Banco General, S.A.
Management Discussion
Third Quarter - 2020

General Information

Banco General, S.A., is a corporation organized and existing under the laws of Panama. The Bank operates in Panama under a General License issued by the Superintendence of Banks of Panama (“SBP”), which entitles it to carry out banking business with local and foreign clients. The Bank also conducts banking business in Costa Rica, through its Subsidiary, Banco General Costa Rica, S.A., and in Mexico, Colombia, Guatemala, El Salvador, and Peru through Representative Offices. All references to “we,” “us,” “our,” “the Bank” and “Banco General” are to Banco General, S.A. and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires, its consolidated subsidiaries.

The following discussion is based on the information contained in the condensed consolidated interim financial statements, as of September 30, 2020. Some figures (including percentages) in this document 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, some of the data in the current financial statements is not comparable with the data of prior years. For more information, please refer to Note 3(a) “Summary of Significant Accounting Policies" of the condensed consolidated interim financial statements as of September 2020.

Panamanian Government and the Superintendence of Banks Response to COVID-19

In response to the coronavirus pandemic and the ensuing negative economic outlook, the Panamanian Government, in an effort to safeguard the public health, adopted a series of protective measures and actions, including temporary closure of certain businesses and industries and mandatory confinement of the population. Similar actions have been adopted by governments in the other countries where the Bank operates.

To preserve the health and stability of the financial system, the Superintendence of Banks of Panama (SBP) issued agreement No. 02-2020 (March 16, 2020) as subsequently amended to date, to create a temporary regulation for loans classified as “Modified Loans”. Banks are required to evaluate the loans granted to individual and business clients, whose payment capacity has been affected by the outbreak of COVID-19 and the Government´s protective measures, and, if appropriate, provide temporary financial relief. To provide temporary financial relief banks can allow for the deferral of scheduled interest and/or principal payments (but only for loans that were not more than 91 days past due), as well as the amendment of other terms and conditions of the loans, as needed. The regulation defines a Modified Loan as a loan for which the original terms and conditions have been modified at the request of the borrower or at the Bank’s initiative, without being considered a restructured loan. The new terms and conditions of Modified Loans have to consider financial feasibility criteria based on the borrower’s capacity to pay and the bank’s credit policies. Credits that are modified through contractual payment deferrals or other modifications are subject to special monitoring by the Bank and if the borrower does not comply with the new terms and conditions will be classified as “Restructured Credits”.

The SBP, recently approved new amendments to agreement No. 2-2020, in which additional measures are established to adjust and comply with credit risk requirements applicable to all modified loans. In addition, banking entities must maintain provisions equivalent to three percent (3%) of the modified loan portfolio gross balance. On October 22, the SBP enacted a new amendment to the regulations which extends until June 30, 2021 the period to evaluate clients’ loans whose payment capacity has been affected and, if appropriate, provide temporary financial relief.

In addition to the previously mentioned relief measures issued by the SBP, on June 30, 2020, the Panamanian Government enacted Law No. 156, which allows for a moratorium on scheduled payments of mortgage loans, personal loans, car loans, credit cards, SME loans, commercial loans, loans to the transportation sector, and loans to the agriculture and livestock sector up until December 31, 2020. The moratorium is applicable to borrowers whose income and payment capacity, as determined by the lending bank, has been impaired by suspension or termination of employment contracts, the closing downs of businesses and other measures mandated by the Government to protect public health.

As of September 14, 2020, mandatory confinement and gender-based mobility restrictions were lifted; nationwide night-time curfew remains active. Additionally, as of September 28, 2020, the Government of Panama, in accordance to its nationwide plan to reactivate the economy, allowed businesses and industries to gradually restore several activities which included construction, manufacturing, mining, restaurants, retail stores, shopping centers and national aviation. This gradual reopening of the economy is subject to health and sanitary measures such as social distance and maximum capacity restrictions and the mandatory use of protective masks, among other measures.

On October 12, the Government of Panama officially opened its borders with the reopening of Tocumen International Airport and resumed international flights. The reopening of borders comes after months of strategic planning, which resulted in new health and safety protocols, enacted by the Ministry of Health, to safeguard the wellbeing of both Panamanians and international visitors.

