Management Discussion

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 audited consolidated financial statements 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. For more information, please refer to Note 3(a) "Summary of Significant Accounting Policies" of the audited consolidated financial information as of December 2019.

Recent Developments

Throughout 2019, the Bank continued to solidify its position as a digital leader by the development of "Yappy", a peer to peer (P2P) payment system integrated in our mobile banking app, reaching more than 217,000 customer affiliations and exceeding 1 million transactions in just six months. Additionally, the bank launched a "Simplified Savings Account", which can be opened via our digital channels and has generated more than 44,000 new accounts.

As a result of our efforts to improve the customer's digital experience and the continued high service level standards, we achieved the milestone of surpassing 1 million clients by the end of 2019.

I. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of December 31, 2019, the Bank's gross loan portfolio increased 1.1% from US$11,952.4 million in December 2018, to US$12,083.7 million. During this period, the Bank's residential mortgage portfolio grew 4.7%, to US$4,545.0 million; the consumer loan portfolio grew 6.5%, to US$1,910.2 million; and the corporate loan portfolio, comprised of both local and regional corporate clients, decreased 3.3% to US$5,100.2 million, and other loans (comprised of pledge loans, overdrafts and financial leases) decreased from US$544 million to US$528.3 million. The Bank's local corporate loan portfolio decreased 4.3% or US$179.2 million, to US$4,033.3 million, and the Bank's regional corporate loan portfolio slightly decreased 0.5%, or US$5.2 million, to US$1,066.8. 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, decreased 4.1%, from US$5,214.0 million in December 2018 to US$4,998.3 million in December 2019.

Total Liabilities

The Bank's total client deposits grew by US$258.7 million, or 2.1%, to US$12,356.5 million. Client time deposits, the Bank's main source of funding, increased by US$403.3 million, to US$6,150.0 million, representing 49.8% of total client deposits as of December 31, 2019, with an average remaining life of 15.5 months, and 75.4% having original maturities of more than one year. Savings accounts grew by US$83.1 million or 2.4%, to US$3,598.2 million representing 29.1% of total client deposits, while demand deposits decreased by US$227.7 million to US$2,608.3 million as of December 31, 2019, representing 21.1% of clients' deposits.

As of December 31, 2019, the Bank's total medium and long-term borrowings and placements decreased by US$568.0 million, or 18.3%, to US$2,536.2 million as compared to the same period in 2018.

Throughout the course of 2019, the Bank closed a medium-term loan with the International Financial Corporation (IFC) in the amount of US$150MM to increase access to mortgage finance for lower and middle-income families in the Republic of Panama, thus illustrating the confidence local and international markets have with the Bank.

Equity

As of December 31, 2019, the Bank's equity grew by 13.6%, or US$297.7 million, from US$2,185.0 million as of December 31, 2018 to US$2,482.7 million as of December 31, 2019, driven by an increase in retained earnings of US$204.8 million, with the Bank retaining 42.9% in 2019. The Bank maintains healthy capitalization levels, with an equity to total assets ratio of 13.3% as of December 31, 2019, compared with 11.7% as of December 31, 2018.

A. Liquidity and Funding Sources

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

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

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

Consistent with the Bank's conservative financial policies, we have historically maintained high levels of liquidity in investment-grade liquid investments, which are complemented by: (i) an adequate asset and liability maturity structure, (ii) a diversified and stable deposit base, (iii) medium and long-term financing (representing 13.1% of total liabilities); and (iv) low levels of short-term institutional liabilities (3.1% of total liabilities), all of which gives us a very stable asset and liability structure in the Bank's balance sheet.

The Bank's primary liquidity ratio, measured in terms of liquid assets (comprised of cash, bank deposits and investment-grade, liquid, fixed-income investments) to total deposits and borrowings, was 27.3% as of December 31, 2019, equivalent to US$4,032.1 million in primary liquidity. Liquid assets decreased by 5.3%, from US$4,257.1 million as of December 31, 2018, and a liquidity ratio of 28.2%. The Bank's total primary liquidity has an average credit rating of AA-; 50.6% of liquid assets are AAA rated investments. As of December 31, 2019, these liquid assets represented 32.6% of total deposits, and 21.5% 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 December 31, 2019, the Bank maintained a regulatory liquidity of 38.2%, 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 December 31, 2019, total gross loans amounted to US$12,083.7 million, of which 42.2% was comprised of corporate loans (33.4% local corporate loans and 8.8% foreign corporate loans), 53.4% of retail loans (37.6% residential mortgages and 15.8% consumer loans); and 4.4% in other loans (comprising of pledged loans, overdrafts, and financial leases).

