Banco General

Management Discussion

First Quarter 2019

General Information

The Bank operates under a General License granted by the Superintendence of Banks of Panama (“SBP”), which allows it to carry out banking business in Panama and abroad. All references to “we,” “us,” “our,” “the Bank” and “Banco General” are to Banco General, S.A., a corporation (Sociedad anónima) organized under the laws of Panama, and, unless otherwise indicated or the context otherwise requires, its consolidated subsidiaries.

The following discussion is based on information contained in the Condensed Consolidated Interim Financial Information and supplementary financial information contained in this document. Certain amounts (including percentages) appearing here have been rounded.

The Bank prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Effective January 1, 2018, we adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments. Due to the application of IFRS 9 and our election not to restate prior period information, as permitted by the standard, the data of the financial statements are not comparable with previous years. Please refer to Note 3 “Summary of Significant Accounting Policies" of the Condensed Consolidated Interim Financial Information as of March 2019, for more information.

I. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of March 31, 2019, the Bank's gross loan portfolio increased 3.7% from U.S.$11,612.3 million in March 2018, to U.S.$12,040.0 million. During this period, the Bank's residential mortgage portfolio grew 5.8%, to U.S.$4,371.6 million; the consumer loan portfolio grew 8.2%, to U.S.$1,822.2 million; and the corporate loan portfolio, comprised of both local and regional corporate clients, grew 1.7% to U.S.$5,323.5 million, and other loans (comprised of pledge loans, overdrafts and financial leases) decreased from U.S$563.4 to U.S$522.7. The Bank's local corporate loan portfolio increased 0.9% or U.S.$37.3 million, to U.S.$4,311.1 million, and the Bank's regional corporate loan portfolio increased 5.4%, or U.S.$52.0 million, to U.S.$1,012.4. The Bank's total investment portfolio, made up of the Bank's primary liquid assets (comprised of cash, bank deposits and investment-grade, liquid, fixed-income investments), and its local and regional corporate fixed-income portfolio, expanded by 9.7%, from U.S.$4,540.2 million in March 2018 to U.S.$4,980.1 million in March 2019.

Total Liabilities

The Bank's total client deposits grew by U.S.$655.4 million, or 5.7%, to U.S.$12,068.6 million. Client time deposits, the Bank's main source of funding, increased by U.S.$398.8 million, to U.S.$5,990.1 million, representing 49.6% of total client deposits as of March 31, 2019, with an average remaining life of 15.7 months, and 71.4% having original maturities of more than one year. Savings accounts grew by U.S.$151.2 million, to U.S.$3,580.4 million or 29.7% of total client deposits, while demand deposits increased by U.S.$105.5 million to U.S.$2,498.0 million as of March 31,2019.

In keeping with the Bank's financial policies, we have been able to develop and access medium- and long-term funding alternatives. As of March 31, 2019, the Bank's total medium and long-term borrowings and placements grew by U.S.$72.3 million, or 2.4%, to U.S.$3,031.0 million as compared to the same period in 2018.

During the last twelve months ended March 31, 2019, we have accessed various financing sources, among which the following are notable: (i) in June 2018, the Bank increased the 2017 Syndicated Loan Facility by U.S.$300 million, with participating banks from the United States, Europe, Asia, the Middle East and Latin America, and (ii) in October 2018, the Bank obtained a 4-year term financing for U.S.$200 million. The facility was syndicated among 12 commercial banks in the United States, Europe and Asia.

Equity

As of March 31, 2019, the Bank's equity grew by 10.0%, or U.S.$208.6 million, from U.S.$2,081.8 million as of March 31, 2018 to U.S.$2,290.4 million in 2019. This increase was driven by an increase in retained earnings of U.S.$176.1 million, with the Bank retaining 52.57% of its net profits in the period. The Bank's solid capital base allowed it to absorb a 5.0% asset growth, while maintaining healthy capitalization levels, with an equity to total assets ratio of 12.3% as of March 31, 2019, compared with 11.8% as of March 31, 2018.

A. Liquidity and Funding Sources

The Bank's Assets and Liabilities Committee ("ALCO") is responsible for developing and proposing policies relating to the management of the Bank's assets and liabilities, to enable us to maintain interest rate, market, maturity and liquidity, and foreign exchange exposures, within the Bank's established limits while maximizing the return on shareholders' equity.

The Bank's asset and liability management policy seeks to ensure sufficient liquidity is available to honor withdrawals of deposits, to make payments upon maturity of other liabilities, to extend loans or other forms of credit, and to meet the working capital needs.

The treasury department is responsible for managing the Bank's liquidity and funding positions, as well as executing the Bank's investment strategy. The Bank's current policy requires high absolute levels of liquidity composed of high quality liquid assets, a key pillar of the Bank's financial strategy.

Consistent with the Bank's conservative financial policies, we have historically maintained high levels of liquidity in investment-grade liquid investments, which are complemented by: (i) an adequate asset and liability maturity structure, (ii) a diversified and stable deposit base, (iii) medium and long-term financing (representing 18.6% of total liabilities); and (iv) low levels of short-term institutional liabilities (0.3% of total liabilities), all of which gives us a very stable asset and liability structure in the Bank's balance sheet.

The Bank's primary liquidity ratio, measured in terms of liquid assets (comprised of cash, bank deposits and investment-grade, liquid, fixed-income investments) to total deposits and borrowings, was 27.5% as of March 31, 2019, equivalent to U.S.$4,101.0 million in primary liquidity. Liquid assets increased 12.1%, from U.S.$3,658.7 million as of March 31, 2018, and a liquidity ratio of 25.6%. The Bank’s total primary liquidity has an average credit rating of AA-; 51.8% of liquid assets are AAA rated investments. As of March 31, 2019, these liquid assets represented 34.0% of total deposits, and 22.1% of total assets.