Banco General's Response to COVID-19

During Banco General's 65 years of history we have been an integral part of Panama´s economic development. Today, more than ever, we are conscious of the role that the Bank must continue to play to contribute with the fight against COVID-19 and to restart the country´s economy. We have been closely monitoring the overall situation and have implemented, and will continue to implement, all of the necessary protocols and measures to mitigate the effects of the crisis by focusing on three main themes; our clients, our community, and our people.

For **our more than one million** clients we have implemented different measures to support those affected by the COVID-19 pandemic to cope and mitigate the impact of this crisis, including: (i) processing mortgage and consumer loans, (ii) providing payment deferrals to companies and individuals whose activities have been impacted by business closings, (iii) extending credit to corporations that remain operational, (iv) suspending home loan and auto loan foreclosures, and (v) waving fees and late payment charges, among others.

To preserve jobs, the Ministry of Labor and Social Works enacted regulations, which allowed corporations to suspend their employees without pay or with partial pay, until December 31, 2020. As a result of the above situation, the Bank has provided strong support and financial relief to its consumer, mortgage and corporate clients mostly through the deferral, on a monthly basis, of the contractual payments. As of September 30, 2020, the Bank maintains the following monthly payment deferrals: (i) 38.8% of residential mortgage clients, equivalent to US$1,878.2 million or 41.0% of the total outstanding residential mortgage portfolio; (ii) 26.4% of consumer clients, equivalent to US$542.7 million or 29.9% of the total outstanding consumer portfolio; and (iii) 7.3% of corporate clients, equivalent to US$1,095.6 million or 21.5% of the total outstanding corporate portfolio. We anticipate that with the progressive re opening by the government of economic activities a significant majority of our corporate clients will re-start operations, as well as individuals will return to their jobs, thus reducing the need for further financial relief.

As for **our community**, we maintain our commitment stronger than ever. In response to the COVID-19 pandemic, Banco General, through its non-profit volunteering foundation "Fundación Sus Buenos Vecinos" (FSBV), is working to protect the most vulnerable and prevent the spread of the virus, by focusing our efforts on three sectors:

- **Healthcare**: Disbursed more than US$0.93 million in donations of equipment, supplies, and tests to the Gorgas Commemorative Institute for Health Studies (main health and epidemiologic laboratory and hospital in Panama), responsible for analyzing COVID-19 tests and supervising the decentralization process for conducting test in other hospitals.

- **Food**: Disbursed more than US$3.0 million in donations for a special food program "Alimenta Una Vida", created to help more than 150 non-profit organizations, as well as other food related programs. This program is responsible for feeding more than 30,000 people in vulnerable conditions. In addition to providing significant economic resources, we have been supporting the operation with human capital. In addition to providing significant economic resources, we have been supporting the operation with human capital.

- **Non-Profit Organizations**: Execution without interruption of our foundation's annual US$7.4 million budget, strengthening social programs contributions, especially those relating to temporary housing for children and adolescents, nursing homes, and organizations whose objective is to serve vulnerable communities.

As for **our people**, we (i) implemented all the recommended measures by the local and international health authorities with the objective of making our work environment as safe as possible and, (ii) introduced initiatives to mitigate the effects of the crisis. To follow a summary of main aspects of the plan:

- On March 10th, we established the COVID-19 Operations Committee, which coordinates the strategic and operational management of the Bank's Continuity and Sustainability Plan, including: people, processes, business, clients, and communications.
- In the first fifteen days, we implemented our contingency plan for all our critical processes, and then we moved on to the sustainability phase where we implemented the contingency plan for the whole organization.
- The Bank continues to be 100% operational in all of its channels and has transitioned successfully into a physical/remote operation.
- As of September, the Bank had:
    - Approximately 1,780 employees working remotely and 2,000 on site. (which represents 86% of our labor force)
    - More than 300 employees on paid vacation.
    - Opened 49 branches (about 65%); expanded our call center capabilities and promoted the use of our digital channels to continue servicing our customers from their homes.
- In light of the ongoing pandemic, we have modified our physical infrastructure for the protection of our employees and clients by redesigning workstations, enhancing cleaning protocols, installing acrylic divisions in all customer service areas and alcohol gel dispensers in all of our offices and branches, providing masks, and applying diagnostic and serological tests to more than 50% of our employees.

I. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of September 30, 2020, the Bank's gross loan portfolio decreased 3.3% to US$11,680.1 million from US$12,081.0 million in September 2019. During this period, the Bank's residential mortgage portfolio grew 1.9%, from US$4,490.3 million to US$4,577.5 million; the consumer loan portfolio decreased 3.1%, from US$1,875.1 million to US$1,817.9 million; the corporate loan portfolio, comprised of both local and regional corporate clients, decreased 6.7% from US$5,162.6 million to US$4,816.8 million, and other loans (comprised of pledge loans, overdrafts and financial leases) decreased from US$552.9 million to US$467.9 million. The Bank's local corporate loan portfolio decreased 8.1% or US$340.8 million, from US$4,208.3 million to US$3,867.5 million, and the Bank's regional corporate loan portfolio decreased 0.5%, or US$5.0 million, from US$954.4 million to US$949.4. 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, increased 8.2%, from US$5,128.2 million in September 2019 to US$5,546.8 million in September 2020.

Total Liabilities

The Bank's total client deposits grew by US$804.4 million, or 6.6%, from US$12,235.6 million in September 2019 to US$13,040.0 million in September 2020. Client time deposits, the Bank's main source of funding, decreased by US$213.8 million, from US$6,226.3 million to US$6,012.5 million, representing 46.1% of total client deposits as of September 30, 2020, with an average remaining life of 15 months, and 70% having original maturities of more than one year. Savings accounts grew by US$700.6 million or 19.9%, from US$3,514.5 million to US$4,215.1 million representing 32.3% of total client deposits. Demand deposits increased by US$317.6 million from US $2,494.7 million to US$2,812.4 million as of September 30, 2020, representing 21.6% of client deposits.

As of September 30, 2020, the Bank's total medium and long-term borrowings and placements decreased by US$874.1 million, or 33.2%, from US$2,632.1 million to US$1,758.0 million as compared to the same period in the previous year.

Equity

As of September 30, 2020, the Bank's equity grew 7.6%, or US$187.9 million, from US$2,472.7 million as of September 30, 2019 to US$2,660.6 million as of September 30, 2020, driven by retained earnings of US$164.3 million, with the Bank retaining 43.8% of net income during this period. The Bank's equity to total assets ratio increased from 13.06% in September 2019 to 14.17% as of September 30, 2020.

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 that enable us to maintain interest rate, market, maturity and liquidity, and foreign exchange exposures, within the Bank's approved 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.

Our 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 policies require 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) access to medium and long-term financing (representing 9.98%

of total liabilities); and (iv) low levels of short-term institutional liabilities (1.04% of total liabilities), all of which gives us a 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 29.01% as of September 30, 2020, equivalent to US$4,235.1 million in primary liquidity. Liquid assets increased 2.2% from US$4,142.8 million as of September 30, 2019, resulting in a liquidity ratio of 27.97% as of such date. The Bank's total primary liquidity has an average credit rating of AA- and 47.7% of our liquid assets are AAA rated investments. As of September 30, 2020, these liquid assets represented 32.48% of total deposits, and 22.56% of total assets.

In addition to our own internal liquidity requirements, the Bank must comply with liquidity rules established by the SBP, which require banks to have liquid assets of no less than 30% of qualified deposits, 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. The loan installments and maturities can only account up to 30% of the total liquid assets used in this calculation. As of September 30, 2020, the Bank maintained a regulatory liquidity of 42.26%, complying with the requirements established by the SBP.

Loan Portfolio

The Bank's loan portfolio is well diversified across clients and products segments. As of September 30, 2020, total gross loans amounted to US$11,680.1 million, of which 41.2% was comprised of corporate loans (33.1% local corporate loans and 8.1% foreign corporate loans), 54.8% of retail loans (39.2% residential mortgages and 15.6% consumer loans); and 4.0% in other loans (comprising of pledged loans, overdrafts, and financial leases).

