Banco General

Management Discussion

Second 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, 2019, we adopted IFRS 16, Leases, which replaces IAS 17, Leases. Due to the application of IFRS 16 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(a) "Summary of Significant Accounting Policies" of the Condensed Consolidated Interim Financial Information as of June 2019, for more information.

I. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of June 30, 2019, the Bank's gross loan portfolio increased 1.5% from US$11,792.7 million in June 2018, to US$11,971.0 million. During this period, the Bank's residential mortgage portfolio grew 5.2%, to US$4,423.2 million; the consumer loan portfolio grew 8.2%, to US$1,852.9 million; and the corporate loan portfolio, comprised of both local and regional corporate clients, decreased 3.4% to US$5,150.4 million, and other loans (comprised of pledge loans, overdrafts and financial leases) grew from U.S$541.0 to U.S$544.4. The Bank's local corporate loan portfolio slightly decreased 3.4% or US$147.4 million, to US$4,195.5 million, and the Bank's regional corporate loan portfolio decreased 3.7%, or US$36.4 million, to US$955.0. 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 5.0%, from US$4,725.6 million in June 2018 to US$4,961.6 million in June 2019.

Total Liabilities

The Bank's total client deposits grew by US$645.9 million, or 5.6%, to US$12,096.5 million. Client time deposits, the Bank's main source of funding, increased by US$493.3 million, to US$6,121.3 million, representing 50.6% of total client deposits as of June 30, 2019, with an average remaining life of 15.7 months, and 72.3% having original maturities of more than one year. Savings accounts grew by US$92.0 million, to US$3,475.0 million or 28.7% of total client deposits, while demand deposits increased by US$60.6 million to US$2,500.1 million as of June 30, 2019, representing 20.7% of clients deposits.

In keeping with the Bank's financial policies, we have been able to develop and access medium- and long-term funding alternatives. As of June 30, 2019, the Bank's total medium and long-term borrowings and placements decreased by US$367.9 million, or 11.5%, to US$2,841.1 million as compared to the same period in 2018.

During the last twelve months, we have accessed various financing sources, among which the following is notable: (i) the Bank obtained a 4-year term financing for US$200 million, syndicated among 12 commercial banks in the United States, Europe and Asia, in October 2018.

Equity

As of June 30, 2019, the Bank's equity grew by 12.3%, or US$262.1 million, from US$2,132.1 million as of June 30, 2018 to US$2,394.1 million as of June 30, 2019, driven by an increase in retained earnings of US$196.0 million, with the Bank retaining 57.1% of its net profits in the period. The Bank's solid capital base allowed it to absorb a 3.3% asset growth, while maintaining healthy capitalization levels, with an equity to total assets ratio of 12.8% as of June 30, 2019, compared with 11.7% as of June 30, 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 17.3% 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 28.1% as of June 30, 2019, equivalent to US$4,151.1 million in primary liquidity. Liquid assets increased 7.4%, from US$3,864.4 million as of June 30, 2018, and a liquidity ratio of 26.6%. The Bank’s total primary liquidity has an average credit rating of AA-; 51.3% of liquid assets are AAA rated investments. As of June 30, 2019, these liquid assets represented 34.3% 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 June 30, 2019, the Bank maintained a regulatory liquidity of 42.5%, 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 June 30, 2019, total loans amounted to US$11,971.0 million, of which 43.0% was comprised of corporate loans (35.0% local corporate loans and 8.0% foreign corporate loans), 52.4% of retail loans (36.9% residential mortgages and 15.5% consumer loans); and 4.6%4.6% 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 June 30, 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 6.5% was backed by collateral of deposits and other guarantees at the Bank (secured loans and overdrafts). The combination of appropriate underwriting policies and high-quality guaranties 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 June 30, 2019, 89.4% of the Bank's loan portfolio was placed with local clients, who are borrowers (individuals and corporations) established in Panama, and 10.6% 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 June 30, 2019, 99.9% of the Bank's loans were denominated in US 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 June 30, 2019 and 2018, and as of December 31, 2018, 2017 and 2016:

	As of June 30			As of December 31		
	2019	**2018**	**% Change**	**2018**	**2017**	**2016**
	(in thousands of U.S. dollars, except for percentages)					
Local Loans						
Commercial	419,063	421,908	-0.7%	355,306	371,838	300,783
Interim construction loans	660,332	794,912	-16.9%	700,899	807,678	780,855
Lines of credit	1,197,100	1,270,953	-5.8%	1,235,506	1,301,407	1,233,583
Residential mortgage loans	4,187,703	3,949,661	6.0%	4,091,043	3,798,892	3,405,347
Commercial mortgage loans	1,918,990	1,855,116	3.4%	1,920,858	1,789,765	1,644,394
Installment loans to individuals	1,835,585	1,694,890	8.3%	1,776,981	1,652,578	1,513,916
Pledge loans and overdrafts	376,571	342,993	9.8%	356,635	333,660	313,490
Leasing	101,929	112,683	-9.5%	108,302	120,391	124,878
Total Local Loans	**10,697,273**	**10,443,116**	**2.4%**	**10,545,529**	**10,176,209**	**9,317,246**
Foreign Loans						
Commercial	372,626	369,842	0.8%	447,699	382,626	518,113
Interim construction loans	0	3,100	-100.0%	3,100	0	0
Lines of credit	330,564	370,408	-10.8%	351,265	317,635	307,604
Residential mortgage loans	235,532	255,865	-7.9%	249,376	254,472	251,639
Commercial mortgage loans	251,771	247,989	1.5%	259,581	259,842	276,622
Installment loans to individuals	17,292	17,104	1.1%	16,779	17,034	15,367
Pledge loans and overdrafts	65,914	85,297	-22.7%	79,055	98,242	82,419
Total Foreign Loans	**1,273,699**	**1,349,606**	**-5.6%**	**1,406,855**	**1,329,851**	**1,451,764**
Total Loans	**11,970,971**	**11,792,722**	**1.5%**	**11,952,385**	**11,506,061**	**10,769,010**
Allowance for loan losses	156,172	152,880	2.2%	158,531	144,832	128,917
Unearned discount	42,303	39,589	6.9%	41,104	38,255	35,511
Total loans, net	**11,772,497**	**11,600,253**	**1.5%**	**11,752,749**	**11,322,974**	**10,604,582**

As of June 30, 2019, the Bank's loan portfolio maintained low levels of non-accrual and past due loans, with levels of 1.01% (June 2018: 0.95%) and 1.24% (June 2018: 1.21%), respectively, of the total loan portfolio. As of June 30, 2019, the Bank's loan loss reserve coverage of past due loans was 105.40% (June 2018: 106.80%), and the coverage of non-accrual loans was 128.83% (June 2018:136.92%); charge-offs amounted to US$37.2 million or 0.62% (June 2018: 0.42%) of total loans. The growth in charge-offs was a result of an increase in corporate loans, which had specific reserves that covered the charge-offs amount, therefore the provision for the period wasn't affected.

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 June 30, 2019, and 2018, and as of December 31, 2018, 2017 and 2016:

	As of June 30			As of December 31		
	2019	2018	% Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Non accrual loans						
Commercial	8,340	475	1654.3%	8,931	395	5,608
Interim construction loans	2,019	6,477	-68.8%	2,424	7,238	6,170
Lines of credit	10,004	6,099	64.0%	15,157	6,525	4,389
Residential mortgage loans	62,224	51,442	21.0%	56,704	41,875	33,628
Commercial mortgage loans	12,125	14,591	-16.9%	8,580	11,106	9,427
Installment loans to individuals	25,864	30,742	-15.9%	22,499	20,811	19,147
Pledge loans and overdrafts	343	840	-59.2%	399	587	641
Leasing and factoring	300	986	-69.6%	906	1,193	935
Total Non accrual loans	**121,220**	**111,652**	**8.6%**	**115,601**	**89,729**	**79,947**
Total Loans	11,970,971	11,792,722		11,952,385	11,506,061	10,769,010
Allowance for loan losses	156,172	152,880		158,531	144,832	128,917
Non accrual loans as a percentage of total loans	1.01%	0.95%		0.97%	0.78%	0.74%
Allowance for loans losses as a percentage of non accrual loans	128.83%	136.92%		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 June 30, 2019 and 2018, and as of December 31, 2018, 2017 and 2016.

