11,583,630</u>
<b>Financial leases</b>					
Grade 1: Standard	104,028	2,846	7	0	106,881
Grade 2: Special mention	0	1,380	0	0	1,380
Grade 3: Sub-standard	0	0	167	0	167
Grade 4: Doubtful	0	0	81	0	81
Grade 5: Loss	<u>0</u>	<u>0</u>	<u>680</u>	<u>0</u>	<u>680</u>
Gross amount	104,028	4,226	935	0	109,189
Allowance for impairment	<u>(206)</u>	<u>(72)</u>	<u>(133)</u>	<u>0</u>	<u>(411)</u>
Net carrying amount	<u>103,822</u>	<u>4,154</u>	<u>802</u>	<u>0</u>	<u>108,778</u>
<b>Total loans</b>	<b><u>11,187,792</u></b>	<b><u>434,916</u></b>	<b><u>223,411</u></b>	<b><u>0</u></b>	<b><u>11,846,119</u></b>
Allowance for impairment	<u>(75,484)</u>	<u>(28,438)</u>	<u>(49,789)</u>	<u>0</u>	<u>(153,711)</u>
Net carrying amount	<u>11,112,308</u>	<u>406,478</u>	<u>173,622</u>	<u>0</u>	<u>11,692,408</u>
<b>Renegotiated loans</b>					
Gross amount	4,411	52,875	92,255	0	149,541
Allowance for impairment	<u>(255)</u>	<u>(1,453)</u>	<u>(21,034)</u>	<u>0</u>	<u>(22,742)</u>
Net carrying amount	<u>4,156</u>	<u>51,422</u>	<u>71,221</u>	<u>0</u>	<u>126,799</u>

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(18) Financial Instruments Risk Management, continued**

	<b>December 31 2017</b>	<b>September 30 2017</b>
	(in thousands)	
<b><u>Loans</u></b>		
<b><u>Maximum exposure</u></b>		
Carrying amount	11,506,061	11,405,634
<b><u>At amortized cost</u></b>		
Grade 1: Standard	10,968,299	10,857,459
Grade 2: Special mention	324,854	320,796
Grade 3: Sub-standard	99,966	129,395
Grade 4: Doubtful	61,448	52,190
Grade 5: Loss	51,494	45,794
Gross amount	11,506,061	11,405,634
Allowance for impairment	(144,832)	140,936
Unearned commissions	(38,255)	38,089
Net carrying amount	11,322,974	11,226,609
<b><u>Loans with renegotiated terms</u></b>		
Gross carrying amount	148,250	138,463
Impaired amount	148,250	138,463
Allowance for impairment	(24,375)	17,262
Net carrying amount	123,875	121,201
<b><u>Neither past due nor impaired</u></b>		
Grade 1	10,811,611	10,697,141
Total	10,811,611	10,697,141
<b><u>Past due but not impaired</u></b>		
31 – 60 days	156,688	160,318
Total	156,688	160,318
<b><u>Individually impaired</u></b>		
Grade 2	118,404	118,087
Grade 3	67,659	104,164
Grade 4	35,823	20,172
Grade 5	25,709	18,695
Total	247,595	261,118
<b><u>Allowance for impairment</u></b>		
Individual	29,750	23,253
Collective	115,082	117,683
Total	144,832	140,936

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(18) Financial Instruments Risk Management, continued**

The aging of the loan portfolio delinquency is presented as follows:

	<b><u>September 30, 2018</u></b>		
	<b><u>Banco General, S. A.</u></b>	<b><u>Subsidiaries</u></b>	<b><u>Total</u></b>
Current	10,352,836,807	1,021,765,040	11,374,601,847
From 31 to 90 days	307,782,878	10,404,792	318,187,670
More than 90 days (principal or interest)	132,102,990	4,590,982	136,693,972
More than 30 days past due (principal)	16,635,328	0	16,635,328
Total	<u>10,809,358,003</u>	<u>1,036,760,814</u>	<u>11,846,118,817</u>

  