To minimize 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 December 31, 2019, 77.1% of all loans were secured by residential or commercial properties or deposits in the Bank; 71.1% of all loans were secured by first lien mortgages on land and improvements (residential mortgages, commercial mortgages and interim construction loans), and 6.0% 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 0.48% of total loans annually in the two years ended December 31, 2019.

As of December 31, 2019, 88.6% of the Bank's loan portfolio was placed with local clients, who are borrowers (individuals and corporations) established in Panama, and 11.4% 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 December 31, 2019, 99.95% 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 December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Local Loans					
Commercial	397,805	355,306	371,838	12.0%	-4.4%
Interim construction loans	565,399	700,899	807,678	-19.3%	-13.2%
Lines of credit	1,050,023	1,235,506	1,301,407	-15.0%	-5.1%
Residential mortgage loans	4,321,904	4,091,043	3,798,892	5.6%	7.7%
Commercial mortgage loans	2,020,115	1,920,858	1,789,765	5.2%	7.3%
Installment loans to individuals	1,894,882	1,776,981	1,652,578	6.6%	7.5%
Pledge loans and overdrafts	358,283	356,635	333,660	0.5%	6.9%
Leasing	100,191	108,302	120,391	-7.5%	-10.0%
Total Local Loans	**10,708,602**	**10,545,529**	**10,176,209**	**1.5%**	**3.6%**
Foreign Loans					
Commercial	600,867	447,699	382,626	34.2%	17.0%
Interim construction loans	-	3,100	-	-100.0%	-
Lines of credit	257,641	351,265	317,635	-26.7%	10.6%
Residential mortgage loans	223,143	249,376	254,472	-10.5%	-2.0%
Commercial mortgage loans	208,335	259,581	259,842	-19.7%	-0.1%
Installment loans to individuals	15,323	16,779	17,034	-8.7%	-1.5%
Pledge loans and overdrafts	69,778	79,055	98,242	-11.7%	-19.5%
Total Foreign Loans	**1,375,087**	**1,406,855**	**1,329,851**	**-2.3%**	**5.8%**
Total Loans	**12,083,689**	**11,952,385**	**11,506,061**	**1.1%**	**3.9%**
Allowance for loan losses	165,159	158,531	144,832	4.2%	9.5%
Unearned commissions	43,302	41,104	38,255	5.3%	7.4%
Total loans, net	**11,875,228**	**11,752,749**	**11,322,974**	**1.0%**	**3.8%**

As of December 31, 2019, the Bank's loan portfolio maintained low levels of non-accrual loans with levels of 1.07% (December 2018: 0.97%) and past due loans of 1.27% (December 2018: 1.15%). As of December 31, 2019, the Bank’s loan loss reserve coverage of past due loans was 107.65% (December 2018: 115.03%), and the coverage of non-accrual loans was 127.67% (December 2018: 137.14%); charge-offs amounted to US$63.0 million or 0.52% (December 2018: 0.43%) 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 December 31, 2019, 2018, and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Non accrual loans					
Commercial	6,805	8,931	395	-23.8%	2159.1%
Interim construction loans	1,956	2,424	7,238	-19.3%	-66.5%
Lines of credit	6,538	15,157	6,525	-56.9%	132.3%
Residential mortgage loans	52,977	41,370	26,529	28.1%	55.9%
Preferential mortgage loans	16,923	15,335	15,346	10.4%	-0.1%
Commercial mortgage loans	20,425	8,580	11,106	138.0%	-22.7%
Installment loans to individuals	23,385	22,499	20,811	3.9%	8.1%
Pledge loans and overdrafts	234	399	587	-41.4%	-32.0%
Leasing and factoring	124	906	1,193	-86.3%	-24.1%
Total Non accrual loans	**129,365**	**115,601**	**89,729**	**11.9%**	**28.8%**
Total Loans	12,083,689	11,952,385	11,506,061		
Allowance for loan losses	165,159	158,531	144,832		
Non accrual loans as a percentage of total loans	1.07%	0.97%	0.78%		
Allowance for loans losses as a percentage of non accrual loans	127.67%	137.14%	161.41%		
Allowance for loan losses + Dynamic Reserve / non accrual loans	244.48%	267.86%	329.41%		