In addition to its internal liquidity requirements, the Bank must comply with liquidity requirements established by the Superintendence of Banks of Panama (SBP), which require liquid assets of no less than 30% of selected deposits received, with maturities of less than 186 days, excluding subsidiaries and pledge deposits. For the calculation of this indicator, the SBP allows all loan installments and maturities classified as standard with a term of less than 186 days to be considered liquid assets, in addition to those used for the calculation of internal liquidity, for up to 30% of the total liquid assets used. As of March 31, 2019, the Bank maintained a regulatory liquidity of 42.1%, complying with the requirements established by law.

Loan Portfolio

The Bank’s loan portfolio is well diversified across clients, products and borrowers segments. As of March 31, 2019, total loans amounted to U.S.$12,040.0 million, of which 44.2% was comprised of corporate loans (35.8% local corporate loans and 8.4% foreign corporate loans), 51.5% of retail loans (36.3% residential mortgages and 15.1% consumer loans); and 4.3% in other loans (comprising of pledged loans, overdrafts, and financial leases).

In order to reduce the risk of credit losses, we emphasize the granting of loans secured by collateral, particularly single-family residences, properties and deposits, in addition to applying strict underwriting guidelines and “know your customer” policies. As of March 31, 2019, 78.7% of all loans were secured by residential or commercial properties or deposits in the Bank; 72.2% of all loans were secured by first lien mortgages on land and improvements (residential mortgages, commercial mortgages and interim construction loans), and 6.4% was backed by collateral at the Bank (secured loans and overdrafts). The combination of appropriate underwriting policies and high-quality guarantees has resulted in historically low levels of charge-offs, averaging 0.43% of total loans annually in the two years ended December 31, 2018.

As of March 31, 2019, 89.0% of the Bank's loan portfolio was placed with local clients, who are borrowers (individuals and corporations) established in Panama, and 11.0% was placed with regional clients based in Costa Rica, Mexico, Colombia, Guatemala, El Salvador and Peru, and with our universal banking subsidiary in Costa Rica, Banco General (Costa Rica), S.A., which has 11 branches. As of March 31, 2019, 99.9% of the Bank's loans were denominated in U.S. dollars, which is legal tender in Panama. The Bank segments its portfolios according to type of loan, economic activity, and income group, among other variables. In addition, the Bank's credit policies provide for managing concentration within economic sectors, in the case of corporate loans, and provide various underwriting criteria, depending on the level of income, in the case of retail lending.

The following table summarizes the composition of the loan portfolio by type of loan as of March 31, 2019 and 2018, and as of December 31, 2018, 2017 and 2016:

	As of March 31			As of December 31		
	2019	2018	% Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Local Loans						
Commercial	455,784	371,925	22.5%	355,306	371,838	300,783
Interim construction loans	685,316	805,012	-14.9%	700,899	807,678	780,855
Lines of credit	1,245,289	1,264,579	-1.5%	1,235,506	1,301,407	1,233,583
Residential mortgage loans	4,128,698	3,876,511	6.5%	4,091,043	3,798,892	3,405,347
Commercial mortgage loans	1,924,727	1,832,345	5.0%	1,920,858	1,789,765	1,644,394
Installment loans to individuals	1,805,864	1,667,434	8.3%	1,776,981	1,652,578	1,513,916
Pledge loans and overdrafts	365,147	351,355	3.9%	356,635	333,660	313,490
Leasing(1)	101,059	116,332	-13.1%	108,302	120,391	124,878
Total Local Loans	**10,711,883**	**10,285,494**	**4.1%**	**10,545,529**	**10,176,209**	**9,317,246**
Foreign Loans						
Commercial	389,056	376,051	3.5%	447,699	382,626	518,113
Interim construction loans	3,800	1,000	100.0%	3,100	0	0
Lines of credit	362,772	336,196	7.9%	351,265	317,635	307,604
Residential mortgage loans	242,907	254,017	-4.4%	249,376	254,472	251,639
Commercial mortgage loans	256,743	247,097	3.9%	259,581	259,842	276,622
Installment loans to individuals	16,322	16,775	-2.7%	16,779	17,034	15,367
Pledge loans and overdrafts	56,527	95,706	-40.9%	79,055	98,242	82,419
Total Foreign Loans	**1,328,126**	**1,326,842**	**0.1%**	**1,406,855**	**1,329,851**	**1,451,764**
Total Loans	**12,040,009**	**11,612,336**	**3.7%**	**11,952,385**	**11,506,061**	**10,769,010**
Allowance for loan losses	164,096	149,297	9.9%	158,531	144,832	128,917
Unearned discount	41,639	38,752	7.5%	41,104	38,255	35,511
Total loans, net	**11,834,273**	**11,424,287**	**3.6%**	**11,752,749**	**11,322,974**	**10,604,582**

(1) Total Leasing as of December 2016, includes an amount of U.S.$1.7 million in factoring.

As of March 31, 2019, the Bank's loan portfolio maintained low levels of non-accrual and past due loans, with levels of 1.03% (March 2018: 0.84%) and 1.28% (March 2018: 1.09%), respectively, of the total loan portfolio. As of March 31, 2019, the Bank's loan loss reserve coverage of past due loans was 106.22% (March 2018: 117.44%), and the coverage of non-accrual loans was 131.79% (March 2018:152.66%); charge-offs amounted to U.S.$11.9 million, or 0.40% (March 2018: 0.42%) of total loans.