	<b><u>December 31, 2017</u></b>		
	<b><u>Banco General, S. A.</u></b>	<b><u>Subsidiaries</u></b>	<b><u>Total</u></b>
Current	10,132,782,826	994,115,440	11,126,898,266
From 31 to 90 days	255,148,953	5,917,684	261,066,637
More than 90 days (principal or interest)	101,577,594	4,481,197	106,058,791
More than 30 days past due (principal)	11,933,900	103,158	12,037,058
Total	<u>10,501,443,273</u>	<u>1,004,617,479</u>	<u>11,506,060,752</u>

  

	<b><u>September 30, 2017</u></b>		
	<b><u>Banco General, S. A.</u></b>	<b><u>Subsidiaries</u></b>	<b><u>Total</u></b>
Current	9,998,025,290	999,518,495	10,997,543,785
From 31 to 90 days	279,432,127	5,652,942	285,085,069
More than 90 days (principal or interest)	101,653,673	3,627,050	105,280,723
More than 30 days past due (principal)	17,724,556	0	17,724,556
Total	<u>10,396,835,646</u>	<u>1,008,798,487</u>	<u>11,405,634,133</u>

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (18) Financial Instruments Risk Management, continued

The following table analyzes the credit quality of investments and other financial assets and impairment reserves held by the Bank, excluding corporate shares and mutual funds amounting to B/.51,456,738 (December 31, 2017: B/.43,791,299), and (September 30, 2017: B/.42,940,433) which are not subject to credit risk:

		<b>September 30, 2018</b>			
	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
<b><u>At Amortized Cost</u></b>					
<i>Foreign:</i>					
AAA	56,200,000	0	0	0	56,200,000
Accumulated allowance	(3,372)	0	0	0	(3,372)
<b>Net carrying amount</b>	<b><u>56,196,628</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>56,196,628</u></b>
<b><u>At Fair Value OCI</u></b>					
<i>Local:</i>					
AA+ to BBB-	668,434,370	0	0	0	668,434,370
Lower than BBB-	520,507,014	29,064,790	0	0	549,571,804
Local carrying amount	<u>1,188,941,384</u>	<u>29,064,790</u>	<u>0</u>	<u>0</u>	<u>1,218,006,174</u>
Valuation of credit risk	<u>(2,011,358)</u>	<u>(1,438,944)</u>	<u>0</u>	<u>0</u>	<u>(3,450,302)</u>
<i>Foreign:</i>					
AAA	1,468,992,817	0	0	0	1,468,992,817
AA+ to BBB-	1,048,675,441	0	0	0	1,048,675,441
Lower than BBB-	169,629,330	6,429,997	0	648,042	176,707,369
Foreign carrying amount	<u>2,687,297,588</u>	<u>6,429,997</u>	<u>0</u>	<u>648,042</u>	<u>2,694,375,627</u>
Valuation of credit risk	<u>(4,138,675)</u>	<u>(221,270)</u>	<u>0</u>	<u>(5,984)</u>	<u>(4,365,929)</u>
<b>Total carrying amount</b>	<b><u>3,876,238,972</u></b>	<b><u>35,494,787</u></b>	<b><u>0</u></b>	<b><u>648,042</u></b>	<b><u>3,912,381,801</u></b>
<b><u>A Fair Value effect on profit or loss</u></b>					
<i>Local:</i>					
AA+ to BBB-	2,352,317				
Lower than BBB-	54,352,409				
Local carrying amount	<u>56,704,726</u>				
<i>Foreign:</i>					
AAA	235,846,825				
AA+ to BBB-	254,214,176				
Lower than BBB-	105,134,106				
NR	127,325				
Foreign carrying amount	<u>595,322,432</u>				
<b>Total carrying amount</b>	<b><u>652,027,158</u></b>				



