Banco General

Management Discussion

Third 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 September 2019, for more information.

I. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of September 30, 2019, the Bank's gross loan portfolio increased 2.0% from US$11,846.1 million in September 2018, to US$12,081.0 million. During this period, the Bank's residential mortgage portfolio grew 5.3%, to US$4,490.3 million; the consumer loan portfolio grew 7.4%, to US$1,875.1 million; the corporate loan portfolio, comprised of both local and regional corporate clients, decreased 2.2% to US$5,162.6 million, and other loans (comprised of pledge loans, overdrafts and financial leases) decreased from US$558.1 to US$552.9. The Bank's local corporate loan portfolio decreased 1.0% or US$43.3 million, to US$4,208.3 million, and the Bank's regional corporate loan portfolio decreased 6.9%, or US$70.6 million, to US$954.4. 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 9.2%, from US$4,698.0 million in September 2018 to US$5,128.2 million in September 2019.

Total Liabilities

The Bank's total client deposits grew by US$703.5 million, or 6.1%, to US$12,235.6 million. Client time deposits, the Bank's main source of funding, increased by US$521.8 million, to US$6,226.3 million, representing 50.9% of total client deposits as of September 30, 2019, with an average remaining life of 16.2 months, and 74.1% having original maturities of more than one year. Savings accounts grew by US$99.0 million, to US$3,514.5 million or 28.7% of total client deposits, while demand deposits increased by US$82.7 million to US$2,494.7 million as of September 30, 2019, representing 20.4% of client's 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 September 30, 2019, the Bank's total medium and long-term borrowings and placements decreased by US$384.5 million, or 12.7%, to US$2,632.1 million as compared to the same period in 2018.

During the last twelve months, we have accessed various financing sources, including a 4-year term financing for US$200 million, syndicated among twelve commercial banks in the United States, Europe and Asia, in October 2018.

Equity

As of September 30, 2019, the Bank's equity grew by 13.0%, or US$284.0 million, from US$2,188.7 million as of September 30, 2018 to US$2,472.7 million as of September 30, 2019, driven by an increase in retained earnings of US$207.3 million, with the Bank retaining 55.7% of net income for the nine months ended. The Bank's solid capital base allowed it to absorb a 4.9% asset growth, while maintaining healthy capitalization levels, with an equity to total assets ratio of 13.1% as of September 30, 2019, compared with 12.1% as of September 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 14.5% of total liabilities); and (iv) low levels of short-term institutional liabilities (2.4% 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 28.0% as of September 30, 2019, with US$4,142.8 million in primary liquidity. Liquid assets increased 10.0%, from US$3,767.6 million as of September 30, 2018, and a liquidity ratio of 26.1%. The Bank's total primary liquidity has an average credit rating of AA-; 48.4% of liquid assets are AAA rated investments. As of September 30, 2019, these liquid assets represented 33.9% of total deposits, and 21.9% 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 September 30, 2019, the Bank maintained a regulatory liquidity of 36.8%, 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 September 30, 2019, total loans amounted to US$12,081.0 million, of which 42.7% was comprised of corporate loans (34.8% local corporate loans and 7.9% foreign corporate loans), 52.7% of retail loans (37.2% residential mortgages and 15.5% consumer loans); and 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 September 30, 2019, 78.6% of all loans were secured by residential or commercial properties or deposits in the Bank; 71.9% of all loans were secured by first lien mortgages on land and improvements (residential mortgages, commercial mortgages and interim construction loans), and 6.7% 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 0.49% of total loans annually for the two years ended September 30, 2019.