	As of June 30			As of December 31		
	2019	2018	% Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Past due loans						
Commercial	8,366	475	1659.7%	8,931	385	5,608
Interim construction loans	2,019	6,477	-68.8%	2,424	7,238	6,170
Lines of credit	10,448	5,952	75.5%	14,426	6,486	4,489
Residential mortgage loans	89,229	82,731	7.9%	78,966	69,565	56,322
Commercial mortgage loans	11,708	14,410	-18.7%	8,618	11,173	9,347
Installment loans to individuals	25,567	30,373	-15.8%	22,413	20,711	19,110
Pledge loans and overdrafts	533	1,743	-69.4%	1,131	1,344	1,074
Leasing and factoring	300	986	-69.6%	906	1,193	444
Total past due loans	**148,170**	**143,147**	**3.5%**	**137,815**	**118,096**	**102,564**
Total Loans	11,970,971	11,792,722		11,952,385	11,506,061	10,769,010
Allowance for loan losses	156,172	152,880		158,531	144,832	128,917
Past due loans as a percentage of total loans	1.24%	1.21%		1.15%	1.03%	0.95%
Allowance for loan losses as percentage of past due loans	105.40%	106.80%		115.03%	122.64%	125.70%

Allowance for Loan Losses

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 128.83% as of June 30, 2019. Additionally, the Bank's allowance for loan losses exceeds the requirements established by the SBP. As of June 30, 2019, the Bank's loan loss provision amounted to 1.30% of total loans.

The following table presents the breakdown of the allowance for loans losses as of June 30, 2019, and 2018 and as of December 31, 2018, 2017 and 2016:

	As of June 30			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	22,376	21,717	3.0%	41,983	44,485	45,532
Charge offs:						
Commercial	6,145	171	3490.9%	249	220	832
Interim construction loans	415	0	100.0%	207	261	0
Lines of credit	6,282	0	100.0%	607	1,462	1,909
Residential mortgage loans	588	465	26.4%	885	712	354
Commercial mortgage loans	5	0	100.0%	397	4	1,842
Installment loans to individuals	22,836	23,636	-3.4%	48,787	46,663	41,815
Autos	1,094	1,043	4.9%	1,869	1,543	1,128
Préstamos Personales	14,082	14,872	-5.3%	31,147	32,525	30,942
Tarjetas de Crédito	7,660	7,722	-0.8%	15,771	12,595	9,745
Pledge loans and overdrafts	660	176	274.3%	484	349	336
Leasing and factoring	305	114	166.4%	133	267	0
Total charge offs	**37,235**	**24,563**	**51.6%**	**51,750**	**49,938**	**47,088**
Recoveries	12,500	10,481	19.3%	23,053	21,368	18,198
Allowance at the end of period	**156,172**	**152,880**	**2.2%**	**158,531**	**144,832**	**128,917**
Total Loans	11,970,971	11,792,722		11,952,385	11,506,061	10,769,010
Allowance for loan losses as percentage of total loans	1.30%	1.30%		1.33%	1.26%	1.20%
Net charge-off to total loans[(1)]	0.41%	0.24%		0.24%	0.25%	0.27%
Charge-offs to total loans[(1)]	0.62%	0.42%		0.43%	0.43%	0.44%

[(1)]Percentages for June 2018 and 2019 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 June 30, 2019, our total regulatory capital amounted to US$2,560.4 million, or 266.0% of the total minimum capital required (Tier I and Tier II capital). The ratio of total capital to risk-weighted assets was 21.28%, comprised entirely of Tier I capital. Based on the Bank’s total risk-weighted assets of US$12,031.5 million as of June 30, 2019, in accordance with local regulatory requirements, we must maintain a total capital of 8%, or US$962.5 million. Our shareholder’s equity to total assets ratio was 12.75% as of June 2019; 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 June 30, 2019, the Dynamic Reserve balance was US$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 June 30, 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 June 30, 2019 and 2018, and as of December 31, 2018, 2017 and 2016:

	As of June 30		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	183,350	180,973	182,341	180,080	178,381
Other items comprehensive income	82,057	18,496	3,642	35,797	32,287
Retained earnings	1,627,732	1,432,082	1,498,282	1,329,585	1,121,180
Less: Regulatory adjustments	50,400	60,417	57,802	61,725	64,343
Total Regulatory Primary Capital (Tier 1)	**2,342,739**	**2,071,134**	**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	**2,560,419**	**2,288,814**	**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)	**2,560,419**	**2,288,814**	**2,344,143**	**2,201,416**	**1,985,185**
Risk-weighted assets	**12,031,506**	**11,720,898**	**12,053,460**	**11,521,593**	**10,684,527**
Capital ratios					
Total Primary Capital (Tier 1)	**21.28%**	**19.53%**	**19.45%**	**19.11%**	**18.58%**
Total capital (Tier I + Tier II)	**21.28%**	**19.53%**	**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 maintain 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 and six months ended June 30, 2019 and 2018