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 December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Past due loans					
Commercial	6,805	8,931	385	-23.8%	2219.4%
Interim construction loans	1,956	2,424	7,238	-19.3%	-66.5%
Lines of credit	6,538	14,426	6,486	-54.7%	122.4%
Residential mortgage loans	68,947	54,594	43,510	26.3%	25.5%
Preferential mortgage loans	25,391	24,373	26,055	4.2%	-6.5%
Commercial mortgage loans	20,164	8,618	11,173	134.0%	-22.9%
Installment loans to individuals	23,042	22,413	20,711	2.8%	8.2%
Pledge loans and overdrafts	460	1,131	1,344	-59.3%	-15.9%
Leasing and factoring	124	906	1,193	-86.3%	-24.1%
Total past due loans	**153,426**	**137,815**	**118,096**	**11.3%**	**16.7%**
Total Loans	12,083,689	11,952,385	11,506,061		
Allowance for loan losses	165,159	158,531	144,832		
Past due loans as a percentage of total loans	1.27%	1.15%	1.03%		
Allowance for loan losses as percentage of past due loans	107.65%	115.03%	122.64%		
Allowance for loan losses + Dynamic Reserve / past due loans	206.14%	224.69%	250.29%		

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 127.67% as of December 31, 2019. Additionally, the Bank's allowance for loan losses exceeds the requirements established by the SBP. As of December 31, 2019, the Bank's loan loss provision amounted to 1.37% of total loans (December 2018: 1.33%).

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

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Allowance at the beginning of period	158,531	144,832	128,917	9.5%	12.3%
Change due to implementation of IFRS 9	-	413	-	-100.0%	-
Provision charged to expenses, net of recoveries	41,954	41,983	44,485	-0.1%	-5.6%
Charge offs:				0.0%	0.0%
Commercial	6,236	249	220	2403.9%	13.3%
Interim construction loans	415	207	261	100.6%	-20.8%
Lines of credit	6,774	607	1,462	1016.3%	-58.5%
Residential mortgage loans	1,862	885	712	110.5%	24.4%
Commercial mortgage loans	434	397	4	9.3%	10042.0%
Installment loans to individuals	46,057	48,787	46,663	-5.6%	4.6%
Auto	*2,331*	*1,869*	*1,543*	*24.7%*	*21.1%*
Personal	*28,509*	*31,147*	*32,525*	*-8.5%*	*-4.2%*
Credit cards	*15,217*	*15,771*	*12,595*	*-3.5%*	*25.2%*
Pledge loans and overdrafts	864	484	349	78.6%	38.8%
Leasing and factoring	337	133	267	153.7%	-50.2%
Total charge offs	**62,981**	**51,750**	**49,938**	**21.7%**	**3.6%**
Recoveries	27,654	23,053	21,368	20.0%	7.9%
Allowance at the end of period	**165,159**	**158,531**	**144,832**	**4.2%**	**9.5%**
Total loans	12,083,689	11,952,385	11,506,061		
Allowance for loan losses as percentage of total loans	1.37%	1.33%	1.26%		
Allowance for loan losses + Dynamic Reserve / total loans	2.62%	2.59%	2.57%		
Net charge-off to total loans	0.29%	0.24%	0.25%		
Charge-offs to total loans	0.52%	0.43%	0.43%		

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+) and Standard & Poor's (BBB+).

As of December 31, 2019, our total regulatory capital amounted to US$2,646.1 million, or 254.8% of the total minimum capital required (Tier I and Tier II capital). The ratio of total capital to risk-weighted assets was 20.38%, comprised entirely of Tier I capital. Operational risk-weighted assets (December 2019: US$630.2 million) and market risk-weighted assets (December 2019: US$422.0 million) are included for the first time as of December 31, 2019, under the parameters of Accords No.11-2018 and No. 6-2019. Based on the Bank's total risk-weighted assets of US$12,983.3 million as of December 31, 2019, in accordance with local regulatory requirements, we must maintain a total capital of 8%, or US$1,038.7 million. Our shareholder's equity to total assets ratio was 13.26% as of December 2019; with a dividend payout ratio averaging 57.44% of our net income over the last five years ended December 31, 2019.

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 December 31, 2019, the Dynamic Reserve balance was US$152.3 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 December 31, 2019, all subsidiaries are in compliance with all of the minimum capital requirements applicable under the regulations.