As of September 30, 2019, 89.5% of the Bank's loan portfolio was placed with local clients, who are borrowers (individuals and corporations) established in Panama, and 10.5% 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 September 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 September 30, 2019 and 2018, and as of December 31, 2018, 2017 and 2016:

	As of September 30			As of December 31		
	2019	**2018**	**% Change**	**2018**	**2017**	**2016**
	(in thousands of U.S. dollars, except for percentages)					
Local Loans						
Commercial	476,006	384,110	23.9%	355,306	371,838	300,783
Interim construction loans	614,062	801,732	-23.4%	700,899	807,678	780,855
Lines of credit	1,113,061	1,206,603	-7.8%	1,235,506	1,301,407	1,233,583
Residential mortgage loans	4,262,875	4,013,014	6.2%	4,091,043	3,798,892	3,405,347
Commercial mortgage loans	2,005,150	1,859,114	7.9%	1,920,858	1,789,765	1,644,394
Installment loans to individuals	1,858,836	1,729,594	7.5%	1,776,981	1,652,578	1,513,916
Pledge loans and overdrafts	384,403	360,751	6.6%	356,635	333,660	313,490
Leasing	100,278	109,190	-8.2%	108,302	120,391	124,878
Total Local Loans	**10,814,670**	**10,464,109**	**3.4%**	**10,545,529**	**10,176,209**	**9,317,246**
Foreign Loans						
Commercial	367,237	366,865	0.1%	447,699	382,626	518,113
Interim construction loans	0	3,100	-100.0%	3,100	0	0
Lines of credit	329,627	390,414	-15.6%	351,265	317,635	307,604
Residential mortgage loans	227,470	251,807	-9.7%	249,376	254,472	251,639
Commercial mortgage loans	257,488	264,527	-2.7%	259,581	259,842	276,622
Installment loans to individuals	16,311	17,160	-5.0%	16,779	17,034	15,367
Pledge loans and overdrafts	68,228	88,136	-22.6%	79,055	98,242	82,419
Total Foreign Loans	**1,266,361**	**1,382,010**	**-8.4%**	**1,406,855**	**1,329,851**	**1,451,764**
Total Loans	**12,081,031**	**11,846,119**	**2.0%**	**11,952,385**	**11,506,061**	**10,769,010**
Allowance for loan losses	159,402	153,711	3.7%	158,531	144,832	128,917
Unearned discount	42,877	40,383	6.2%	41,104	38,255	35,511
Total loans, net	**11,878,752**	**11,652,025**	**1.9%**	**11,752,749**	**11,322,974**	**10,604,582**

As of September 30, 2019, the Bank's loan portfolio maintained low levels of non-accrual loans with levels of 1.04% (September 2018: 0.94%) and past due loans of 1.22% (September 2018: 1.29%). As of September 30, 2019, the Bank’s loan loss reserve coverage of past due loans was 107.97% (September 2018: 100.25%), and the coverage of non-accrual loans was 126.44% (September 2018:138.05%); charge-offs amounted to US$51.5 million or 0.57% (September 2018: 0.45%) of total loans. The growth in charge-offs resulted from an increase in corporate loan charge offs of 15 basis points, from 0.01% in the third quarter of 2018 to 0.16% in the third quarter of 2019; the loans charge off had specific reserves that covered the charge-offs amount, thus not impacting the provision for the period.

The Bank's charge-offs have been historically low; we attribute such behavior to the following factors: (i) the application of rigid and consistent underwriting 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 and our collection process.

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

	As of September 30			As of December 31		
	2019	2018	% Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Non accrual loans						
Commercial	6,657	170	3816.5%	8,931	395	5,608
Interim construction loans	1,966	6,176	-68.2%	2,424	7,238	6,170
Lines of credit	6,330	6,014	5.3%	15,157	6,525	4,389
Residential mortgage loans	52,091	40,228	29.5%	41,370	26,529	16,283
Preferential mortgage loans	16,931	15,695	7.9%	15,335	15,346	17,345
Commercial mortgage loans	17,945	12,470	43.9%	8,580	11,106	9,427
Installment loans to individuals	23,811	28,833	-17.4%	22,499	20,811	19,147
Pledge loans and overdrafts	264	830	-68.2%	399	587	641
Leasing and factoring	78	928	-91.6%	906	1,193	935
Total Non accrual loans	**126,071**	**111,343**	**13.2%**	**115,601**	**89,729**	**79,947**
Total Loans	12,081,031	11,846,119		11,952,385	11,506,061	10,769,010
Allowance for loan losses	159,402	153,711		158,531	144,832	128,917
Non accrual loans as a percentage of total loans	1.04%	0.94%		0.97%	0.78%	0.74%
Allowance for loans losses as a percentage of non accrual loans	126.44%	138.05%		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 September 30, 2019 and 2018, and as of December 31, 2018, 2017 and 2016.