**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(18) Financial Instruments Risk Management, continued**

	<b>Investment and Other Financial Assets</b>	
	<b>December 31 2017</b>	<b>September 30 2017</b>
<b><u>Maximum exposure</u></b>		
Carrying amount	<u>4,371,083,917</u>	<u>4,238,818,217</u>
<b><u>At Amortized Cost</u></b>		
AAA	14,313,126	15,836,412
AA+ to A	15,217	33,838
BBB+ to BBB-	28,212,674	28,423,395
BB to B-	7,405,448	7,768,925
NR	<u>127,718</u>	<u>128,205</u>
Gross amount	50,074,183	52,190,775
Impairment amount	<u>(91,361)</u>	<u>91,361</u>
Net carrying amount	<u>49,982,822</u>	<u>52,099,414</u>
<b><u>Available for Sale</u></b>		
AAA	1,046,247,857	1,061,153,803
AA+ to A	516,005,602	550,266,696
A-	61,338,711	59,339,753
BBB+ to BBB-	703,928,713	707,848,493
BB+	134,297,700	138,801,554
BB to B-	732,815,797	658,099,154
Less than B-	48,756	55,992
NR	<u>3,885,676</u>	<u>3,883,986</u>
Carrying amount	<u>3,198,568,812</u>	<u>3,179,449,431</u>
<b><u>At Fair Value through profit or loss</u></b>		
AAA	770,283,975	796,203,069
AA+ to A	165,382,953	58,283,427
A-	182,824	253,995
BBB+ to BBB-	14,078,969	13,730,685
BB+	0	293,864
BB to B-	97,049,755	65,739,599
Less than B-	71,424,859	69,963,508
NR	<u>4,037,587</u>	<u>2,709,864</u>
Carrying amount	<u>1,122,440,922</u>	<u>1,007,178,011</u>

The analysis has been based on the highest ratings assigned amongst Fitch Ratings Inc., Moody's and Standard and Poor's. In the case of local investments that do not have an international rating, the Bank assigns an internal rating, which is consistent with international risk ratings.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information****(18) Financial Instruments Risk Management, continued**

The following table shows the reconciliation between the initial balance and the end of the value correction for expected credit losses by the type of reserve model:

	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Purchased credit- impaired	Total
<b>Balance January 1, 2018</b>	5,887,002	1,902,585	0	0	7,789,587
Transferred to 12 month ECL	13,705	(13,705)	0	0	0
Transfer of 12 month ECL to lifetime ECL not credit-impaired	(326,874)	326,874	0	0	0
Transfer of 12 month ECL to lifetime ECL credit-impaired	(13,091)	0	13,091	0	0
Update of reserve	22,228	(580,511)	(12,796)	6,014	(565,065)
New purchased	1,809,773	70,253	0	0	1,880,026
Sold investment securities	(1,242,710)	(45,282)	(295)	(30)	(1,288,317)
<b>Balance September 30, 2018</b>	<u>6,150,033</u>	<u>1,660,214</u>	<u>0</u>	<u>5,984</u>	<u>7,816,231</u>

**(19) Adoption of IFRS 9 Financial Instruments**

The adoption of IFRS 9 requires the reclassification and remeasurement of the Bank's financial assets based on established business models, and on the characteristics of the contractual cash flow of the financial asset.

The main objective of the Bank's business model for investment securities is to receive contractual capital and interest flows and be able to sell at any time due to liquidity needs or in order to optimize the risk/return profile of a portfolio based on the interest rate, risk margins, current duration and the defined purpose.

As of January 1, 2018, the classification and measurement of financial instruments held as of December 31, 2017, are as follows:

- Investments in securities held to maturity, measured at amortized cost under IAS 39, were classified as FVOCI under IFRS 9.
- Loans and bank deposits that are classified as loans and deposits and measured at amortized cost under IAS 39 maintain this measurement under IFRS 9.
- Debt instruments classified as available for sale under IAS 39 were classified as FVOCI under IFRS 9, unless their contractual flows are not only principal and interest payments in which case they are classified as FVTPL.
- Instruments in securities measured at FVTPL under IAS 39 were mostly classified to FVOCI under IFRS 9 unless their flows are not only principal and interest payments or are part of the portfolios of BG Valores, S. A.
- Derivatives held to manage risks that are classified as FVTPL under IAS 39 maintain this measurement under IFRS 9.