The following table presents the Bank´s principal consolidated results of operations for the three and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2019	2018	(%) Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Net interest and comission income	**175,729**	**161,137**	**9.1%**	**344,712**	**317,769**	**8.5%**
Total Provisions, net	**(10,776)**	**(10,047)**	**7.3%**	**(24,669)**	**(22,648)**	**8.9%**
Other Income (expenses):						0.0%
Fees and other comissions	55,784	51,612	8.1%	108,708	103,098	5.4%
Insurances premiums, net	7,733	7,219	7.1%	15,757	14,238	10.7%
Gain (loss) on financial instruments, net	6,003	(5,531)	208.5%	8,944	(8,146)	209.8%
Other Income, net	6,994	5,273	32.6%	13,995	10,266	36.3%
Comissions expenses and other expenses	(23,303)	(20,809)	12.0%	(46,634)	(41,637)	12.0%
Total other income, net	**53,212**	**37,763**	**40.9%**	**100,770**	**77,819**	**29.5%**
General and administrative expenses	75,811	72,979	3.9%	150,387	145,088	3.7%
Equity participation in associates	3,019	2,453	23.1%	5,711	4,753	20.2%
Net income before income tax	**145,373**	**118,327**	**22.9%**	**276,137**	**232,605**	**18.7%**
Income tax, net	(16,612)	(14,321)	16.0%	(30,793)	(27,473)	12.1%
Net Income	**128,761**	**104,006**	**23.8%**	**245,343**	**205,132**	**19.6%**

For the three months ended June 30, 2019, the Bank's net income was US$128.76 million, which represents an increase of US$24.75 million, or 23.8%, over the net profit of US$104.01 million for the three months ended, June 2018. ROAE was 21.89%, compared to 19.63% in 2018, and the ROAA was 2.76%, as compared to 2.32% 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 and six months ended June 30, 2019 and 2018, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2019	2018	% Change	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	272,961	247,445	10.3%	538,023	485,211	10.9%
Total interest expenses	97,231	86,308	12.7%	193,311	167,442	15.4%
Net interest and commission income	**175,729**	**161,137**	**9.1%**	**344,712**	**317,769**	**8.5%**
Average interest-earning assets	17,121,890	16,579,902	3.3%	17,155,214	16,437,704	4.4%
Average interest-bearing liabilities	12,544,865	12,155,135	3.2%	12,541,455	12,060,231	4.0%
Net interest margin [(1)(4)]	4.11%	3.89%	5.6%	4.02%	3.87%	3.9%
Average interest rate earned [(2)(4)]	6.38%	5.97%	6.8%	6.27%	5.90%	6.2%
Average interest rate paid [(3)(4)]	3.10%	2.84%	9.2%	5.50%	5.27%	4.3%

[(1)] Net interest and commission income (before provisions for possible loan losses) as a percentage of average total interest-earning assets for the indicated period
[(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 and six months ended are annualized

The 9.1% increase in net interest and commission income for the three months ended June 30, 2019, as compared to the same period for 2018, was primarily a result of: (i) an increase in the Bank's net interest margin from 3.89%

in 2018 to 4.11% in 2019, or 5.6%, and (ii) a 3.3% increase in average interest-earning assets, which in turn was mainly due to a 7.3% increase in net securities and other financial assets and a 2.3% increase in the average loan portfolio, net.