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

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Regulatory Primary Capital (Tier 1)					
Common Shares	500,000	500,000	500,000	-	-
Legal reserve	186,240	182,341	180,080	2.1%	1.3%
Other items comprehensive income	89,125	3,642	35,797	2347.1%	-89.8%
Retained earnings	1,703,100	1,498,282	1,329,585	13.7%	12.7%
Less: Regulatory adjustments	50,074	57,802	61,725	-13.4%	-6.4%
Total Regulatory Primary Capital (Tier 1)	**2,428,391**	**2,126,463**	**1,983,736**	**14.2%**	**7.2%**
Additional Primary Capital (Tier I)					
Subordinated debt - perpetual bonds	217,680	217,680	217,680	-	-
Total Additional Primary Capital	**217,680**	**217,680**	**217,680**	-	-
Total Primary Capital	**2,646,071**	**2,344,143**	**2,201,416**	**12.9%**	**6.5%**
Total Capital (Tier I + Tier II)	**2,646,071**	**2,344,143**	**2,201,416**	**12.9%**	**6.5%**
Credit Risk Weighted Assets	11,931,120	12,053,460	11,521,593	-	-
Market Risk Weighted Assets (1)	422,023			-	-
Operational Risk Weighted Assets (1)	630,172			-	-
Total Risk-Weighted Assets	**12,983,315**	**12,053,460**	**11,521,593**	**7.7%**	**4.6%**
Capital ratios					
Total Primary Capital (Tier 1)	**20.38%**	**19.45%**	**19.11%**		
Total capital (Tier I + Tier II)	**20.38%**	**19.45%**	**19.11%**		

(1) Included under the parameters of Accords No. 11-2018 and No. 6-2019 of the Superintendence of Banks of Panama (SBP)

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 years ended December 31, 2019, 2018 and 2017

The following table presents the Bank´s principal consolidated results of operations for the years ended December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Net interest and comission income	**699,182**	**650,934**	**598,390**	**7.4%**	**8.8%**
Total Provisions, net	**(44,923)**	**(45,804)**	**(45,025)**	**-1.9%**	**1.7%**
Other Income (expenses):					
Fees and other comissions	229,221	212,897	199,462	7.7%	6.7%
Insurances premiums, net	33,930	29,998	26,885	13.1%	11.6%
Gain (loss) on financial instruments, net	15,348	(11,538)	16,477	233.0%	-170.0%
Other Income, net	28,608	25,649	39,086	11.5%	-34.4%
Comissions expenses and other expenses	(94,964)	(85,278)	(77,758)	11.4%	9.7%
Total other income, net	**212,143**	**171,727**	**204,152**	**23.5%**	**-15.9%**
General and administrative expenses	308,175	293,967	280,399	4.8%	4.8%
Equity participation in associates	10,898	9,934	8,570	9.7%	15.9%
Net income before income tax	**569,124**	**492,825**	**485,688**	**15.5%**	**1.5%**
Income tax, net	(64,858)	(58,616)	(55,941)	10.6%	4.8%
Net Income	**504,266**	**434,208**	**429,747**	**16.1%**	**1.0%**

As of December 31, 2019, the Bank's net income was US$504.3 million, which represents an increase of US$70.1 million, or 16.1%, over the net profit of US$434.2 million for December 2018. ROAE was 21.07%, compared to 20.21% in 2018, and the ROAA was 2.68%, as compared to 2.41% 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 years ended December 31, 2019, 2018 and 2017, respectively:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Total interest and commission income	1,086,146	1,003,566	891,651	8.2%	12.6%
Total interest expenses	386,964	352,632	293,261	9.7%	20.2%
Net interest and commission income	**699,182**	**650,934**	**598,390**	**7.4%**	**8.8%**
Average interest - earning assets	17,213,490	16,636,017	15,565,485	3.5%	6.9%
Average interest - bearing liabilities	12,502,839	12,179,112	11,360,764	2.7%	7.2%
Net interest margin (1)	4.06%	3.91%	3.84%		
Average interest rate earned (2)	6.31%	6.03%	5.73%		
Average interest rate paid (3)	3.10%	2.90%	2.58%		

(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

The 7.4% increase in net interest and commission income for 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 3.91% to 4.06%, or 15 basis points, and (ii) a 3.5% increase in average interest-earning assets, which in turn was mainly due to an 7.5% increase in net securities and other financial assets and an 2.2% increase in the average loan portfolio, net.