To minimize the risk of credit losses, we give priority to the granting of loans secured by collateral, particularly single-family residences, other real estate properties and/or deposits in the Bank, in addition to applying strict underwriting guidelines and "know your customer" policies. As of September 30, 2020, 78.0% of all loans were secured by residential or business properties or deposits in the Bank; 73.0% of all loans were secured by first lien mortgages on land and improvements (residential mortgages loans, commercial mortgages loans and interim construction loans), and 5.0% of all loans were backed by pledged deposits in the Bank and other types of liquid collaterals. The combination of sound underwriting policies and security interests held on collateral resulted in average gross charge-offs of 0.46% of total loans in the two years ended September 30, 2020.

As of September 30, 2020, 89.4% of the Bank's loan portfolio was comprised of local borrowers (individuals and corporations) based in Panama, and 10.6% was comprised of regional clients based in Costa Rica, Mexico, Colombia, Guatemala, El Salvador and Peru, including clients of our universal banking subsidiary in Costa Rica, Banco General (Costa Rica), S.A., which has 8 branches. As of September 30, 2020, 99.9% of the Bank's loans were denominated in US dollars, which is the legal tender in Panama. The Bank classifies its portfolios according to type of loan, economic activities, 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, 2020 and 2019, and as of December 31, 2019, 2018 and 2017:

	As of September 30			As of December 31		
	2020	**2019**	**(%) Change**	**2019**	**2018**	**2017**
	(in thousands of U.S. dollars, except for percentages)					
Local Loans						
Commercial	277,388	476,006	-41.7%	397,805	355,306	371,838
Interim construction loans	516,762	614,062	-15.8%	565,399	700,899	807,678
Lines of credit	1,024,017	1,113,061	-8.0%	1,050,023	1,235,506	1,301,407
Residential mortgage loans	4,369,769	4,262,875	2.5%	4,321,904	4,091,043	3,798,892
Commercial mortgage loans	2,049,307	2,005,150	2.2%	2,020,115	1,920,858	1,789,765
Personal loans, auto loans and credit cards	1,805,315	1,858,836	-2.9%	1,894,882	1,776,981	1,652,578
Pledge loans and overdrafts	315,691	384,403	-17.9%	358,283	356,635	333,660
Leasing	84,594	100,278	-15.6%	100,191	108,302	120,391
Total Local Loans	**10,442,845**	**10,814,670**	**-3.4%**	**10,708,602**	**10,545,529**	**10,176,209**
Foreign Loans						
Commercial	541,253	367,237	47.4%	600,867	447,699	382,626
Interim construction loans	-	-	0.0%	-	3,100	-
Lines of credit	210,972	329,627	-36.0%	257,641	351,265	317,635
Residential mortgage loans	207,721	227,470	-8.7%	223,143	249,376	254,472
Commercial mortgage loans	197,148	257,488	-23.4%	208,335	259,581	259,842
Personal loans, auto loans and credit cards	12,601	16,311	-22.7%	15,323	16,779	17,034
Pledge loans and overdrafts	67,595	68,228	-0.9%	69,778	79,055	98,242
Total Foreign Loans	**1,237,291**	**1,266,361**	**-2.3%**	**1,375,087**	**1,406,855**	**1,329,851**
Total Loans	**11,680,136**	**12,081,031**	**-3.3%**	**12,083,689**	**11,952,385**	**11,506,061**
Allowance for loan losses	308,317	159,402	93.4%	165,159	158,531	144,832
Unearned commissions	38,692	42,877	-9.8%	43,302	41,104	38,255
Total loans, net	**11,333,127**	**11,878,752**	**-4.6%**	**11,875,228**	**11,752,749**	**11,322,974**

Non-accrual Loans

SBP regulations require the classification of loans in a non-accrual status if any of the following conditions exist: (i) principal and interest payments exceed past due limits established by the SBP (91 days or more of principal and/or interest payments past due for all types of loans, except for mortgage loans and overdrafts which have a limit of 120 and 30 days, respectively); or (ii) the debtor's financial condition has been adversely affected (including by deterioration of the payment capacity, collateral weakness, and other factors known to us, such as fraud, death of the debtor, insolvency or bankruptcy) in a manner that places the collection of the loan at risk.

As previously mentioned, to preserve the health of the financial system, the SBP issued regulations, which allow banks to offer its clients financial relief measures through the deferral of payments of interest and/or principal based on the documented inability of the client to make the contractual debt payments due to the impact of COVID-19 measures restricting the normal operation of businesses, the temporary suspension of employees, and/or income reductions. The contractual payments of loans that have been deferred are not reported as past due. The bank only grants deferrals for loans with past due levels of 90 days or less.