The Bank's charge-offs, have been historically low as compared to the prior-year, which we attribute to the following factors: (i) the application of rigid and consistent granting policies over time; (ii) the Bank's preference to extend high-quality secured loans with collateral from residential and commercial properties, whose quality and value are carefully evaluated; and (iii) the diligent monitoring of the performance of the loans, allowing the adoption of appropriate measures to minimize losses.

Non-accrual Loans

The SBP requires the classification of a loan on non-accrual status if any of the following conditions exist: (i) principal and interest payments past due level has reached the limits established by the SBP (91 or more days of principal and/or interest payments past due for all loans, except for mortgages which cease accruing interest after 120 days past due and overdrafts after 30 days past due); or (ii) the debtor's financial condition, whether individual or corporate, has suffered material adverse effects (payment capacity deterioration, collateral weakness, and other factors known to us, such as fraud, death of the debtor, or personal or corporate bankruptcy) that puts our ability to collect the loan at risk.

The following table presents non-accrual loans, according to loan type, as of March 31, 2019, and 2018, and as of December 31, 2018, 2017 and 2016:

	As of March 31			As of December 31		
	2019	2018	% Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Non accrual loans						
Commercial	8,875	480	1749.2%	8,931	395	5,608
Interim construction loans	2,504	7,231	-65.4%	2,424	7,238	6,170
Lines of credit	16,011	4,886	227.7%	15,157	6,525	4,389
Residential mortgage loans	60,969	45,658	33.5%	56,704	41,875	33,628
Commercial mortgage loans	10,913	13,832	-21.1%	8,580	11,106	9,427
Installment loans to individuals	24,036	23,913	0.5%	22,499	20,811	19,147
Pledge loans and overdrafts	403	678	-40.6%	399	587	641
Leasing and factoring	806	1,118	-27.9%	906	1,193	935
Total Non accrual loans	**124,516**	**97,796**	**27.3%**	**115,601**	**89,729**	**79,947**
Total Loans	12,040,009	11,612,336		11,952,385	11,506,061	10,769,010
Allowance for loan losses	164,096	149,297		158,531	144,832	128,917
Non accrual loans as a percentage of total loans	1.03%	0.84%		0.97%	0.78%	0.74%
Allowance for loans losses as a percentage of non accrual loans	131.79%	152.66%		137.14%	161.41%	161.25%

Past Due Loans

The Bank classifies its loan portfolio according to: (i) the status of principal and interest payments (current, overdue within 31-90 days, and past due more than 90 days), and (ii) the principal payment status of a loan at final maturity as: (a) current, or (b) past due, if not paid after 30 days of the final maturity of the loan.

The following table presents past due loans, according to loan type, as of March 31, 2019 and 2018, and as of December 31, 2018, 2017 and 2016.

	As of March 31			As of December 31		
	2019	2018	% Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Past due loans						
Commercial	12,263	472	2499.8%	8,931	385	5,608
Interim construction loans	2,504	7,231	-65.4%	2,424	7,238	6,170
Lines of credit	16,081	5,469	194.0%	14,426	6,486	4,489
Residential mortgage loans	87,185	74,035	17.8%	78,966	69,565	56,322
Commercial mortgage loans	11,237	13,832	-18.8%	8,618	11,173	9,347
Installment loans to individuals	23,640	23,726	-0.4%	22,413	20,711	19,110
Pledge loans and overdrafts	778	1,242	-37.4%	1,131	1,344	1,074
Leasing and factoring	806	1,118	-27.9%	906	1,193	444
Total past due loans	**154,494**	**127,125**	**21.5%**	**137,815**	**118,096**	**102,564**
Total Loans	12,040,009	11,612,336		11,952,385	11,506,061	10,769,010
Allowance for loan losses	164,096	149,297		158,531	144,832	128,917
Past due loans as a percentage of total loans	1.28%	1.09%		1.15%	1.03%	0.95%
Allowance for loan losses as percentage of past due loans	106.22%	117.44%		115.03%	122.64%	125.70%

Allowance for Loan Losses

We have adopted IFRS 9, Financial Instruments with effect as of January 1, 2018. IFRS 9 replaced the "incurred loss" model of IAS 39 with an "expected credit loss" (ECL) model. Please refer to Note 3 “Summary of Significant Accounting Policies” of the Condensed Consolidated Interim Financial Information, as of March 31, 2019 for more information on the adoption of IFRS 9.

Provisions for loan losses are accounted for as charges on income and added to the allowance for loan losses to maintain reserves at the required level. Any subsequent charge-offs are applied against this allowance.

The Bank’s reserve levels have historically provided adequate coverage of non-accrual loans, amounting to 131.79% as of March 31, 2019. Additionally, the Bank’s allowance for loan losses exceeds the requirements established by the SBP. As of March 31, 2019, the Bank’s loan loss provision amounted to 1.36% of total loans.

The following table presents the breakdown of the allowance for loans losses as of March 31, 2019, and 2018 and as of December 31, 2018, 2017 and 2016:

	As of March 31			As of December 31		
	2019	2018	(%) Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Allowance at the beginning of period	158,531	144,832	9.5%	144,832	128,917	112,275
Change due to implementation of IFRS 9	0	413	100.0%	413	0	0
Provision charged to expenses, net of recoveries	11,993	11,640	3.0%	41,983	44,485	45,532
Charge offs:						
Commercial	57	32	77.5%	249	220	832
Interim construction loans	0	0	0.0%	207	261	0
Lines of credit	0	0	0.0%	607	1,462	1,909
Residential mortgage loans	320	175	83.1%	885	712	354
Commercial mortgage loans	0	0	0.0%	397	4	1,842
Installment loans to individuals	11,364	11,798	-3.7%	48,787	46,663	41,815
Pledge loans and overdrafts	201	44	355.6%	484	349	336
Leasing and factoring	2	0	0.0%	133	267	0
Total charge offs	**11,944**	**12,049**	**-0.9%**	**51,750**	**49,938**	**47,088**
Recoveries	5,517	4,461	23.7%	23,053	21,368	18,198
Allowance at the end of period	**164,096**	**149,297**	**9.9%**	**158,531**	**144,832**	**128,917**
Total Loans	12,040,009	11,612,336		11,952,385	11,506,061	10,769,010
Allowance for loan losses as percentage of total loans	1.36%	1.29%		1.33%	1.26%	1.20%
Net charge-off to total loans[(1)]	0.21%	0.26%		0.24%	0.25%	0.27%
Charge-offs to total loans[(1)]	0.40%	0.42%		0.43%	0.43%	0.44%

[(1)]Percentages for the three months ended are annualized.

B. Capital Resources

The cornerstone of our overall financial strategy is our strong capital position, which exceeds local and international regulatory requirements contained in the Basel Accords, that has supported our investment grade ratings, which we have held since 1997, from Fitch (BBB+/Stable) and Standard & Poor's (BBB+/Stable as of April 2019).

As of March 31, 2019, our total regulatory capital amounted to U.S.$2,452.8 million, or 253.8% of the total minimum capital required (Tier I and Tier II capital). The ratio of total capital to risk-weighted assets was 20.31%, comprised entirely of Tier I capital. Based on the Bank’s total risk-weighted assets of U.S.$12,079.0 million as of March 31, 2019, in accordance with local regulatory requirements, we must maintain a total capital of 8%, or U.S.$966.3 million. Our shareholder’s equity to total assets ratio was 12.34%; with a dividend payout ratio averaging 56.90% of our net income over the last five years ended December 31, 2018.

Additionally, Agreement 4-2013, which entered in effect in fiscal year 2014, requires banks to establish a Dynamic Reserve, defined as a general reserve to cover future unexpected losses in the loan portfolio classified as standard (the "Dynamic Reserve"), and also establishes that the Dynamic Reserve cannot be lower than 1.25%, nor higher than 2.50% of the risk-weighted loan portfolio classified as standard.

The Dynamic Reserve is presented within legal reserves in the equity section of the Bank's financial statements. The Dynamic Reserve balance is considered part of the regulatory capital if the Bank's regulatory capital exceeds the minimum of 8% of risk-weighted assets to capital. As of March 31, 2019, the Dynamic Reserve balance was U.S.$151.1 million.

The Bank's securities brokerage, insurance and pension fund management subsidiaries are also subject to minimum capital requirements stipulated under Panamanian law. As of March 31, 2019, all subsidiaries are in compliance with all of the minimum capital requirements applicable under the regulations.

The following table presents information regarding the Bank's capital levels as of March 31, 2019 and 2018, and as of December 31, 2018, 2017 and 2016:

	As of March 31		As of December 31		
	2019	2018	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)				
Regulatory Primary Capital (Tier 1)					
Common Shares	500,000	500,000	500,000	500,000	500,000
Legal reserve	182,824	180,516	182,341	180,080	178,381
Other items comprehensive income	51,820	21,983	3,642	35,797	32,287
Retained earnings	1,554,988	1,378,906	1,498,282	1,329,585	1,121,180
Less: Regulatory adjustments	54,556	61,071	57,802	61,725	64,343
Total Regulatory Primary Capital (Tier 1)	**2,235,076**	**2,020,333**	**2,126,463**	**1,983,736**	**1,767,505**
Additional Primary Capital (Tier I)					
Subordinated debt - perpetual bonds	217,680	217,680	217,680	217,680	217,680
Total Additional Primary Capital	**217,680**	**217,680**	**217,680**	**217,680**	**217,680**
Total Primary Capital	**2,452,756**	**2,238,013**	**2,344,143**	**2,201,416**	**1,985,185**
Secondary Capital (Tier II)					
Subordinated debt - perpetual bonds	0	0	0	0	0
Total Secondary Capital	**0**	**0**	**0**	**0**	**0**
Total Capital (Tier I + Tier II)	**2,452,756**	**2,238,013**	**2,344,143**	**2,201,416**	**1,985,185**
Risk-weighted assets	**12,078,960**	**11,562,182**	**12,053,460**	**11,521,593**	**10,684,527**
Capital ratios					
Total Primary Capital (Tier 1)	**20.31%**	**19.36%**	**19.45%**	**19.11%**	**18.58%**
Total capital (Tier I + Tier II)	**20.31%**	**19.36%**	**19.45%**	**19.11%**	**18.58%**

The relative high levels of capitalization shown by the Bank reflect the commitment of the Board of Directors to maintaining a solid capital base, which supports its depositors and allows it to meet growth needs, as well as unexpected adverse events that may affect the Bank's operations.

C. Results of Operations for the three months ended March 31st, 2019 and 2018

The following table presents the Bank´s principal consolidated results of operations for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31		
	2019	**2018**	**(%) Change**
	in thousands of U.S. dollars, except for percentages		
Net interest and comission income	**168,983**	**156,632**	**7.9%**
Total Provisions, net	**(13,893)**	**(12,600)**	**10.3%**
Other Income (expenses):			
Fees and other comissions	52,924	51,486	2.8%
Insurances premiums, net	8,024	7,018	14.3%
Loss (gain) on financial instruments, net	2,940	(2,615)	212.4%
Other Income, net	7,001	4,993	40.2%
Comissions expenses and other expenses	(23,331)	(20,828)	12.0%
Total other income, net	**47,558**	**40,055**	**18.7%**
General and administrative expenses	74,576	72,109	3.4%
Equity participation in associates	2,692	2,300	17.0%
Net income before income tax	**130,764**	**114,278**	**14.4%**
Income tax, net	(14,181)	(13,152)	7.8%
Net Income	**116,583**	**101,126**	**15.3%**