The increase in the Bank's net interest margin in the three months ended June 30, 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 41 basis points, from 5.97% in 2018 to 6.38% in 2019, which was driven by: (i) an increase in the rate earned on our loan portfolio which increased 43 basis points from 7.10% in 2018 to 7.53% in 2019, and (ii) an increase in the interest rate earned in securities and other financial assets, which increased from 3.54% to 3.89%. This increase was offset by a 26 basis point increase in the average interest rate paid on average interest bearing liabilities, from 2.84% in 2018 to 3.10%, which in turn was driven by: (i) a 47 basis point increase in the average rate paid on medium - and long-term borrowings and placements which increased from 3.95% in 2018 to 4.42% in 2019, as a result of the increase in LIBOR rates (average LIBOR 3M rates for the three months ended June 2018 increased from 2.34% to 2.51% for the same period in 2019); and (ii) an increase in the cost of time deposits, which increased from 3.60% to 3.87%.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the three and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2019	2018	% Change	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	**272,961**	**247,445**	**10.3%**	**538,023**	**485,211**	**10.9%**
Average interest - earning assets:						
Deposits with banks	362,123	427,431	-15.3%	366,881	416,461	-11.9%
Loans, net	11,801,173	11,532,296	2.3%	11,813,707	11,459,869	3.1%
Securities and other financial assets	4,958,594	4,620,175	7.3%	4,974,626	4,561,374	9.1%
Total	**17,121,890**	**16,579,902**	**3.3%**	**17,155,214**	**16,437,704**	**4.4%**
Average nominal rates earned:						
Deposits with banks [1]	2.73%	1.88%		2.43%	1.88%	
Loans, net [1]	7.53%	7.10%		7.42%	7.01%	
Securities and other financial assets [1]	3.89%	3.54%		3.84%	3.50%	
Total [1]	**6.38%**	**5.97%**		**6.27%**	**5.90%**	

[1] Percentages for the three and six months are annualized

The Bank´s interest and commission income is derived principally from a diversified loan portfolio, which represented 68.9% of the Bank's total average interest earning assets, generating 81.4% of total interest and commissions income in the quarter, which increased to US$273.0 million or a 10.3% in June 2019, from US$247.4 million in June 2018.

The 10.3% increase in total interest and commission income for the three months ended June 30, 2019, as compared to the same period in 2018, resulted from: (i) an increase in the average rate earned on interest-earning assets which increased from 5.97% in 2018 to 6.38% in 2019 or a 6.8%, and (ii) a 3.3% increase in average interest-earning assets as compared to the same period in 2018.

The increase in average interest-earning assets was primarily driven by a 7.3% increase in average securities and other financial assets, and a 2.3% increase in average net loans, which in turn was mainly due to: (i) an 8.2% increase in consumer loans (credit cards increased 17.0%, and personal loans 8.1%), and (ii) sustained growth in the residential mortgage portfolio (increased by 5.2%).

The increase in the average rate earned on interest earning assets was primarily due to: (i) higher rates on loans which increased from 7.10% in 2018 to 7.53% in 2019, and (ii) an increase in the interest rate earned on securities and other financial assets, which increased from 3.54% in 2018 to 3.89% 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 June 30, 2019 and 2018.

	Increase/Decrease
	Second - Quarter 2018/2019
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - earning assets	8,089
Due to changes in average nominal interest rates earned	17,426
Net Change	**25,515**

The increase of US$542.0 million in average interest earning assets for three months ended June 30, 2019, resulted in an increase of US$8.1 million in interest and commission income for the period, while the increase in the average rate earned on interest-earning assets, from 5.97% to 6.38%, resulted in an increase of US$17.4 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 and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2019	2018	% Change	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest expenses	**97,231**	**86,308**	**12.7%**	**193,311**	**167,442**	**15.4%**
Average interest - bearing liabilties:						
Savings deposits	3,496,263	3,393,719	3.0%	3,482,782	3,394,611	2.6%
Time deposits - clients	6,059,186	5,608,426	8.0%	5,975,529	5,569,737	7.3%
Time deposits - interbank	70,342	99,711	-29.5%	79,251	101,180	-21.7%
Borrowings and placements	2,919,074	3,053,279	-4.4%	3,003,893	2,994,703	0.3%
Total	**12,544,865**	**12,155,135**	**3.2%**	**12,541,455**	**12,060,231**	**4.0%**
Average nominal rates paid:						
Savings deposits(1)	0.68%	0.64%		0.67%	0.64%	
Time deposits - clients(1)	3.87%	3.60%		3.83%	3.56%	
Time deposits - interbank(1)	1.97%	1.11%		1.53%	1.14%	
Borrowings and placements(1)	4.42%	3.95%		4.44%	3.80%	
Total(1)	**3.10%**	**2.84%**		**3.08%**	**2.78%**	

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

The Bank's total interest expenses is mainly attributable to interest paid on customer deposits, which represented 66.4% of the total interest expense for the three months ended for June 30, 2019, as compared to 64.7% for the same period in 2018.

The 12.7% increase in total interest expenses in the three months ended June 30, 2019 as compared to the same period in 2018, was mainly a result of: (i) a 26 basis points, or 9.2% increase in the average rate paid on interest bearing liabilities, which increased from 2.84% in 2018 to 3.10% in 2019, and (ii) a 3.2% increase in average interest-bearing liabilities, compared to the same period in 2018.