The increase in the Bank's net interest margin in 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 28 basis points, from 6.03% to 6.31%, which was driven by: (i) an increase in the rate earned on our loan portfolio which increased 35 basis points from 7.15% to 7.50%, and (ii) an increase in the interest rate earned in securities and other financial assets, which increased 16 basis points from 3.61% to 3.77%. This increase was offset by a 20 basis point increase in the average interest rate paid on average interest bearing liabilities, from 2.90% to 3.10%, which in turn was driven by: (i) a 34 basis point increase in the average rate paid on medium - and long-term borrowings and placements which increased from 4.05% to 4.39%; and (ii) an increase in the cost of time deposits, which increased 24 basis points from 3.66% to 3.90%.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the years ended December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Total interest and commission income	**1,086,146**	**1,003,566**	**891,651**	**8.2%**	**12.6%**
Average interest - earning assets:					
Deposits with banks	363,161	395,324	275,779	-8.1%	43.3%
Loans, net	11,825,641	11,566,997	10,976,984	2.2%	5.4%
Securities and other financial assets	5,024,688	4,673,696	4,312,723	7.5%	8.4%
Total	**17,213,490**	**16,636,017**	**15,565,485**	**3.5%**	**6.9%**
Average nominal rates earned:					
Deposits with banks	2.57%	2.01%	2.25%		
Loans, net	7.50%	7.15%	6.85%		
Securities and other financial assets	3.77%	3.61%	3.09%		
Total	**6.31%**	**6.03%**	**5.73%**		

The Bank´s interest and commission income is derived principally from a diversified loan portfolio, which represented 68.7% of the Bank's total average interest earning assets, generating 81.7% of total interest and commissions income for the period, which increased to US$1,086.1 million or 8.2% in December 2019, from US$1,003.6 million in December 2018.

The 8.2% increase in total interest and commission income for 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 6.03% to 6.31% or 28 basis points, and (ii) a 3.5% increase in average interest-earning.

The increase in average interest-earning assets was primarily driven by a 7.5% increase in average securities and other financial assets, and a 2.2% increase in average net loans, which in turn was mainly due to: (i) an 6.5% increase in consumer loans (credit cards increased 14.8%, personal loans increased 6.7%, and auto loans decreased 8%), and (ii) sustained growth in the residential mortgage portfolio, which increased by 4.7%.

The increase in the average rate earned on interest earning assets was primarily due to: (i) higher rates on loans which increased from 7.15% in 2018 to 7.50% 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 3.77% 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 years ended 2019, 2018 and 2017:

	(%) Change		
	2018/2019	2017/2018	2016/2017
	(in thousands of U.S. dollars)		
Due to changes in average volume of interest - earning assets	34,836	61,324	64,055
Due to changes in average nominal interest rates earned	47,744	50,591	19,199
Net Change	**82,580**	**111,915**	**83,254**

The increase of US$577.5 million in average interest earning assets for the year ended December 31, 2019, resulted in an increase of US$34.8 million in interest and commission income for the period, while the increase in the average rate earned on interest-earning assets, from 6.03% to 6.31%, resulted in an increase of US$47.7 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 years ended December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Total interest expenses (1)	**386,964**	**352,632**	**293,261**	**9.7%**	**20.2%**
Average interest - bearing liabilties:					
Savings deposits	3,505,368	3,400,839	3,320,687	3.1%	2.4%
Time deposits - clients	6,071,979	5,634,614	5,339,354	7.8%	5.5%
Time deposits - interbank	89,396	97,922	151,329	-8.7%	-35.3%
Borrowings and placements	2,836,096	3,045,737	2,549,394	-6.9%	19.5%
Total	**12,502,839**	**12,179,112**	**11,360,764**	**2.7%**	**7.2%**
Average nominal rates paid:					
Savings deposits	0.69%	0.65%	0.71%		
Time deposits - clients	3.90%	3.66%	3.44%		
Time deposits - interbank	1.66%	1.10%	0.78%		
Borrowings and placements (1)	4.39%	4.05%	3.34%		
Total	**3.10%**	**2.90%**	**2.58%**		

(1) 2019 includes an anticipated amortization of US$0.94 million due to the early repayment of a financial obligation

The Bank's total interest expenses is mainly attributable to interest paid on customer deposits, which represented 67.4% of the total interest expense for the year ended December 31, 2019, as compared to 64.7% for the same period in 2018.

The 9.7% increase in total interest expenses for 2019, as compared to the same period in 2018, was mainly a result of: (i) a 20 basis points increase in the average rate paid on interest bearing liabilities, which increased from 2.90% to 3.10%, and (ii) a 2.7% increase in average interest-bearing liabilities.