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (19) Adoption of IFRS 9 Financial Instruments, continued

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments:

	January 1, 2018					
	FVTPL (Mandatory)	FVTPL (Designated)	FVOCI – debt instruments	FVOCI – equity instruments	Amortized cost	Total carrying amount
<b>Financial Assets:</b>						
Cash	0	0	0	0	283,199,967	283,199,967
Deposits with banks	0	0	0	0	562,188,209	562,188,209
Loans, net	0	0	0	0	11,322,561,145	11,322,561,145
<b>Investment securities:</b>						
Measured at fair value	614,404,459	0	3,817,581,980	0	0	4,431,986,439
Measured at amortized cost	0	0	0	0	0	0
Derivatives for administration risk	50,577	0	0	0	0	50,577
Other derivatives	2,663,336	0	0	0	0	2,663,336
<b>Total Financial Assets</b>	<b>617,118,372</b>	<b>0</b>	<b>3,817,581,980</b>	<b>0</b>	<b>12,167,949,321</b>	<b>16,602,649,673</b>
<b>Financial Liabilities:</b>						
Demand deposits	0	0	0	0	2,494,385,028	2,494,385,028
Savings deposits	0	0	0	0	3,398,554,919	3,398,554,919
Customers time deposits	0	0	0	0	5,474,415,838	5,474,415,838
Bank time deposits	0	0	0	0	91,071,301	91,071,301
Securities sold under repurchase agreements	0	0	0	0	45,814,600	45,814,600
Borrowings and debt securities issued	0	0	0	0	2,661,365,208	2,661,365,208
Perpetual bonds	0	0	0	0	217,680,000	217,680,000
Derivatives for administration risk	29,413,264	0	0	0	0	29,413,264
Other derivatives	3,269,630	0	0	0	0	3,269,630
Other liabilities / Investments short sales	138,267,009	0	0	0	0	138,267,009
Other liabilities / collateral accounts	0	0	0	0	456,293	456,293
<b>Total Financial Liabilities</b>	<b>170,949,903</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,383,743,187</b>	<b>14,554,693,090</b>
<b>September 30, 2018</b>						
	FVTPL (Mandatory)	FVTPL (Designated)	FVOCI – debt instruments	FVOCI – equity instruments	Amortized cost	Total carrying amount
<b>Financial Assets:</b>						
Cash	0	0	0	0	259,407,530	259,407,530
Deposits with banks	0	0	0	0	388,842,845	388,842,845
Loans, net	0	0	0	0	11,652,025,010	11,652,025,010
<b>Investment securities:</b>						
Measured at fair value	703,483,896	0	3,912,381,801	0	0	4,615,865,697
Measured at amortized cost	0	0	0	0	56,196,628	56,196,628
Derivatives for administration risk	2,362,353	0	0	0	0	2,362,353
Other derivatives	5,891,186	0	0	0	0	5,891,186
<b>Total Financial Assets</b>	<b>711,737,435</b>	<b>0</b>	<b>3,912,381,801</b>	<b>0</b>	<b>12,356,472,013</b>	<b>16,980,591,249</b>
<b>Financial Liabilities:</b>						
Demand deposits	0	0	0	0	2,412,003,584	2,412,003,584
Savings deposits	0	0	0	0	3,415,499,079	3,415,499,079
Customers time deposits	0	0	0	0	5,704,533,947	5,704,533,947
Bank time deposits	0	0	0	0	88,218,439	88,218,439
Borrowings and debt securities issued	0	0	0	0	2,798,964,316	2,798,964,316
Perpetual bonds	0	0	0	0	217,680,000	217,680,000
Derivatives for administration risk	16,437,756	0	0	0	0	16,437,756
Other derivatives	5,215,691	0	0	0	0	5,215,691
Other liabilities / Investments short sales	81,086,764	0	0	0	0	81,086,764
<b>Total Financial Liabilities</b>	<b>102,740,211</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,636,899,365</b>	<b>14,739,639,576</b>