For the three months ended March 31, 2019, the Bank's net income was U.S.$116.58 million, which represents an increase of U.S.$15.46 million, or 15.3%, over the net profit of U.S.$101.13 million for the three months ended, March 2018. ROAE was 20.68%, compared to 19.41% in 2018, and the ROAA was 2.51%, as compared to 2.30% for the same period in 2018. These results in net income, ROAE and ROAA were mainly product of the following factors:

Net Interest and Commission Income

The following table presents the Bank's net interest and commission income and related average rate and margin information for the three months ended March 31, 2019 and 2018, respectively:

	For the Three Months Ended March 31		
	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)		
Total interest and commission income	265,062	237,765	11.5%
Total interest expenses	96,080	81,134	18.4%
Net interest and commission income	**168,983**	**156,632**	**7.9%**
Average interest-earning assets	17,017,084	16,127,150	5.5%
Average interest-bearing liabilities	12,563,474	11,976,679	4.9%
Net interest margin (1)(4)	3.97%	3.88%	2.2%
Average interest rate earned (2)(4)	6.23%	5.90%	5.7%
Average interest rate paid (3)(4)	3.06%	2.71%	12.9%

(1) Net interest and commission income (before provisions for possible loan losses) as a percentage of average total interest-earni
(2) Total interest and commission income divided by average interest earning assets
(3) Total interest expenses divided by average interest bearing liabilities
(4) Percentages for the three months ended are annualized

The 7.9% increase in net interest and commission income for the three months ended March 31, 2019, as compared to the same period for 2018, was primarily a result of: (i) a 5.5% increase in average interest-earning assets, which in turn was mainly due to 4.0% increase in the average loan portfolio, (ii) an 11.0% increase in net securities and other financial assets, and (iii) an increase in the Bank's net interest margin from 3.88% in 2018 to 3.97% in 2019 or 2.2%.

The increase in the Bank's net interest margin in the three months ended March 31, 2019, as compared to the same period in 2018, was primarily as a result of an increase in the average interest rate earned on interest-earning assets of 33 basis points, from 5.90% in 2018 to 6.23% in 2019, which was driven by: (i) an increase in the rate earned on our loan portfolio which increased 38 basis points from 6.92% in 2018 to 7.30% in 2019, and (ii) an increase in the interest rate earned in securities and other financial assets, which increased from 3.48% to 3.79%. This increase was offset by a 35 basis point increase in the average interest rate paid on average interest bearing liabilities, from 2.71% in 2018 to 3.06%, which in turn was driven by: (i) an 80 basis point increase in the average rate paid on medium - and long-term borrowings and placements which increased from 3.65% in 2018 to 4.45% in 2019, as a result of the increase in LIBOR rates (average LIBOR 3M rates for the three months ended March 2018 increased from 1.92% to 2.69% for the same period in 2019), and (ii) an increase in the cost of time deposits, which increased from 3.51% to 3.78%.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31		
	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)		
Total interest and commission income	**265,062**	**237,765**	**11.5%**
Average interest - earning assets:			
Deposits with banks	200,847	257,122	-21.9%
Loans, net	11,831,382	11,378,545	4.0%
Securities and other financial assets	4,984,855	4,491,482	11.0%
Total	**17,017,084**	**16,127,150**	**5.5%**
Average nominal rates earned:			
Deposits with banks (1)	3.96%	2.97%	
Loans, net (1)	7.30%	6.92%	
Securities and other financial assets (1)	3.79%	3.48%	
Total (1)	**6.23%**	**5.90%**	

(1) Percentages for the three months are annualized

The Bank´s interest and commission income is derived principally from a diversified loan portfolio, which represented 69.5% of the Bank's total average interest earning assets, generating 81.5% of total interest and commissions income in the quarter, which increased to U.S.$265.1 million, from U.S.$237.8 million or an 11.5%.

The 11.5% increase in total interest and commission income for the three months ended March 31, 2019, as compared to the same period in 2018, resulted from: (i) a 5.5% increase in average interest-earning assets as compared to the same period in 2018, and (ii) an increase in the average rate earned on interest-earning assets of 33 basis points, from 5.90% in 2018 to 6.23% in 2019 or a 5.7%.

The increase in average interest-earning assets was primarily driven by an 11.0% increase in average securities and other financial assets, and a 4.0% increase in average net loans, which in turn was mainly due to: (i) a 8.2% increase in consumer loans (credit cards increased 16.9%, and personal loans 8.2%), and (ii) sustained growth in the residential mortgage portfolio (increased by 5.8%).

The increase in the average rate earned on interest earning assets was primarily due to: (i) higher rates on loans which increased from 6.92% in 2018 to 7.30% in 2019, and (ii) an increase in the interest rate earned on securities and other financial assets, which increased from 3.48% in 2018 to 3.79% in 2019.

The following table presents the effect of changes in the Bank's interest and commission income as a result of changes in: (i) the average volume of interest earning assets, and (ii) the average nominal interest rate earned during the three months ended March 31, 2019 and 2018.

	Increase/Decrease
	First - Quarter 2018/2019
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - earning assets	13,120
Due to changes in average nominal interest rates earned	14,176
Net Change	**27,297**

The increase of U.S.$889.9 million in average interest earning assets for the year ended March 31, 2019, resulted in an increase of U.S.$13.1 million in interest and commission income for the period, while the increase in the average rate earned on interest-earning assets, from 5.90% to 6.23%, resulted in an increase of U.S.$14.2 million in interest and commission income as compared to the same period in 2018.