The increase in average interest-bearing liabilities was mainly due to: (i) an 8.0% increase in average client time deposits, the Bank's principal source of funding, and (ii) a 3.0% growth in average savings deposits. This increase was slightly offset by a decrease in average medium - and long-term borrowings and placements.

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 47 basis points, from 3.95% as of June 2018 to 4.42% in the same period in 2019, as a result of an increase in LIBOR rates (average LIBOR 3M rates for the three months ended June 2018 increased from 2.34% to 2.51% for the same period in 2019); and (ii) an increase in the cost of time deposits, which increased 27 bps from 3.60% in 2018 to 3.87% 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 June 30, 2019 and 2018:

	Increase/Decrease Second - Quarter 2018/2019 (in thousands of U.S. dollars)
Due to changes in average volume of interest - bearing liabilities	2,767
Due to changes in average nominal interest rates paid	8,156
Net change	**10,923**

The increase of US$389.7 million in average interest-bearing liabilities for the three months ended June 30, 2019, resulted in an increase of US$2.8 million in interest expense for the period, while the increase in the average rate paid on interest-bearing liabilities, from 2.84% to 3.10%, resulted in an increase of US$8.2 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 and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2019	2018	% Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Balance at the beggining of period	164,096	149,297	9.9%	158,531	144,832	9.5%
Changes due to implementation of IFRS 9	0	0	0.0%	0	412,548	-100.0%
Provisions charged to expenses, net of recoveries	10,383	10,077	3.0%	22,376	21,717	3.0%
Recovery of Charge-offs	6,983	6,020	16.0%	12,500	10,481	19.3%
Charge-offs	(25,291)	(12,515)	102.1%	(37,235)	(24,563)	51.6%
Balance at the end of period	**156,172**	**152,880**	**2.2%**	**156,172**	**152,880**	**2.2%**
Provisions to average loans	0.09%	0.09%		0.19%	0.18%	
Charge-offs[1] to average total loans	0.85%	0.42%		0.62%	0.42%	
Allowance to total loans	1.30%	1.30%		1.30%	1.30%	

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

The provision, net of recoveries for loan losses of US$10.4 million, or 0.09% of loans, was in line with the prior year as compared to the same period in 2018. The provision of US$10.4 million partially covered net charge-offs of US$18.3 million, generating a 4.83% decrease to the reserve in the second quarter of 2019 and, as a percentage of loans, to remain stable in 1.30% in the second quarter of 2019.

As of June 30, 2019, the Bank's allowance for loan losses amounted to US$156.2 million, representing a coverage of 128.83% (June 2018:136.92%) of loans in non-accrual status, and a coverage of 105.40% (June 2018: 106.80%) 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 and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2019	2018	(%) Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Fees and comission income, net	32,481	30,803	5.4%	62,074	61,461	1.0%
Insurance premiums, net	7,733	7,219	7.1%	15,757	14,238	10.7%
Gain (loss) on financial instruments, net	6,003	(5,531)	208.5%	8,944	(8,146)	209.8%
Other Income, Net	6,994	5,273	32.6%	13,995	10,266	36.3%
Total of other income, net	**53,212**	**37,763**	**40.9%**	**100,770**	**77,819**	**29.5%**

The 40.9% increase in total other income, net for the three months ended June 30, 2019 primarily reflects the following factors:

Fees and Commission Income, net

The 5.4% increase in fees and commission income, net of commission expenses for the three months ended June 30, 2019, was mainly due to: (i) an 11.7% increase in credit and debit card operations and (ii) a 10.1% increase in banking services. This increase was offset by a 12.0% increase in commission and other expenses, mainly attributable to a (i) 10.3% increase in credit and debit card commissions charges; and (ii) a 16.9% increase in other commissions and banking services.

Insurance Premiums, net

Net insurance premiums, increased by 7.1% for the three months ended June 30, 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, and (ii) the growth in bankassurance premiums.

Gain (loss) on Financial Instruments, net

The gain on financial instruments, net of US$6.0 for the three months ended June 30, 2019, as compared to a loss of US$5.5 million in 2018, was principally due to a decrease in US interest rates.