	As of September 30			As of December 31		
	2019	2018	% Change	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)					
Past due loans						
Commercial	6,657	180	3598.9%	8,931	385	5,608
Interim construction loans	1,966	6,176	-68.2%	2,424	7,238	6,170
Lines of credit	7,402	9,735	-24.0%	14,426	6,486	4,489
Residential mortgage loans	66,260	63,533	4.3%	54,594	43,510	31,449
Preferential mortgage loans	26,334	31,039	-15.2%	24,373	26,055	24,873
Commercial mortgage loans	14,993	11,926	25.7%	8,618	11,173	9,347
Installment loans to individuals	23,453	28,455	-17.6%	22,413	20,711	19,110
Pledge loans and overdrafts	498	1,357	-63.3%	1,131	1,344	1,074
Leasing and factoring	78	928	-91.6%	906	1,193	444
Total past due loans	**147,641**	**153,329**	**-3.7%**	**137,815**	**118,096**	**102,564**
Total Loans	12,081,031	11,846,119		11,952,385	11,506,061	10,769,010
Allowance for loan losses	159,402	153,711		158,531	144,832	128,917
Past due loans as a percentage of total loans	1.22%	1.29%		1.15%	1.03%	0.95%
Allowance for loan losses as percentage of past due loans	107.97%	100.25%		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 126.44% as of September 30, 2019. Additionally, the Bank's allowance for loan losses exceeds the requirements established by the SBP. As of September 30, 2019, the Bank's loan loss provision amounted to 1.32% of total loans.

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

	As of September 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	32,475	31,748	2.3%	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	6,478	162	3887.7%	607	1,462	1,909
Residential mortgage loans	1,247	578	115.7%	885	712	354
Commercial mortgage loans	93	397	-76.7%	397	4	1,842
Installment loans to individuals	36,019	38,376	-6.1%	48,787	46,663	41,815
Auto	1,635	1,405	16.4%	1,869	1,543	1,128
Personal	23,169	25,239	-8.2%	31,147	32,525	30,942
Credit cards	11,215	11,732	-4.4%	15,771	12,595	9,745
Pledge loans and overdrafts	752	315	139.0%	484	349	336
Leasing and factoring	333	114	191.7%	133	267	0
Total charge offs	**51,483**	**40,114**	**28.3%**	**51,750**	**49,938**	**47,088**
Recoveries	19,878	16,832	18.1%	23,053	21,368	18,198
Allowance at the end of period	**159,402**	**153,711**	**3.7%**	**158,531**	**144,832**	**128,917**
Total Loans	12,081,031	11,846,119		11,952,385	11,506,061	10,769,010
Allowance for loan losses as percentage of total loans	1.32%	1.30%		1.33%	1.26%	1.20%
Net charge-off to total loans(1)	0.35%	0.26%		0.24%	0.25%	0.27%
Charge-offs to total loans(1)	0.57%	0.45%		0.43%	0.43%	0.44%

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 September 30, 2019, our total regulatory capital amounted to US$2,640.3 million, or 272.6% of the total minimum capital required (Tier I and Tier II capital). The ratio of total capital to risk-weighted assets was 21.81%, comprised entirely of Tier I capital. Based on the Bank's total risk-weighted assets of US$12,107.0 million as of September 30, 2019, in accordance with local regulatory requirements, we must maintain a total capital of 8%, or US$968.6 million. Our shareholder's equity to total assets ratio was 13.06% as of September 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 September 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 September 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 September 30, 2019 and 2018, and as of December 31, 2018, 2017 and 2016:

	As of September 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	183,887	181,469	182,341	180,080	178,381
Other items comprehensive income	87,253	13,234	3,642	35,797	32,287
Retained earnings	1,700,776	1,493,462	1,498,282	1,329,585	1,121,180
Less: Regulatory adjustments	49,271	60,493	57,802	61,725	64,343
Total Regulatory Primary Capital (Tier 1)	**2,422,646**	**2,127,672**	**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	**2,640,326**	**2,345,352**	**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)	**2,640,326**	**2,345,352**	**2,344,143**	**2,201,416**	**1,985,185**
Risk-weighted assets	**12,107,029**	**11,829,669**	**12,053,460**	**11,521,593**	**10,684,527**
Capital ratios					
Total Primary Capital (Tier 1)	**21.81%**	**19.83%**	**19.45%**	**19.11%**	**18.58%**
Total capital (Tier I + Tier II)	**21.81%**	**19.83%**	**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 nine months ended September 30, 2019 and 2018

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

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019	2018	(%) Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Net interest and comission income	**177,794**	**164,750**	**7.9%**	**522,506**	**482,519**	**8.3%**
Total Provisions, net	**(10,725)**	**(9,695)**	**10.6%**	**(35,394)**	**(32,343)**	**9.4%**
Other Income (expenses):						0.0%
Fees and other comissions	58,817	52,772	11.5%	167,525	155,869	7.5%
Insurances premiums, net	8,834	7,583	16.5%	24,591	21,821	12.7%
Gain (loss) on financial instruments, net	2,036	(1,026)	298.4%	10,980	(9,172)	219.7%
Other Income, net	7,065	6,367	11.0%	21,060	16,633	26.6%
Comissions expenses and other expenses	(23,608)	(21,089)	11.9%	(70,242)	(62,726)	12.0%
Total other income, net	**53,144**	**44,606**	**19.1%**	**153,914**	**122,425**	**25.7%**
General and administrative expenses	77,304	74,144	4.3%	227,691	219,232	3.9%
Equity participation in associates	2,502	2,510	-0.3%	8,213	7,263	13.1%
Net income before income tax	**145,411**	**128,027**	**13.6%**	**421,548**	**360,632**	**16.9%**
Income tax, net	(16,729)	(15,835)	5.6%	(47,523)	(43,308)	9.7%
Net Income	**128,682**	**112,192**	**14.7%**	**374,025**	**317,324**	**17.9%**

For the three months ended September 30, 2019, the Bank's net income was US$128.68 million, which represents an increase of US$16.49 million, or 14.7%, over the net profit of US$112.19 million for the three months ended, September 2018. ROAE was 21.02%, compared to 20.64% in 2018, and the ROAA was 2.71%, as compared to 2.49% 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 nine months ended September 30, 2019 and 2018, respectively:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019	2018	% Change	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	275,422	255,630	7.7%	813,445	740,840	9.8%
Total interest expenses	97,627	90,880	7.4%	290,939	258,321	12.6%
Net interest and commission income	**177,794**	**164,750**	**7.9%**	**522,506**	**482,519**	**8.3%**
Average interest-earning assets	17,271,868	16,677,045	3.6%	17,208,417	16,504,755	4.3%
Average interest-bearing liabilities	12,537,018	12,238,688	2.4%	12,544,507	12,107,400	3.6%
Net interest margin (1)(4)	4.12%	3.95%	4.2%	4.05%	3.90%	3.9%
Average interest rate earned (2)(4)	6.38%	6.13%	4.0%	6.30%	5.98%	5.3%
Average interest rate paid (3)(4)	3.11%	2.97%	4.9%	3.09%	2.84%	8.7%

(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 nine months ended are annualized

The 7.9% increase in net interest and commission income for the three months ended September 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 3.95% in 2018 to 4.12% in 2019, or 4.2%, and (ii) a 3.6% increase in average interest-earning assets, which in turn was mainly due to an 8.4% increase in net securities and other financial assets and an 1.8% increase in the average loan portfolio, net.

The increase in the Bank's net interest margin in the three months ended September 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 25 basis points, from 6.13% in 2018 to 6.38% in 2019, which was driven by: (i) an increase in the rate earned on our loan portfolio which increased 35 basis points from 7.27% in 2018 to 7.62% in 2019, and (ii) an increase in the interest rate earned in securities and other financial assets, which increased 14 basis points from 3.61% to 3.75%. This increase was offset by a 14 basis point increase in the average interest rate paid on average interest bearing liabilities, from 2.97% in 2018 to 3.11%, which in turn was driven by: (i) a 13 basis point increase in the average rate paid on medium - and long-term borrowings and placements which increased from 4.18% in 2018 to 4.31% in 2019; and (ii) an increase in the cost of time deposits, which increased 24 basis points from 3.72% to 3.96%.