The increase in average interest-bearing liabilities was mainly due to: (i) a 7.8% increase in average client time deposits, the Bank's principal source of funding, and (ii) a 3.1% growth in average savings deposits. This increase was offset by a 6.9% 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 34 basis points, from 4.05% as of December 2018 to 4.39% in the same period in 2019, and (ii) an increase in the cost of time deposits, which increased 24 basis points from 3.66% in 2018 to 3.90% 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:

	(%) Change		
	2018/2019	2017/2018	2016/2017
	(in thousands of U.S. dollars)		
Due to changes in average volume of interest - bearing liabilities	9,373	21,124	22,854
Due to changes in average nominal interest rates paid	24,959	38,247	16,580
Net change	**34,332**	**59,371**	**39,435**

The increase of US$323.7 million in average interest-bearing liabilities for the year ended December 31, 2019, resulted in an increase of US$9.4 million in interest expense for the period, while the increase in the average rate paid on interest-bearing liabilities, from 2.90% to 3.10%, resulted in an increase of US$25.0 million in interest expense as compared to the same period in 2018.

Provision for Loan Losses

The following table presents the Bank's allowance for loan losses, net of charge-offs and recoveries included in the Bank's results of operations for the years ended December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Allowance for loan losses at the beginning of period	158,531	144,832	128,917	9.5%	12.3%
Changes due to implementation of IFRS 9	-	413	-	-100.0%	-
Provisions charged to expenses, net of recoveries	41,954	41,983	44,485	-0.1%	-5.6%
Recovery of Charge-offs	27,654	23,053	21,368	20.0%	7.9%
Charge-offs	(62,981)	(51,750)	(49,938)	21.7%	3.6%
Balance at the end of period	**165,159**	**158,531**	**144,832**	**4.2%**	**9.5%**
Total loans	12,083,689	11,952,385	11,506,061		
Net loan loss provisions to total loans	0.35%	0.35%	0.39%		
Charge-offs to total loans	0.52%	0.43%	0.43%		
Allowance to total loans	1.37%	1.33%	1.26%		

The provision, net of recoveries for loan losses of US$42.0 million, or 0.35% of total loans, was in line with the prior year. The net provision of US$42.0 million covered net charge-offs of US$35.3 million, supporting the small growth in net total loans of 1.0%, and allowed the allowance for loan losses to increase from 1.33% to 1.37% of total loans.

As of December 31, 2019, the Bank’s allowance for loan losses amounted to US$165.2 million, representing a coverage of 127.67% of loans in non-accrual status (December 2018: 137.14%), and a coverage of 107.65% of past due loans (December 2018: 115.03%). The allowance for loan losses adequately covers credit risk in the Bank’s loan portfolio.

Other Income, Net

The following table presents the information as to the Bank’s fees, commission and other income, net for the years ended December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Fees and comission income, net	134,257	127,619	121,704	5.2%	4.9%
Insurance premiums, net	33,930	29,998	26,885	13.1%	11.6%
Gain (loss) on financial instruments, net	15,348	(11,538)	16,477	233.0%	-170.0%
Other Income, net	28,608	25,649	39,086	11.5%	-34.4%
Total of other income, net	**212,143**	**171,727**	**204,152**	**23.5%**	**-15.9%**

The 23.5% increase in total other income, net for the year ended December 31, 2019 primarily reflects the following factors:

Fees and Commission Income, net

The 5.2% increase in fees and commission income, net of commission expenses for the year ended December 31, 2019, was mainly due to: (i) a 10.78% increase in credit and debit card operations and (ii) an increase in banking services.

Insurance Premiums, net

Net insurance premiums increased by 13.1% for the year ended December 31, 2019 mainly due to: (i) a growth of 14.1% in life insurance premiums in the Bank's growing portfolio of residential mortgage, credit cards and personal loans, and (ii) a growth of 259.1% in bancassurance products.

Gain (loss) on Financial Instruments, net

The gain on financial instruments, net of US$15.3 million for the year ended December 31, 2019, as compared to a loss of US$11.5 million in 2018, was principally due to a decrease in US interest rates.

Other income, net

Other income, net, increased by US$3.0 million or 11.5%, in the year ended December 31, 2019, compared to the same period in 2018 primarily as a result of an increase in the Bank’s pension fund assets returns. Furthermore, 2017 results benefited from a non-recurring gain of US$18.4 million from property sales related to the transfer to the Bank’s 31,200 thousand square meter Operating Center.