Other income, net

Other income, net, increased by US$1.7 million or 32.6%, in the three months ended June 30, 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 and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2019	2018	(%) Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Salaries and other employee expenses	44,551	42,811	4.1%	88,379	85,190	3.7%
Depreciation and Amortization expenses	8,086	5,951	35.9%	14,513	11,776	23.2%
Premises and Equipment expenses	4,452	6,580	-32.3%	11,224	13,208	-15.0%
Other expenses	18,722	17,637	6.2%	36,271	34,915	3.9%
Total	**75,811**	**72,979**	**3.9%**	**150,387**	**145,088**	**3.7%**

The 3.9% increase in general and administrative expenses primarily reflects the growth of the Bank's business, with an increase of 1.5% in the loan portfolio and a 1.7% increase in deposits and borrowings, as well as the following:

Salaries and other employee expenses

Salaries and other employee expenses represented 58.8% of total general and administrative expenses for the three months ended June 30, 2019, (June 2018: 58.7%). The 4.1% increase in salaries and other expenses was primarily attributable to salary increases during 2019.

Depreciation and Amortization expenses

Total depreciation and amortization expenses increased by US$2.1 million, for the three months ended June 30, 2019, primarily due to: (i) an increase of US$0.3 million in amortization of internally developed software, primarily, our Online Banking solution, the New Mobile Banking solution and new modules in the front end platform rolled out under the NORTE program; and (ii) a US$1.8 million increase as a result of reclassification of expenses due to the adoption of the IFRS 16.

Premises and Equipment expenses

Premises and Equipment expenses, decreased by US$2.13 million or 32.3% for the three months ended June 30, 2019, as compared to the same period in 2018; due to a decrease in: (i) US$0.11 million in technological maintenance for an improvement in platforms and licenses, and (ii) a US$2.02 million as a result of reclassification of expenses due to the adoption of the IFRS 16.

Other expenses

The 6.2% or US$1.1 million increase in other expenses, in the three months ended June 30, 2019, compared to the same period in 2018, was mainly due to: (i) a US$0.64 million increase in legal and professional services, and (ii) an increase of US$0.75 million or 3.2% in other expenses.

Taxes

Income tax, net amounted to US$16.6 million for the three months ended June 30, 2019, as compared to US$14.3 million in 2018; this US$2.3 million or 16.0% increase, comes as a result of a higher taxable income as compared to the same period in 2018.

Operational Efficiency

The Bank's operational efficiency was 32.68% for the three months ended June 30, 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 3.9%, and (ii) an increase in total income of 15.2%, principally caused by: (a) gain on financial instruments, net amounting to US$6.00 million compared to a loss of US$5.53 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 June 30

	30-jun-19	31-mar-19	31-dec-18	30-sept-18	30-jun-18
	(in thousands of U.S. dollars)				
Total interest and commission income	272,961	265,062	262,725	255,630	247,445
Total interest expenses	(97,231)	(96,080)	(94,311)	(90,880)	(86,308)
Net interest and commission income	**175,729**	**168,983**	**168,415**	**164,750**	**161,137**
Total Provisions, net	(10,776)	(13,893)	(13,461)	(9,695)	(10,047)
Net interest and commission income after provisions	**164,953**	**155,090**	**154,954**	**155,055**	**151,090**
Other Income (expenses):					
Fees and other commissions	55,784	52,924	57,027	52,772	51,612
Insurance premiums, net	7,733	8,024	8,177	7,583	7,219
Gain (loss) on financial instruments, net	6,003	2,940	(2,366)	(1,026)	(5,531)
Other income, net	6,994	7,001	9,016	6,367	5,273
Commissions expenses and other expenses	(23,303)	(23,331)	(22,552)	(21,089)	(20,809)
Total other income, net	**53,212**	**47,558**	**49,303**	**44,606**	**37,763**
General and administrative expenses	(75,811)	(74,576)	(74,735)	(74,144)	(72,979)
Equity participation in associates	3,019	2,692	2,671	2,510	2,453
Net income before income tax	**145,373**	**130,764**	**132,192**	**128,027**	**118,327**
Income tax, net	(16,612)	(14,181)	(15,308)	(15,835)	(14,321)
Net income	**128,761**	**116,583**	**116,884**	**112,192**	**104,006**

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Consolidated Balance Sheet
For the three months ended June 30