Total Interest Expenses

The following table presents information as to the Bank's total interest expenses for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31		
	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)		
Total interest expenses	**96,080**	**81,134**	**18.4%**
Average interest - bearing liabilties:			
Savings deposits	3,493,716	3,404,174	2.6%
Time deposits - clients	5,895,510	5,536,434	6.5%
Time deposits - interbank	78,770	108,961	-27.7%
Borrowings and placements	3,095,479	2,927,109	5.8%
Total	**12,563,474**	**11,976,679**	**4.9%**
Average nominal rates paid:			
Savings deposits(1)	0.65%	0.64%	
Time deposits - clients(1)	3.78%	3.51%	
Time deposits - interbank(1)	1.31%	1.10%	
Borrowings and placements(1)	4.45%	3.65%	
Total(1)	**3.06%**	**2.71%**	

(1)Percentages for the three months ended are annualized.

The Bank's total interest expenses is mainly attributable to interest paid on customer deposits, which represented 63.9% of the total interest expense for the three months ended for March 31, 2019, as compared to 66.7% for the same period in 2018.

The 18.4% increase in total interest expenses in the three months ended March 31, 2019 as compared to the same period in 2018, was mainly a result of: (i) a 4.9% increase in average interest-bearing liabilities, compared to the same period in 2018, and (ii) a 35 basis points, or 12.9% increase in the average rate paid on interest bearing liabilities, which increased from 2.71% in 2018 to 3.06% in 2019.

The increase in average interest-bearing liabilities was mainly due to: (i) a 6.5% increase in average client time deposits, the Bank's principal source of funding (ii) a 5.8% increase in average medium - and long-term borrowings and placements to complement deposit growth and fund loan growth, and (iii) a 2.6% growth in average savings deposits.

The increase in the average rate of interest paid on interest-bearing liabilities was mainly due to: (i) the increase in the cost of borrowings and placements, of 80 basis points, from 3.65% as of March 2018 to 4.45% in the same period in 2019, as a result of an increase in LIBOR rates (average LIBOR 3M rates for the three months ended March 2018 increased from 1.92% to 2.69% for the same period in 2019), and (ii) an increase in the cost of time deposits, which increased from 3.51% in 2018 to 3.78% in 2019.

The following table sets forth the effect of changes in the Bank's total interest expense as a result of changes in: (i) the average volume of interest-bearing liabilities, and (ii) the average nominal interest rates paid during the three months ended March 31, 2019 and 2018:

	Increase/Decrease
	First - Quarter 2018/2019
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - bearing liabilities	3,975
Due to changes in average nominal interest rates paid	10,971
Net change	**14,946**

The increase of U.S.$586.8 million in average interest-bearing liabilities for the three months ended March 31, 2019, resulted in an increase of U.S.$4.0 million in interest expense for the period, while the increase in the average rate paid on interest-bearing liabilities, from 2.71% to 3.06%, resulted in an increase of U.S.$11.0 million in interest expense as compared to the same period in 2018.

Provision for Loan Losses

The following table presents the Bank's allowance for loan losses, net of charge-offs and recoveries included in the Bank's results of operations for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31		
	2019	**2018**	**% Change**
	(in thousands of U.S. dollars, except for percentages)		
Balance at the beggining of period	158,531	144,832	9.5%
Changes due to implementation of IFRS 9	0	413	-100.0%
Provisions charged to expenses, net of recoveries	11,993	11,640	3.0%
Recovery of Charge-offs	5,517	4,461	23.7%
Charge-offs	(11,944)	(12,049)	-0.9%
Balance at the end of period	**164,096**	**149,297**	**9.9%**
Provisions to average loans	0.10%	0.10%	
Charge-offs[1] to average total loans	0.40%	0.42%	
Allowance to total loans	1.36%	1.29%	

[1] Percentages for the three months ended are annualized.

The provision, net of recoveries for loan losses of U.S.$12.0 million, or 0.10% of loans, was in line with the prior year as a result of a 4.6% growth in the loan portfolio in the quarter and improved credit quality. The provision of U.S.$12.0 million covered net charge-offs of U.S.$6.4 million, allowing the reserve to grow 3.51% in the first quarter of 2019 and, as a percentage of loans, to increase from 1.29% in the first quarter of 2018 to 1.36% in 2019.

As of March 31, 2019, the Bank's allowance for loan losses amounted to U.S.$164.1 million, representing a coverage of 131.79% of loans in non-accrual status, and a coverage of 106.22% of past due loans. We believe the allowance for loan losses adequately covers credit risk in the Bank's portfolio.

Other Income, Net

The following table presents the information as to the Bank's fees, commission and other income, net for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31		
	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)		
Fees and comission income, net	29,593	30,658	-3.5%
Insurance premiums, net	8,024	7,018	14.3%
Gain (loss) on financial instruments, net	2,940	(2,615)	212.4%
Other Income, Net	7,001	4,993	40.2%
Total of other income, net	**47,558**	**40,055**	**18.7%**

The 18.7% increase in total other income, net for the three months ended March 31, 2019 primarily reflects the following factors:

Fees and Commission Income, net

The 3.5% decrease in fees and commission income, net of commission expenses for the three months ended March 31, 2019, was mainly due to: (i) a 28.5% decrease in wealth management revenue, (ii) an 8.1% decrease in trust and corporate finance fees; and (iii) a 12.0% increase in commission and other expenses, mainly attributable to a 12.8% increase in credit and debit card commissions charges.

Insurance Premiums, net

Net insurance premiums, increased by 14.3% for the three months ended March 31, 2019, mainly due to: (i) the growth in life insurance premiums in the Bank's growing portfolio of residential mortgage, credit cards and personal loans.