General and Administrative Expenses

The following table presents the Bank's principal general and administrative expenses for the years ended December 31, 2019, 2018 and 2017:

	As of December 31			(%) Change	
	2019	2018	2017	2018/2019	2017/2018
	(in thousands of U.S. dollars, except for percentages)				
Salaries and other employee expenses	178,977	173,009	165,675	3.4%	4.4%
Depreciation and Amortization expenses	28,600	24,984	22,214	14.5%	12.5%
Premises and Equipment expenses	22,316	25,306	23,925	-11.8%	5.8%
Other expenses	78,282	70,668	68,584	10.8%	3.0%
Total	**308,175**	**293,967**	**280,399**	**4.8%**	**4.8%**

The 4.8% increase in general and administrative expenses primarily reflects the growth of the Bank's business, with an increase of 1.1% in the gross loan portfolio and a 1.9% increase in deposits, as well as the following:

Salaries and other employee expenses

Salaries and other employee expenses represented 58.1% of total general and administrative expenses for the year ended December 31, 2019, (December 2018: 58.9%). The 3.4% 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$3.6 million, for the year ended December 31, 2019, primarily due to a US$3.7 million increase as a result of depreciation expense attributable to right-of-use assets.

Premises and Equipment expenses

Premises and equipment expenses decreased by US$3.0 million or 11.8% for the year ended December 31, 2019, as compared to the same period in 2018, mainly due to a decrease of US$4.0 million due to the adoption of IFRS 16, where there is no rental expense for rental agreements that apply to this standard. Such variation was partially offset by a US$1.0 million increase in technological maintenance for an improvement in platforms and licenses.

Other expenses

The 10.8% or US$7.6 million increase in other expenses, in 2019, compared to the same period in 2018, was mainly due to: (i) a US$5.6 million increase in professional services, and (ii) an increase of US$1.4 million in charitable contributions.

Taxes

Income tax, net amounted to US$64.9 million for the year ended December 31, 2019, as compared to US$58.6 million in 2018; this US$6.2 million or 10.6% 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 33.42% in 2019, as compared to 35.31% in 2018, principally as a result of: (a) a moderate increase in the Bank’s general and administrative expenses of 4.8%, and (ii) an increase in total income of 10.76%, principally caused by: (a) gain on financial instruments, net amounting to US$15.3 million compared to a loss of US$11.5 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 years ended December 31st

	2019	2018	2017	2016	2015
	(in thousands of U.S. dollars)				
Total interest and commission income	1,086,146	1,003,566	891,651	808,397	725,809
Total interest expenses	(386,964)	(352,632)	(293,261)	(253,826)	(219,227)
Net interest and commission income	**699,182**	**650,934**	**598,390**	**554,571**	**506,582**
Total Provisions, net	(44,923)	(45,804)	(45,025)	(46,321)	(29,578)
Net interest and commission income after provisions	**654,259**	**605,130**	**553,365**	**508,250**	**477,004**
Other Income (expenses):					
Fees and other commissions	229,221	212,897	199,462	179,744	161,873
Insurance premiums, net	33,930	29,998	26,885	22,498	17,688
Gain (loss) on financial instruments, net	15,348	(11,538)	16,477	4,639	(4,081)
Other income, net	28,608	25,649	39,086	18,080	21,581
Commissions expenses and other expenses	(94,964)	(85,278)	(77,758)	(72,253)	(65,943)
Total other income, net	**212,143**	**171,727**	**204,152**	**152,708**	**131,118**
General and administrative expenses	(308,175)	(293,967)	(280,399)	(254,896)	(240,457)
Equity participation in associates	10,898	9,934	8,570	8,040	5,569
Net income before income tax	**569,124**	**492,825**	**485,688**	**414,102**	**373,234**
Income tax, net	(64,858)	(58,616)	(55,941)	(48,714)	(44,567)
Net income	**504,266**	**434,208**	**429,747**	**365,388**	**328,666**

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Consolidated Balance Sheet
For the years ended December 31st