	30-jun-19	31-mar-19	31-dec-18	30-sep-18	30-jun-18
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	831,617	760,347	694,202	648,250	770,284
Securities and other financial assets	4,930,860	4,951,416	5,188,000	4,672,062	4,700,895
Loans	11,970,971	12,040,009	11,952,385	11,846,119	11,792,722
Allowance for possible loans losses	(156,172)	(164,096)	(158,531)	(153,711)	(152,880)
Unearned comissions	(42,303)	(41,639)	(41,104)	(40,383)	(39,589)
Investments in associates	30,742	28,655	26,035	25,954	24,702
Other assets	1,209,734	983,516	1,043,171	1,044,139	1,079,202
Total assets	**18,775,450**	**18,558,208**	**18,704,157**	**18,042,430**	**18,175,336**
Liabilities and shareholder's equity					
Local deposits	11,625,143	11,579,423	11,668,832	11,190,632	11,113,262
Foreign deposits	527,086	530,824	559,475	429,623	419,744
Total Deposits	**12,152,230**	**12,110,247**	**12,228,307**	**11,620,255**	**11,533,005**
Securities sold under repurchase agreements	-	-	-	-	199,063
Medium and long term borrowings and placements	2,623,396	2,813,281	2,886,528	2,798,964	2,792,188
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,388,000	1,126,561	1,186,619	1,216,797	1,301,331
Shareholder's equity	2,394,144	2,290,439	2,185,023	2,188,734	2,132,069
Total liabilities and shareholder's equity	**18,775,450**	**18,558,208**	**18,704,157**	**18,042,430**	**18,175,336**
Operational data (in units)					
Number of customers (1)	976,671	957,382	951,034	936,944	924,448
Number of employees (2)	4,681	4,694	4,685	4,693	4,647
Number of branches(3)	87	86	86	86	85
Number of ATMs(3)	654	651	650	645	647
Assets under management (4)	11,617,826	11,244,951	10,885,827	10,965,562	11,098,135

(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 29 of the Audited Financial Statements.

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Financial Ratios
For the three months ended June 30

	30-jun-19	31-mar-19	31-dec-18	30-sep-18	30-jun-18
Profitability and efficiency:					
Net Interest Margin (1)(2)	4.14%	3.97%	4.01%	3.98%	3.93%
Return on average assets (1) (3)	2.76%	2.51%	2.54%	2.49%	2.32%
Return on average equity (1) (3)	21.89%	20.68%	21.20%	20.64%	19.63%
Efficiency (4)	32.68%	34.02%	33.91%	35.00%	36.24%
Operating expenses / average total assets (1) (3)	1.62%	1.61%	1.63%	1.64%	1.63%
Other income/ operating income (5)	24.39%	23.47%	24.14%	22.34%	20.00%
Liquidity:					
Primary Liquidity (6) / total deposits and obligations	28.09%	27.48%	28.16%	26.13%	26.61%
Regulatory Liquidity (7) / total deposits	42.50%	42.07%	42.65%	38.55%	40.71%
Loans, net / total client deposits	97.32%	98.06%	97.15%	101.04%	101.31%
Capital:					
Total capital ratio (8)	21.28%	20.31%	19.45%	19.83%	19.53%
Tier 1 common equity ratio	19.47%	18.50%	17.64%	17.99%	17.67%
Total Tier 1 capital ratio (9)	21.28%	20.31%	19.45%	19.83%	19.53%
Equity / assets	12.75%	12.34%	11.68%	12.13%	11.73%
Earning retention ratio (10)	57.06%	52.57%	5.03%	55.20%	51.67%
Asset quality:					
Past due loans (11)/ total loans	1.24%	1.23%	1.15%	1.29%	1.21%
Non accrual loans (12)/ total loans	1.01%	1.03%	0.97%	0.94%	0.95%
Allowance for possible loan losses / total loans	1.30%	1.36%	1.33%	1.30%	1.30%
Allowance for possible loan losses / past due loans	105.40%	110.75%	115.03%	100.25%	106.80%
Allowance for possible loan losses / non accrual loans	128.83%	131.79%	137.14%	138.05%	136.92%
Charge - offs(1) / total loans	0.85%	0.40%	0.39%	0.53%	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 4-2008 by the SBP

(8) Total capital as percentage of risk weighted assets, in accordance with the requirements of the SBP.

(9) Tier 1 capital as a percentage of assets based on risk weighted assets. In accordance with the requirements of the SBP.

(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 12.75% to total assets and 21.28% to risk weighted assets compared to a minimum of 8% required for the SBP; and high levels of legal liquidity of US$3,179.1 million (liquid investments and asset quality) or 42.50% (above the 30% required under the parameters of Accord No. 004-2008)