Gain (loss) on Financial Instruments, net

The gain on financial instruments, net of U.S.$2.9 for the three months ended March 31, 2019, as compared to a loss of U.S.$2.6 million in 2018, was principally due to a decrease in U.S. interest rates.

Other income, net

Other income, net, increased by U.S.$2.0 million or 40.2%, in the three months ended March 31, 2019, compared to the same period in 2018 as a result of an increase in the Bank's pension fund assets returns.

General and Administrative Expenses

The following table presents the Bank's principal general and administrative expenses for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31		
	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)		
Salaries and Other Employee Expenses	43,828	42,378	3.4%
Depreciation and Amortization	6,426	5,824	10.3%
Premises and Equipment Expenses	6,772	6,628	2.2%
Other expenses	17,550	17,279	1.6%
Total	**74,576**	**72,109**	**3.4%**

The 3.4% increase in general and administrative expenses primarily reflects the growth of the Bank's business, with an increase of 3.7% in the loan portfolio and a 4.5% increase in deposits and borrowings, as well as the following:

Salaries and Other Personnel Expenses

Salaries and other personnel expenses represented 58.8% of total general and administrative expenses for the three months ended March 31, 2019, (March 2018: 58.8%). The 3.4% increase in salaries and other expenses was primarily attributable to salary increases during 2018.

Depreciation and Amortization Expenses

Total depreciation and amortization expenses increased by U.S.$0.6 million, or 10.3% for the three months ended March 31, 2019, primarily due to higher amortization of internally developed software. Primarily, our Personal Online Banking solution, the New Mobile Banking solution and new modules in the front end platform rolled out under the NORTE program.

Premises and Equipment Expenses

Premises and Equipment expenses, showed an increase of U.S.$0.14 million or 2.2% for the three months ended March 31, 2019, as compared to the same period in 2018; the increase was due to: (i) a U.S.$0.3 million expense in technological maintenance for an improvement in platforms and licenses, (ii) US$0.04 million in rent expense associated with branches in the Bank's network; and (i) a decrease of U.S.$0.2 million in maintenance of buildings.

Other Expenses

The 1.6% or U.S.$0.3 million increase in other expenses, in the three months ended March 31, 2019, compared to the same period in 2018, was mainly due to: (i) a 3.5% or U.S.$0.2 million increase, in legal and professional services, and (ii) an increase of U.S.$0.1 million or 4.4% in utility expenses.

Taxes

Income tax, net amounted to U.S.$14.2 million for the three months ended March 31, 2019, as compared to U.S.$13.2 million in 2018; presents a U.S.$1.0 million or 7.8% increase, as a result of a similar taxable income level.

Operational Efficiency

The Bank's operational efficiency was 34.02% for the three months ended March 31, 2019, as compared to 36.24% in 2018, principally as a result of: (a) a moderate increase in the Bank's general and administrative expenses of 3.4%, and (ii) a 10.2% increase in total revenues, principally caused by: (a) gain on financial instruments amounting to U.S.$2.94 million compared to a loss of U.S.$2.61 million in 2018, and (b) higher interest and commission income in loans and securities.

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Consolidated Income Statement
For the three months ended March 31st

	31-mar-19	31-dec-18	30-sept-18	30-jun-18	31-mar-18
	(in thousands of U.S. dollars)				
Total interest and commission income	265,062	262,725	255,630	247,445	237,765
Total interest expenses	(96,080)	(94,311)	(90,880)	(86,308)	(81,134)
Net interest and commission income	**168,983**	**168,415**	**164,750**	**161,137**	**156,632**
Provision for loan losses, net	(11,993)	(10,235)	(10,031)	(10,077)	(11,640)
Provision for securities impairment	(1,571)	(1,908)	493	79	(602)
Provision for foreclosed assets, net	(329)	(1,318)	(157)	(49)	(359)
Total Provisions, net	(13,893)	(13,461)	(9,695)	(10,047)	(12,600)
Net interest and commission income after provisions	**155,090**	**154,954**	**155,055**	**151,090**	**144,031**
Other Income (expenses):					
Fees and other commissions	52,924	57,027	52,772	51,612	51,486
Insurance premiums, net	8,024	8,177	7,583	7,219	7,018
Gain (loss) on financial instruments, net	2,940	(2,366)	(1,026)	(5,531)	(2,615)
Other income, net	7,001	9,016	6,367	5,273	4,993
Commissions expenses and other expenses	(23,331)	(22,552)	(21,089)	(20,809)	(20,828)
Total other income, net	**47,558**	**49,303**	**44,606**	**37,763**	**40,055**
General and administrative expenses	(74,576)	(74,735)	(74,144)	(72,979)	(72,109)
Equity participation in associates	2,692	2,671	2,510	2,453	2,300
Net income before income tax	**130,764**	**132,192**	**128,027**	**118,327**	**114,278**
Income tax, net	(14,181)	(15,308)	(15,835)	(14,321)	(13,152)
Net income	**116,583**	**116,884**	**112,192**	**104,006**	**101,126**

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Consolidated Balance Sheet
For the three months ended March 31st