	2019	2018	2017	2016	2015
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	730,474	694,202	845,388	767,776	703,689
Securities and other financial assets	4,973,441	5,188,000	4,414,784	4,114,881	3,735,300
Loans	12,083,689	11,952,385	11,506,061	10,769,010	9,752,225
Allowance for possible loans losses	(165,159)	(158,531)	(144,832)	(128,917)	(112,275)
Unearned comissions	(43,302)	(41,104)	(38,255)	(35,511)	(32,091)
Investments in associates	24,881	26,035	22,076	18,591	17,394
Other assets	1,119,697	1,043,171	966,700	909,995	745,127
Total assets	**18,723,721**	**18,704,157**	**17,571,922**	**16,415,824**	**14,809,367**
Liabilities and shareholder's equity					
Local deposits	11,924,894	11,668,832	11,044,313	10,668,732	9,908,590
Foreign deposits	530,374	559,475	414,115	403,954	411,934
Total Deposits	**12,455,268**	**12,228,307**	**11,458,427**	**11,072,686**	**10,320,524**
Securities sold under repurchase agreements	403,947	-	45,815	273,300	238,006
Medium and long term borrowings and placements	1,914,581	2,886,528	2,661,365	1,950,624	1,595,932
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,249,506	1,186,619	1,142,792	1,069,348	816,157
Shareholder's equity	2,482,739	2,185,023	2,045,843	1,832,186	1,621,068
Total liabilities and shareholder's equity	**18,723,721**	**18,704,157**	**17,571,922**	**16,415,824**	**14,809,367**
Operational data (in units)					
Number of customers [1]	1,052,219	951,034	906,534	886,436	
Number of employees [2]	4,714	4,685	4,649	4,457	
Number of branches[3]	86	86	84	82	
Number of ATMs[3]	645	650	640	606	
Assets under management [4]	11,823,121	10,885,827	10,219,936	8,946,365	

[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 years ended December 31st

	2019	2018	2017	2016	2015
Profitability and efficiency:					
Net Interest Margin (1)	4.06%	3.91%	3.84%	3.85%	3.95%
Return on average assets (2)	2.68%	2.41%	2.53%	2.33%	2.35%
Return on average equity (2)	21.07%	20.21%	21.69%	20.57%	20.16%
Efficiency (3)	33.42%	35.31%	34.57%	35.63%	37.38%
Operating expenses / average total assets (2)	1.64%	1.63%	1.65%	1.63%	1.72%
Other income/ operating income (4)	24.49%	22.11%	26.95%	23.10%	21.56%
Liquidity:					
Primary Liquidity (5) / total deposits and obligations	27.29%	28.16%	26.12%	26.00%	25.38%
Regulatory Liquidity (6) / total deposits	38.21%	42.65%	38.81%	38.90%	37.86%
Loans, net / total client deposits	96.10%	97.15%	99.61%	96.62%	94.13%
Capital:					
Total capital ratio (7)	20.38%	19.45%	19.11%	18.58%	17.21%
Tier 1 common equity ratio	18.70%	17.64%	17.22%	16.54%	15.13%
Total Tier 1 capital ratio (8)	20.38%	19.45%	19.11%	18.58%	15.13%
Equity / assets	13.26%	11.68%	11.64%	11.16%	10.95%
Earning retention ratio (9)	42.89%	39.71%	48.81%	42.26%	39.15%
Asset quality:					
Past due loans (10)/ total loans	1.27%	1.15%	1.03%	0.95%	0.85%
Non accrual loans (11)/ total loans	1.07%	0.97%	0.78%	0.74%	0.72%
Allowance for possible loan losses / total loans	1.37%	1.33%	1.26%	1.20%	1.15%
Allowance for possible loan losses / past due loans	107.65%	115.03%	122.64%	125.70%	135.17%
Allowance for possible loan losses / non accrual loans	127.67%	137.14%	161.41%	161.25%	159.73%
(Allowance for possible loan losses + Dynamic Reserve) / past due loans	206.14%	224.69%	250.29%	272.68%	293.63%
(Allowance for possible loan losses + Dynamic Reserve) / non accrual loans	244.48%	267.86%	329.41%	349.82%	346.99%
Charge - offs / total loans	0.52%	0.43%	0.43%	0.44%	0.37%

(1) 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.
(2) Percentages have been calculated using monthly averages.
(3) 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.
(4) Operating income is defined as the sum of net interest, comission income, and other income.
(5) 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.
(6) As defined in Accord 4-2008 by the SPB.
(7) Total capital as percentage of risk weighted assets, in accordance with the requirements of the SPB.
(8) Tier 1 capital as a percentage of assets based on risk weighted assets. In accordance with the requirements of the SBP.
(9) Earning retention ratio: net income from the period minus paid dividends from the period divided by net income.
(10) Past due loans: all loans past due 90+ days on interest and/or principal payments and all loans past due 30 days post maturity.
(11) 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 13.26% to total assets and 20.38% to risk weighted assets compared to a minimum of 8% required for the SBP; and high levels of legal liquidity of US$3,121.3 million (liquid investments and asset quality) or 38.21% (above the 30% required under the parameters of Accord No. 4-2008)