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (19) Adoption of IFRS 9 Financial Instruments, continued

The following table shows the original measurement categories under IAS 39 for the Bank's financial assets and liabilities as of December 31, 2017 and its new classification and value under IFRS 9 as of January 1, 2018:

	Original classification <u>IAS 39</u>	New Classification <u>IFRS 9</u>	Original carrying amount <u>IAS 39</u>	New carrying amount <u>IFRS 9</u>
<b><u>Financial Assets:</u></b>				
Cash	Amortized cost	Amortized cost	283,199,967	283,199,967
Deposits with banks	Held to maturity	Amortized cost	562,188,209	562,188,209
Loans	Amortized cost	Amortized cost	11,322,973,693	11,322,561,145
Investment securities – debt	Fair value	FVTPL (Mandatory)	514,528,917	514,528,917
Investment securities – debt	Available for sale	FVTPL (Mandatory)	50,180,977	50,180,977
Investment securities – debt	Held to maturity	FVTPL (Mandatory)	88,243	143,561
Investment securities – equity	Fair value	FVTPL (Mandatory)	37,803,363	37,803,363
Investment securities – equity	Available for sale	FVTPL (Mandatory)	5,987,936	11,747,641
Investment securities – debt	Fair value	FVOCI	607,912,005	607,912,005
Investment securities – debt	Available for sale	FVOCI	3,148,387,835	3,148,387,835
Investment securities – debt	Held to maturity	FVOCI	49,894,579	61,282,140
Derivatives for administration risk	N/A	FVTPL (Mandatory)	0	50,577
Other derivatives	Fair value	FVTPL (Mandatory)	2,713,913	2,663,336
<b>Total Financial Assets</b>			<b><u>16,585,859,637</u></b>	<b><u>16,602,649,673</u></b>
<b><u>Financial Liabilities:</u></b>				
Demand deposits	Amortized cost	Amortized cost	2,494,385,028	2,494,385,028
Savings deposits	Amortized cost	Amortized cost	3,398,554,919	3,398,554,919
Customers time deposits	Amortized cost	Amortized cost	5,474,415,838	5,474,415,838
Bank time deposits	Amortized cost	Amortized cost	91,071,301	91,071,301
Securities sold under repurchase agreements	Amortized cost	Amortized cost	45,814,600	45,814,600
Borrowings and debt securities issued	Amortized cost	Amortized cost	2,661,365,208	2,661,365,208
Perpetual bonds	Amortized cost	Amortized cost	217,680,000	217,680,000
Derivatives for administration risk	N/A	FVTPL (Mandatory)	0	29,413,264
Other derivatives	Fair value	FVTPL (Mandatory)	32,682,894	3,269,630
Other liabilities / Investments short sales	Fair value	FVTPL (Mandatory)	138,267,009	138,267,009
Other liabilities / collateral accounts	Amortized cost	Amortized cost	456,293	456,293
<b>Total Financial Liabilities</b>			<b><u>14,554,693,090</u></b>	<b><u>14,554,693,090</u></b>

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (19) Adoption of IFRS 9 Financial Instruments, continued

The following table reconciles the book value under IAS 39 to the book value under IFRS 9 on January 1, 2018:

<u>Financial Instruments</u>	<u>Book Value IAS 39 December 31, 2017</u>	<u>Reclassification</u>	<u>Remeasurement</u>	<u>Book Value IFRS 9 January 1, 2018</u>
<b><u>Financial Assets</u></b>				
<b><u>Amortized cost:</u></b>				
Cash	283,199,967	0	0	283,199,967
Deposits with banks	562,188,209	0	0	562,188,209
<b><u>Investment securities:</u></b>				
Opening balance	49,982,822			
To fair value OCI	0	(49,894,579)	0	
To fair value through profit or loss	0	(88,243)	0	
Closing balance	49,982,822	(49,982,822)	0	0
<b><u>Loans, net:</u></b>				
Opening balance	11,322,973,693			
Remeasurement	0	0	(412,548)	
Closing balance	11,322,973,693	0	(412,548)	11,322,561,145
<b>Total amortized cost</b>	<b>12,218,344,691</b>	<b>(49,982,822)</b>	<b>(412,548)</b>	<b>12,167,949,321</b>
<b><u>Available for sale:</u></b>				
<b><u>Investment securities:</u></b>				
Opening balance	3,204,556,748			
To fair value through profit or loss	0	(56,168,913)	0	
To fair value OCI	0	(3,148,387,835)	0	
Closing balance	3,204,556,748	(3,204,556,748)	0	0
<b>Total available for sale</b>	<b>3,204,556,748</b>	<b>(3,204,556,748)</b>	<b>0</b>	<b>0</b>
<b><u>Fair value OCI:</u></b>				
<b><u>Investment securities:</u></b>				
Opening balance	0			
To available for sale	0	3,148,387,835	0	
To held to maturity	0	49,894,579	11,387,561	
To fair value through profit or loss	0	607,912,005	0	
Closing balance	0	3,806,194,419	11,387,561	3,817,581,980
<b>Total fair value OCI</b>	<b>0</b>	<b>3,806,194,419</b>	<b>11,387,561</b>	<b>3,817,581,980</b>
<b><u>Fair value through profit or loss:</u></b>				
<b><u>Investment securities:</u></b>				
Opening balance	1,160,244,285			
To fair value OCI	0	(607,912,005)	0	
To available for sale	0	56,168,913	5,759,705	
To held to maturity	0	88,243	55,318	
Closing balance	1,160,244,285	(551,654,849)	5,815,023	614,404,459
Derivatives for administration risk	0	50,577	0	50,577
Other derivatives	2,713,913	(50,577)	0	2,663,336
<b>Total fair value through profit or loss</b>	<b>1,162,958,198</b>	<b>(551,654,849)</b>	<b>5,815,023</b>	<b>617,118,372</b>
<b>Total financial assets</b>	<b>16,585,859,637</b>	<b>0</b>	<b>16,790,036</b>	<b>16,602,649,673</b>

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (19) Adoption of IFRS 9 Financial Instruments, continued

<u>Financial Instruments</u>	<u>Book Value IAS 39 December 31, 2017</u>	<u>Reclassification</u>	<u>Remeasurement</u>	<u>Book Value IFRS 9 January 1, 2018</u>
<b><u>Financial liabilities</u></b>				
<b><u>Amortized cost:</u></b>				
Deposits from customers	11,458,427,086	0	0	11,458,427,086
Securities sold under repurchase agreements	45,814,600	0	0	45,814,600
Borrowings and debt securities issued	2,661,365,208	0	0	2,661,365,208
Perpetual bonds	217,680,000	0	0	217,680,000
Other liabilities / collateral accounts	456,293	0	0	456,293
<b>Total amortized cost</b>	<b><u>14,383,743,187</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>14,383,743,187</u></b>
<b><u>Fair value through profit or loss:</u></b>				
Derivatives for administration risk	0	29,413,264	0	29,413,264
Other derivatives	32,682,894	(29,413,264)	0	3,269,630
Other liabilities / Investments short sales	138,267,009	0	0	138,267,009
<b>Total Fair value through profit or loss</b>	<b><u>170,949,903</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>170,949,903</u></b>
<b>Total financial liabilities</b>	<b><u>14,554,693,090</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>14,554,693,090</u></b>

#### *Impact on capital planning*

The main impact on the Bank's regulatory capital arises from the new impairment requirements under IFRS 9.