Total Interest and Commission Income

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

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019	**2018**	**% Change**	**2019**	**2018**	**% Change**
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	**275,422**	**255,630**	**7.7%**	**813,445**	**740,840**	**9.8%**
Average interest - earning assets:						
Deposits with banks	357,766	368,829	-3.0%	361,279	396,713	-8.9%
Loans, net	11,830,621	11,618,064	1.8%	11,824,593	11,509,108	2.7%
Securities and other financial assets	5,083,481	4,690,152	8.4%	5,022,545	4,598,933	9.2%
Total	**17,271,868**	**16,677,045**	**3.6%**	**17,208,417**	**16,504,755**	**4.3%**
Average nominal rates earned:						
Deposits with banks (1)	2.82%	2.18%		2.57%	1.99%	
Loans, net (1)	7.62%	7.27%		7.48%	7.10%	
Securities and other financial assets (1)	3.75%	3.61%		3.80%	3.54%	
Total (1)	**6.38%**	**6.13%**		**6.30%**	**5.98%**	

(1) Percentages for the three and nine months are annualized

The Bank´s interest and commission income is derived principally from a diversified loan portfolio, which represented 68.5% of the Bank's total average interest earning assets, generating 81.8% of total interest and commissions income in the quarter, which increased to US$275.4 million or a 7.7% in September 2019, from US$255.6 million in September 2018.

The 7.7% increase in total interest and commission income for the three months ended September 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 6.13% in 2018 to 6.38% in 2019 or 4.0%, and (ii) a 3.6% 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 8.4% increase in average securities and other financial assets, and a 1.8% increase in average net loans, which in turn was mainly due to: (i) an 7.4% increase in consumer loans (credit cards increased 16.1%, and personal loans 7.4%), and (ii) sustained growth in the residential mortgage portfolio (increased by 5.3%).

The increase in the average rate earned on interest earning assets was primarily due to: (i) higher rates on loans which increased from 7.27% in 2018 to 7.62% in 2019, and (ii) an increase in the interest rate earned on securities and other financial assets, which increased from 3.61% in 2018 to 3.75% 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 September 30, 2019 and 2018.

	Increase/Decrease
	Third - Quarter 2018/2019
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - earning assets	9,118
Due to changes in average nominal interest rates earned	10,674
Net Change	**19,792**

The increase of US$594.8 million in average interest earning assets for three months ended September 30, 2019, resulted in an increase of US$9.1 million in interest and commission income for the period, while the increase in the average rate earned on interest-earning assets, from 6.13% to 6.38%, resulted in an increase of US$10.7 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 nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019	2018	% Change	2019	2018	% Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest expenses	**97,627**	**90,880**	**7.4%**	**290,939**	**258,321**	**12.6%**
Average interest - bearing liabilties:						
Savings deposits	3,496,893	3,397,200	2.9%	3,489,199	3,396,808	2.7%
Time deposits - clients	6,167,396	5,674,264	8.7%	6,037,699	5,605,718	7.7%
Time deposits - interbank	92,151	88,207	4.5%	86,759	97,868	-11.4%
Borrowings and placements	2,780,578	3,079,017	-9.7%	2,930,849	3,007,006	-2.5%
Total	**12,537,018**	**12,238,688**	**2.4%**	**12,544,507**	**12,107,400**	**3.6%**
Average nominal rates paid:						
Savings deposits(1)	0.71%	0.66%		0.68%	0.65%	
Time deposits - clients(1)	3.96%	3.72%		3.87%	3.61%	
Time deposits - interbank(1)	1.83%	1.17%		1.58%	1.14%	
Borrowings and placements(1)	4.31%	4.18%		4.40%	3.95%	
Total(1)	**3.11%**	**2.97%**		**3.09%**	**2.84%**	

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

The Bank's total interest expenses is mainly attributable to interest paid on customer deposits, which represented 68.9% of the total interest expense for the three months ended for September 30, 2019, as compared to 64.3% for the same period in 2018.