	31-mar-19	31-dec-18	30-sep-18	30-jun-18	31-mar-18
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	760,347	694,202	648,250	770,284	728,451
Securities and other financial assets	4,951,416	5,188,000	4,672,062	4,700,895	4,517,009
Loans	12,040,009	11,952,385	11,846,119	11,792,722	11,612,336
Allowance for possible loans losses	(164,096)	(158,531)	(153,711)	(152,880)	(149,297)
Unearned comissions	(41,639)	(41,104)	(40,383)	(39,589)	(38,752)
Investments in associates	28,655	26,035	25,954	24,702	23,158
Other assets	983,516	1,043,171	1,044,139	1,079,202	984,006
Total assets	**18,558,208**	**18,704,157**	**18,042,430**	**18,175,336**	**17,676,911**
Liabilities and shareholder's equity					
Local deposits	11,579,423	11,668,832	11,190,632	11,113,262	11,125,907
Foreign deposits	530,824	559,475	429,623	419,744	413,678
Total Deposits	**12,110,247**	**12,228,307**	**11,620,255**	**11,533,005**	**11,539,586**
Securities sold under repurchase agreements	-	-	-	199,063	156,271
Medium and long term borrowings and placements	2,813,281	2,886,528	2,798,964	2,792,188	2,584,681
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,126,561	1,186,619	1,216,797	1,301,331	1,096,878
Shareholder's equity	2,290,439	2,185,023	2,188,734	2,132,069	2,081,816
Total liabilities and shareholder's equity	**18,558,208**	**18,704,157**	**18,042,430**	**18,175,336**	**17,676,911**
Operational data (in units)					
Number of customers (1)	957,382	951,034	936,944	924,448	915,835
Number of employees (2)	4,694	4,685	4,693	4,647	4,649
Number of branches(3)	86	86	86	85	85
Number of ATMs(3)	651	650	645	647	646
Assets under management (4)	11,244,951	10,885,827	10,965,562	11,098,135	10,726,613

(1) Total number of clients at the end of the period includes BG, BGO, BGCR and Profuturo clients.
(2) Total number of permanent full-time employees at the end of the period of BG & Subsidiaries
(3) Total number of branches and ATMs of BG and BGCR.
(4) In thousands of U.S. dollars. See note 26 of the Audited Financial Statements.

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Financial Ratios
For the three months ended March 31st

	31-mar-19	31-dec-18	30-sep-18	30-jun-18	31-mar-18
Profitability and efficiency:					
Net Interest Margin (1)(2)	3.97%	4.01%	3.98%	3.93%	3.88%
Return on average assets (1) (3)	2.51%	2.54%	2.49%	2.32%	2.30%
Return on average equity (1) (3)	20.68%	21.20%	20.64%	19.63%	19.41%
Efficiency (4)	34.02%	33.91%	35.00%	36.24%	36.24%
Operating expenses / average total assets (1) (3)	1.61%	1.63%	1.64%	1.63%	1.64%
Other income/ operating income (5)	23.47%	24.14%	22.34%	20.00%	21.76%
Liquidity:					
Primary Liquidity (6) / total deposits and obligations	27.48%	28.16%	26.13%	26.61%	25.62%
Regulatory Liquidity (7) / total deposits	42.07%	42.65%	38.55%	40.71%	38.91%
Loans, net / total client deposits	98.06%	97.15%	101.04%	101.31%	100.10%
Capital:	-	-	-	-	-
Total capital ratio (8)	20.31%	19.45%	19.83%	19.53%	19.36%
Tier 1 common equity ratio	18.50%	17.64%	17.99%	17.67%	17.47%
Total Tier 1 capital ratio (9)	20.31%	19.45%	19.83%	19.53%	19.36%
Equity / assets	12.34%	11.68%	12.13%	11.73%	11.78%
Earning retencion ratio (10)	52.57%	5.03%	55.20%	51.67%	50.29%
Asset quality:					
Past due loans (11)/ total loans	1.28%	1.15%	1.29%	1.21%	1.09%
Non accrual loans (12)/ total loans	1.03%	0.97%	0.94%	0.95%	0.84%
Allowance for possible loan losses / total loans	1.36%	1.33%	1.30%	1.30%	1.29%
Allowance for possible loan losses / past due loans	106.22%	115.03%	100.25%	106.80%	117.44%
Allowance for possible loan losses / non accrual loans	131.79%	137.14%	138.05%	136.92%	152.66%
Charge - offs(1) / total loans	0.40%	0.39%	0.53%	0.42%	0.42%

(1) Percentages are annualized
(2) Net interest margin refers to net interest and comission income divided by average interest-earning assets. Average interest-earning assets are determined on average monthly balances.
(3) Percentages have been calculated using monthly averages.
(4) Efficiency is defined as general and administrative expenses divided by the sum of net interest and comission income and other income equity participation in associates.
(5) Operating income is defined as the sum of net interest, comission income, and other income.
(6) Primary liquidity is comprised of: (a) cash and due from banks, (b) interest bearing deposits with banks , and (c) high quality (investment grade) fixed income securities including repos, fixed income mutual funds, treasury bills, negotiable CDs, commercial paper, corporate and sovereign bonds, MBS, CMOs and ABS.
(7) As defined in Accord 4-2018 by the SPB.
(8) Total capital as percentage of risk weighted assets, in accordance with the requirements of the SPB.
(9) Tier 1 capital as a percentage of assets based on risk weighted assets. In accordance with the requirements of the SPB.
(10) Earning retention ratio: net income from the period minus paid dividends from the period divided by net income.
(11) Past due loans: all loans past due 90+ days on interest and/or principal payments and all loans past due 30 days post maturity.
(12) Non accrual loans: all loans past due 90+ days on interest and/or principal payments, and residential mortgages past due 120+ days in accordance with SBP requirements.

D. Perspective Analysis

The Bank shows a solid balance with a healthy capitalization of 12.34% to total assets and 20.31% to risk weighted assets compared to a minimum of 8% required for the SBP; and high levels of legal liquidity of U.S.$3,175.3 million (liquid investments and asset quality) or 42.1% (above the 30% required under the parameters of Accord No. 004-2008)