The following table presents non-accrual loans, according to loan type, as of September 30, 2020 and 2019, and as of December 31, 2019, 2018 and 2017:

	As of September 30			As of December 31		
	2020	2019	(%) Change	2019	2018	2017
	(in thousands of U.S. dollars, except for percentages)					
Non accrual loans						
Commercial	6,055	6,657	-9.0%	6,805	8,931	395
Interim construction loans	1,956	1,966	-0.5%	1,956	2,424	7,238
Lines of credit	6,053	6,330	-4.4%	6,538	15,157	6,525
Residential mortgage loans	84,175	52,091	61.6%	52,977	41,370	26,529
Preferential mortgage loans	25,769	16,931	52.2%	16,923	15,335	15,346
Commercial mortgage loans	27,199	17,945	51.6%	20,425	8,580	11,106
Personal loans, auto loans and credit cards	5,875	23,811	-75.3%	23,385	22,499	20,811
Pledge loans and overdrafts	320	264	21.4%	234	399	587
Leasing	412	78	428.8%	124	906	1,193
Total non accrual loans	**157,813**	**126,071**	**25.2%**	**129,365**	**115,601**	**89,729**
Total Loans	11,680,136	12,081,031		12,083,689	11,952,385	11,506,061
Allowance for loan losses	308,317	159,402		165,159	158,531	144,832
Non accrual loans as a percentage of total loans	1.35%	1.04%		1.07%	0.97%	0.78%
Allowance for loans losses as a percentage of non accrual loans	195.37%	126.44%		127.67%	137.14%	161.41%
Allowance for loan losses + Dynamic Reserve / non accrual loans	291.85%	246.31%		245.36%	267.86%	329.41%

Non-accrual loans were US$157.8 million as of September 30, 2020, compared to US$126.1 million as of September 30, 2019. The US$31.7 million, or 25.2%, increase in non-accrual balances, was principally related to: (i) the loss of income of debtors due to the impact of COVID-19, and (ii) a reduction in our collection activities due to the general lockdowns and business closings resulting in substantial temporary employee suspensions. The Bank experienced a US$40.9 million increase in the residential and preferential mortgage non-accrual balance from US$69.0 million (0.57% of the total loan portfolio) to US$109.9 million (0.94% of the total loan portfolio), and a US$8.8 million increase in the corporate non-accrual balance from US$33.2 million (0.28% of the total loan portfolio) to US$42.0 million (0.35% of the total loan portfolio). The increase in the non-accrual balance described above was partially offset by a US$17.9 million decrease in the consumer loans non-accrual balance, as a consequence of the deferral of monthly payments of part of the portfolio, which resulted in fewer loans reaching non-accrual status.

Non-accrual loans represented 1.35% of total loans outstanding as of September 30, 2020, compared to 1.04% as of September 30, 2019. As September 30, 2020, the Bank´s allowance coverage for loan losses was 195.37% for non-accrual loans, as compared to 126.44% in 2019. Non-accrual balances are positively impacted by the relief measures implemented by the Bank, including the deferral of monthly schedule payments, as permitted by the laws and SBP regulations previously explained.

Past Due Loans

The Bank classifies the loans in its portfolio, as past due: (i) during the life of the loan, if schedule interest and/or principal payments are more than 90 days past due; and (ii) at the final maturity of the loan, if all amounts due are not paid after 30 days of the final maturity date.

The following table presents past due loans, according to loan type, as of September 30, 2020 and 2019, and as of December 31, 2019, 2018 and 2017:

	As of September 30			As of December 31		
	2020	2019	(%) Change	2019	2018	2017
	(in thousands of U.S. dollars, except for percentages)					
Past due loans						
Commercial	6,055	6,657	-9.0%	6,805	8,931	385
Interim construction loans	1,956	1,966	-0.5%	1,956	2,424	7,238
Lines of credit	6,241	7,402	-15.7%	6,538	14,426	6,486
Residential mortgage loans	88,368	66,260	33.4%	68,947	54,594	43,510
Preferential mortgage loans	26,411	26,334	0.3%	25,391	24,373	26,055
Commercial mortgage loans	27,297	14,993	82.1%	20,164	8,618	11,173
Personal loans, auto loans and credit cards	5,055	23,453	-78.4%	23,042	22,413	20,711
Pledge loans and overdrafts	415	498	-16.7%	460	1,131	1,344
Leasing	412	78	428.8%	124	906	1,193
Total past due loans	**162,210**	**147,641**	**9.9%**	**153,426**	**137,815**	**118,096**
Total Loans	11,680,136	12,081,031		12,083,689	11,952,385	11,506,061
Allowance for loan losses	308,317	159,402		165,159	158,531	144,832
Past due loans as a percentage of total loans	1.39%	1.22%		1.27%	1.15%	1.03%
Allowance for loan losses as percentage of past due loans	190.07%	107.97%		107.65%	115.03%	122.64%
Allowance for loan losses + Dynamic Reserve / past due loans	283.94%	210.32%		206.88%	224.69%	250.29%

Past due loans were US$162.2 million as of September 30, 2020, compared to US$147.6 million as of September 30, 2019. The US$14.6 million, or 9.9% increase in past due balances was principally related to: (i) the loss of income of debtors due to the impact of COVID-19, and (ii) a reduction in our collection activities due to the general lockdowns and business closings resulting in substantial temporary employee suspension. The Bank experienced a US$22.2 million increase in the residential and preferential mortgage past due balance from US$92.6 million (0.77% of the total loan portfolio) to US$114.8 million (0.98% of the total loan portfolio), and a US$10.8 million increase in the corporate past due balance from US$31.6 million (0.26% of the total loan portfolio) to US$42.4 million (0.35% of the total loan portfolio). The increase in the past due balance described above was partially offset by a US$18.4 million decrease in the consumer loans past due balance, as a consequence of the deferral of monthly payments of part of the portfolio, which resulted in fewer loans reaching past due status.

Past due loans represented 1.39% of total loans outstanding as of September 30, 2020, compared to 1.22% as of September 30, 2019. As September 30, 2020, the Bank´s allowance coverage for loan losses was 190.07% for past due loans, as compared to 107.97% in 2019. Past due balances are positively impacted by the relief measures implemented by the Bank, including the deferral of monthly schedule payments, as permitted by the laws and SBP regulations previously explained.

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 allowance for loan losses at amortized cost consists of expected credit losses (ECL) based on the loans' credit risk rating and the mechanisms used to determine the loans' probability of default depending on the impairment stage assigned to each. The ECL model is determined by grouping loans with similar credit risk characteristics, and segmented methodologies for "Consumer Banking" and "Corporate Banking". Both of these methodologies consist of probability of default, loss given default, and exposure to default estimates.

The expected credit loss (ECL) model presents three stages of impairment for financial assets that are applied from the date of origin or acquisition. These stages are summarized below:

Stage 1: The Bank recognizes a credit loss allowance at an amount equivalent to 12-month expected credit losses. This represents the portion of lifetime expected credit losses resulting from default events that are possible within a 12-months period from the reporting date, assuming that credit risk has not increased significantly since initial recognition.

Stage 2: The Bank recognizes a credit loss allowance at an amount equal to the total lifetime expected credit losses (LTECL) for those financial assets which are considered to have experienced a significant increase in credit risk since their initial recognition. This requires the calculation of ECL based on the asset's remaining lifetime probability of default (LTPD). The allowance for credit losses are higher in this stage because of the increase in credit risk and the impact of a longer time horizon in comparison with the 12 months in stage 1.

Stage 3: The Bank recognizes a loss allowance at an amount equal to the expected credit loss during the total lifetime of the asset, based on a probability of default (PD) of 100% over the asset's recoverable cash flows.

Our IFRS 9 models and the data used to estimate expected credit losses in the consumer, mortgage and corporate portfolio, and thus set adequate levels of loan loss reserves may not be able to fully capture all the potential additional levels of risk resulting from the effects of the COVID-19 pandemic, which has resulted in a reduction of economic growth, reduced levels of actives in the business sector, and higher levels of unemployment. Therefore, the Bank anticipates has developed overlaying models and estimates to incorporate the potential increased levels of risk and the corresponding levels of additional loan loss reserves required.