The 7.4% increase in total interest expenses in the three months ended September 30, 2019 as compared to the same period in 2018, was mainly a result of: (i) a 14 basis points, or 4.9% increase in the average rate paid on interest bearing liabilities, which increased from 2.97% in 2018 to 3.11% in 2019, and (ii) a 2.4% 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 8.7% increase in average client time deposits, the Bank's principal source of funding, and (ii) a 2.9% growth in average savings deposits. This increase was slightly offset by a 9.7% 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 13 basis points, from 4.18% as of September 2018 to 4.31% in the same period in 2019, and (ii) an increase in the cost of time deposits, which increased 24 basis points from 3.72% in 2018 to 3.96% 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 September 30, 2019 and 2018:

	Increase/Decrease Third - Quarter 2018/2019 (in thousands of U.S. dollars)
Due to changes in average volume of interest - bearing liabilities	2,215
Due to changes in average nominal interest rates paid	4,532
Net change	**6,748**

The increase of US$298.3 million in average interest-bearing liabilities for the three months ended September 30, 2019, resulted in an increase of US$2.2 million in interest expense for the period, while the increase in the average rate paid on interest-bearing liabilities, from 2.97% to 3.11%, resulted in an increase of US$4.5 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 nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019	2018	% Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Balance at the beggining of period	156,172	152,880	2.2%	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	10,099	10,031	0.7%	32,475	31,748	2.3%
Recovery of Charge-offs	7,378	6,351	16.2%	19,878	16,832	18.1%
Charge-offs	(14,247)	(15,550)	-8.4%	(51,483)	(40,114)	28.3%
Balance at the end of period	**159,402**	**153,711**	**3.7%**	**159,402**	**153,711**	**3.7%**
Provisions to average loans	0.08%	0.08%		0.27%	0.27%	
Charge-offs[1] to average total loans	0.47%	0.53%		0.57%	0.45%	
Allowance to total loans	1.32%	1.30%		1.32%	1.30%	

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

The provision, net of recoveries for loan losses of US$10.1 million, or 0.08% of loans, was in line with the prior year as compared to the same period in 2018. The provision of US$10.1 million covered net charge-offs of US$6.9 million, allowing the reserve to grow by 2.07% in the quarter, increasing as a percentage of total loans to 1.32%.

As of September 30, 2019, the Bank's allowance for loan losses amounted to US$159.4 million, representing a coverage of 126.44% (September 2018:138.05%) of loans in non-accrual status, and a coverage of 107.97% (September 2018: 100.25%) 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 nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019	2018	(%) Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Fees and comission income, net	35,209	31,682	11.1%	97,283	93,143	4.4%
Insurance premiums, net	8,834	7,583	16.5%	24,591	21,821	12.7%
Gain (loss) on financial instruments, ne	2,036	(1,026)	298.4%	10,980	(9,172)	219.7%
Other Income, Net	7,065	6,367	11.0%	21,060	16,633	26.6%
Total of other income, net	**53,144**	**44,606**	**19.1%**	**153,914**	**122,425**	**25.7%**

The 19.1% increase in total other income, net for the three months ended September 30, 2019 primarily reflects the following factors:

Fees and Commission Income, net

The 11.1% increase in fees and commission income, net of commission expenses for the three months ended September 30, 2019, was mainly due to: (i) a 12.8% increase in credit and debit card operations and (ii) an 11.9% increase in banking services. This increase was offset by an 11.9% increase in commission and other expenses, mainly attributable to: (i) a 10.7% increase in credit and debit card commission's charges; and (ii) a 16.9% increase in other commissions and banking services.

Insurance Premiums, net

Net insurance premiums, increased by 16.5% for the three months ended September 30, 2019, mainly due to: (i) a growth of 10.9% in life insurance premiums in the Bank's growing portfolio of residential mortgage, credit cards and personal loans, and (ii) the growth in bancassurance.

Gain (loss) on Financial Instruments, net

The gain on financial instruments, net of US$2.0 for the three months ended September 30, 2019, as compared to a loss of US$1.0 million in 2018, was principally due to a decrease in US interest rates and spread contraction.