The following table summarizes the changes in equity items that were modified as a result of the adoption of IFRS 9 as of January 1, 2018:

	Impact of adoption of IFRS 9 in the opening balance
<b>Reserve for valuation of investment securities and other financial assets:</b>	
<b>Balance at December 31, 2017</b>	<b>35,796,615</b>
Recognition of expected credit losses for investment securities Fair Value OCI	7,789,587
Reclassification of investment securities Available for Sale to Fair Value through Profit or Loss	(2,688,416)
Reclassification of investment securities to Fair Value through Profit or Loss to Fair Value OCI	461,265
Reclassification of investment securities Held to Maturity to Fair Value OCI	11,398,840
<b>Changes due to adoption of IFRS 9</b>	<b><u>16,961,276</u></b>
<b>Balance at January 1, 2018</b>	<b><u>52,757,891</u></b>
<b>Retained earnings:</b>	
<b>Balance at December 31, 2017</b>	<b>1,329,584,948</b>
Adjustment for reclassification of investments	8,030,933
Recognition of expected credit losses for investment securities Fair Value OCI	(7,789,587)
Recognition of expected credit losses for loans	(412,548)
Deferred tax	671,993
<b>Changes due to adoption of IFRS 9</b>	<b><u>500,791</u></b>
<b>Balance at January 1, 2018</b>	<b><u>1,330,085,739</u></b>

# BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Information

### (19) Adoption of IFRS 9 Financial Instruments, continued

The following table reconciles the allowance under IAS 39 to allowance under IFRS 9 on January 1, 2018:

	December 31 2017 (IAS 39)	Reclassification	Remeasurement	January 1 2018 (IFRS 9)
Loans	144,832,305	0	412,548	145,244,853
Investment securities held to maturity	<u>91,361</u>	<u>0</u>	<u>(91,361)</u>	<u>0</u>
Total allowance of financial assets under IAS 39 and IFRS 9 to amortized cost	<u>144,923,666</u>	<u>0</u>	<u>321,187</u>	<u>145,244,853</u>
Investment securities to FVPTL transferred to FVOCI	0	0	2,369,188	2,369,188
Investment securities available for sale transferred to FVOCI	0	0	3,424,823	3,424,823
Investment securities held to maturity transferred to FVOCI	<u>0</u>	<u>0</u>	<u>1,995,576</u>	<u>1,995,576</u>
	<u>0</u>	<u>0</u>	<u>7,789,587</u>	<u>7,789,587</u>

### (20) Main Applicable Laws and Regulations

As of September 30, 2018, there were no significant changes with respect to the applicable regulatory framework disclosed in the audited consolidated financial statements as of December 31, 2017.

The following are the main regulations affecting the bank:

#### Regulatory Allowances

The accounting treatment for the recognition of losses on loans, investment securities and other real estate owned in conformity with prudential standards enacted by the Superintendence of Banks of Panama, differs in some aspects from the accounting treatment established by International Financial Reporting Standards, specifically IFRS 9 (until December 31, 2017 IAS 39) and IFRS 5. The Superintendence of Banks of Panama mandates that general license banks apply these prudential standards.

#### Dynamic Provision

Agreement No.4-2013 indicates that the dynamic provision is a reserve provided to face possible future needs for specific provisions. They are governed by prudential criteria in the banking regulation. Dynamic reserves are established on a quarterly basis, on loans classified as Standard.

The dynamic reserve is an equity account presented as a legal reserve in the condensed consolidated statement of changes in equity and appropriated from retained earnings. The balance of the dynamic reserve is part of regulatory capital, but cannot be used in satisfying current or future capital adequacy requirements established by this Superintendence.

**BANCO GENERAL, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Condensed Consolidated Interim Financial Information**

---

**(20) Main Applicable Laws and Regulations, continued**

The balance of the Bank's dynamic reserve is detailed as follows:

	<b>September 30 <u>2018</u></b>	<b>December 31 <u>2017</u></b>	<b>September 30 <u>2017</u></b>
Banco General, S. A.	133,877,476	133,877,476	133,877,476
Finanzas Generales, S. A.	2,810,061	2,810,061	2,810,061
Banco General (Overseas), Inc.	9,480,047	9,480,047	9,480,047
Banco General (Costa Rica), S. A.	<u>4,580,865</u>	<u>4,580,865</u>	<u>4,580,865</u>
Total	<u>150,748,449</u>	<u>150,748,449</u>	<u>150,748,449</u>

The current Agreement establishes that the dynamic reserve will not be lower than 1.25%, nor greater than 2.50% of risk-weighted assets applied to loan facilities classified as standard.