Other income, net

Other income, net, increased by US$0.70 million or 11.0%, in the three months ended September 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 nine months ended September 30, 2019 and 2018:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019	2018	(%) Change	2019	2018	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Salaries and other employee expenses	45,488	43,846	3.7%	133,867	129,036	3.7%
Depreciation and Amortization expenses	7,073	6,290	12.5%	21,585	18,065	19.5%
Premises and Equipment expenses	5,236	6,045	-13.4%	16,460	19,252	-14.5%
Other expenses	19,507	17,963	8.6%	55,778	52,879	5.5%
Total	**77,304**	**74,144**	**4.3%**	**227,691**	**219,232**	**3.9%**

The 4.3% increase in general and administrative expenses primarily reflects the growth of the Bank's business, with an increase of 2.0% in the loan portfolio and a 2.7% 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 September 30, 2019, (September 2018: 59.1%). The 3.7% increase in salaries and other expenses was primarily attributable to salary increases in 2019.

Depreciation and Amortization expenses

Total depreciation and amortization expenses increased by US$0.8 million, for the three months ended September 30, 2019, primarily due to a US$0.95 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$0.81 million or 13.4% for the three months ended September 30, 2019, as compared to the same period in 2018; as a result of a decrease of US$1.02 million due to the adoption of IFRS 16, where there is no rental expense for rental agreements that apply to this standard.

Other expenses

The 8.6% or US$1.5 million increase in other expenses, in the three months ended September 30, 2019, compared to the same period in 2018, was mainly due to: (i) a US$1.07 million increase in legal and professional services, and (ii) an increase of US$0.61 million or 9.5% in other expenses.

Taxes

Income tax, net amounted to US$16.7 million for the three months ended September 30, 2019, as compared to US$15.8 million in 2018; this US$0.9 million or 5.6% 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 33.12% for the three months ended September 30, 2019, as compared to 35.00% in 2018, principally as a result of: (a) a moderate increase in the Bank’s general and administrative expenses of 4.3%, and (ii) an increase in total income of 10.2%, principally caused by: (a) gain on financial instruments, net amounting to US$2.04 million compared to a loss of US$1.03 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 September 30th

	30-sep-19	30-jun-19	31-mar-19	31-dec-18	30-sep-18
	(in thousands of U.S. dollars)				
Total interest and commission income	275,422	272,961	265,062	262,725	255,630
Total interest expenses	(97,627)	(97,231)	(96,080)	(94,311)	(90,880)
Net interest and commission income	**177,794**	**175,729**	**168,983**	**168,415**	**164,750**
Total Provisions, net	(10,725)	(10,776)	(13,893)	(13,461)	(9,695)
Net interest and commission income after provisions	**167,069**	**164,953**	**155,090**	**154,954**	**155,055**
Other Income (expenses):					
Fees and other commissions	58,817	55,784	52,924	57,027	52,772
Insurance premiums, net	8,834	7,733	8,024	8,177	7,583
Gain (loss) on financial instruments, net	2,036	6,003	2,940	(2,366)	(1,026)
Other income, net	7,065	6,994	7,001	9,016	6,367
Commissions expenses and other expenses	(23,608)	(23,303)	(23,331)	(22,552)	(21,089)
Total other income, net	**53,144**	**53,212**	**47,558**	**49,303**	**44,606**
General and administrative expenses	(77,304)	(75,811)	(74,576)	(74,735)	(74,144)
Equity participation in associates	2,502	3,019	2,692	2,671	2,510
Net income before income tax	**145,411**	**145,373**	**130,764**	**132,192**	**128,027**
Income tax, net	(16,729)	(16,612)	(14,181)	(15,308)	(15,835)
Net income	**128,682**	**128,761**	**116,583**	**116,884**	**112,192**

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

	30-sep-19	30-jun-19	31-mar-19	31-dec-18	30-sep-18
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	679,673	831,617	760,347	694,202	648,250
Securities and other financial assets	5,099,898	4,930,860	4,951,416	5,188,000	4,672,062
Loans	12,081,031	11,970,971	12,040,009	11,952,385	11,846,119
Allowance for possible loans losses	(159,402)	(156,172)	(164,096)	(158,531)	(153,711)
Unearned comissions	(42,877)	(42,303)	(41,639)	(41,104)	(40,383)
Investments in associates	28,321	30,742	28,655	26,035	25,954
Other assets	1,246,251	1,209,734	983,516	1,043,171	1,044,139
Total assets	**18,932,895**	**18,775,450**	**18,558,208**	**18,704,157**	**18,042,430**
Liabilities and shareholder's equity					
Local deposits	11,887,234	11,625,143	11,579,423	11,668,832	11,190,632
Foreign deposits	507,154	527,086	530,824	559,475	429,623
Total Deposits	**12,394,388**	**12,152,230**	**12,110,247**	**12,228,307**	**11,620,255**
Securities sold under repurchase agreements	241,358	-	-	-	
Medium and long term borrowings and placements	2,173,077	2,623,396	2,813,281	2,886,528	2,798,964
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,433,662	1,388,000	1,126,561	1,186,619	1,216,797
Shareholder's equity	2,472,730	2,394,144	2,290,439	2,185,023	2,188,734
Total liabilities and shareholder's equity	**18,932,895**	**18,775,450**	**18,558,208**	**18,704,157**	**18,042,430**
Operational data (in units)					
Number of customers [1]	1,012,692	986,565	957,382	951,034	936,944
Number of employees [2]	4,712	4,681	4,694	4,685	4,693
Number of branches[3]	87	87	86	86	86
Number of ATMs[3]	637	654	651	650	645
Assets under management [4]	11,608,396	11,617,826	11,244,951	10,885,827	10,965,562

(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 30 of the Audited Financial Statements.

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

	30-sep-19	30-jun-19	31-mar-19	31-dec-18	30-sep-18
Profitability and efficiency:					
Net Interest Margin (1)(2)	4.12%	4.14%	3.93%	3.97%	3.95%
Return on average assets (1) (3)	2.71%	2.76%	2.51%	2.54%	2.49%
Return on average equity (1) (3)	21.02%	21.89%	20.68%	21.20%	20.64%
Efficiency (4)	33.12%	32.68%	34.02%	33.91%	35.00%
Operating expenses / average total assets (1) (3)	1.63%	1.62%	1.61%	1.63%	1.64%
Other income/ operating income (5)	24.13%	24.39%	23.47%	24.14%	22.34%
Liquidity:					
Primary Liquidity (6) / total deposits and obligations	27.97%	28.09%	27.48%	28.16%	26.13%
Regulatory Liquidity (7) / total deposits	36.79%	42.50%	42.07%	42.65%	38.55%
Loans, net / total client deposits	97.08%	97.32%	98.06%	97.15%	101.04%
Capital:					
Total capital ratio (8)	21.81%	21.28%	20.31%	19.45%	19.83%
Tier 1 common equity ratio	20.01%	19.47%	18.50%	17.64%	17.99%
Total Tier 1 capital ratio (9)	21.81%	21.28%	20.31%	19.45%	19.83%
Equity / assets	13.06%	12.75%	12.34%	11.68%	12.13%
Earning retention ratio (10)	57.03%	57.06%	52.57%	5.03%	55.20%
Asset quality:					
Past due loans (11)/ total loans	1.22%	1.24%	1.28%	1.15%	1.29%
Non accrual loans (12)/ total loans	1.04%	1.01%	1.03%	0.97%	0.94%
Allowance for possible loan losses / total loans	1.32%	1.30%	1.36%	1.33%	1.30%
Allowance for possible loan losses / past due loans	107.97%	105.40%	106.22%	115.03%	100.25%
Allowance for possible loan losses / non accrual loans	126.44%	128.83%	131.79%	137.14%	138.05%
Charge - offs(1) / total loans	0.47%	0.85%	0.40%	0.39%	0.53%

(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 13.06% to total assets and 21.81% to risk weighted assets compared to a minimum of 8% required for the SBP; and high levels of legal liquidity of US$2,902.0 million (liquid investments and asset quality) or 36.79% (above the 30% required under the parameters of Accord No. 004-2008)