The following table presents the breakdown of the allowance for loan losses under IFRS 9 parameters as of September 30, 2020, and December 31, 2019:

	September 30, 2020			**December 31, 2019**			**% Change**	
	Loans	**Allowances**	**%**	**Loans**	**Allowances**	**%**	**Loans**	**Allowances**
	(in thousands of U.S. dollars,except percentages)							
Stage 1	10,512,320	182,793	1.7%	11,180,460	83,608	0.7%	-6.0%	118.6%
Stage 2	810,184	59,021	7.3%	622,147	30,711	4.9%	30.2%	92.2%
Stage 3	357,631	66,503	18.6%	281,082	50,840	18.1%	27.2%	30.8%
Total	**11,680,135**	**308,317**	**2.6%**	**12,083,689**	**165,159**	**1.4%**	**-3.3%**	**86.7%**

The allowance for loan losses was increased to US$308.3 million in September 2020, or 2.64% of the total loan portfolio, from US$165.2 million, or 1.37% of the total loan portfolio, as of December 31, 2019, to account for the deterioration of the overall economy and the negative impact it will have on businesses and individual clients' payment capacity arising from the COVID-19 pandemic restrictions on businesses to operate and the resulting employee suspensions, income reductions, and job losses.

The allowance for Stage 1 loans increased 118.6% from 0.75% of loans in the category as of December 2019 to 1.74% as of September 2020 to account for the deterioration of the economy due to COVID-19 pandemic and the anticipated impact on credit quality, as capture by the overlay models and estimates. The amount of loans in stage 2 increased 30.2%, from US$622.1 million to US$810.2 million, and the level of allowance increased from US$30.7 million (4.9% of loans) to US$59.0 million (7.3% of loans), while Stage 3 loans increased 27.2% from US$281.1 million to US$357.6 million. The increments described above for Stages 2 and 3 are attributable mainly to movements from Stage 1 exposures in corporate loans due to the increase in their credit risk due to COVID-19 impacts.

The following table presents the breakdown of the allowance for loans losses as of September 30, 2020 and 2019, and as of December 31, 2019, 2018 and 2017:

	As of September 30			As of December 31		
	2020	**2019**	**(%) Change**	**2019**	**2018**	**2017**
	(in thousands of U.S. dollars, except for percentages)					
Allowance at the beginning of period	165,159	158,531	4.2%	158,531	144,832	128,917
Provision charged to expenses, net of recoveries	164,119	32,475	405.4%	41,954	41,983	44,485
Charge offs:						
Commercial	8	6,145	-99.9%	6,236	249	220
Interim construction loans		415	-100.0%	415	207	261
Lines of credit	1,514	6,478	-76.6%	6,774	607	1,462
Residential mortgage loans	532	1,247	-57.3%	1,862	885	712
Commercial mortgage loans	16	93	-82.8%	434	397	4
Personal and auto loans and credit cards	34,495	36,019	-4.2%	46,057	48,787	46,663
Personal	*19,466*	*23,169*	*-16.0%*	*28,509*	*31,147*	*32,525*
Auto	*2,025*	*1,635*	*23.9%*	*2,331*	*1,869*	*1,543*
Credit cards	*13,004*	*11,215*	*16.0%*	*15,217*	*15,771*	*12,595*
Pledge loans and overdrafts	293	752	-61.0%	864	484	349
Leasing	12	333	-96.3%	337	133	267
Total charge offs	**36,871**	**51,483**	**-28.4%**	**62,981**	**51,750**	**49,938**
Recoveries	15,910	19,878	-20.0%	27,654	23,053	21,368
Allowance at the end of period	**308,317**	**159,402**	**93.4%**	**165,159**	**158,531**	**144,832**
Total Loans	11,680,136	12,081,031		12,083,689	11,952,385	11,506,061
Allowance for loan losses as percentage of total loans	2.64%	1.32%		1.37%	1.33%	1.26%
(Allowance for loan losses + Dynamic Reserve) / total loan	3.94%	2.57%		2.63%	2.59%	2.57%
Net charge-off to total loans (1)	0.24%	0.35%		0.29%	0.24%	0.25%
Charge-off to total loans (1)	0.42%	0.57%		0.52%	0.43%	0.43%

(1) Percentages for September 2020 and September 2019 are annualized

As of September 30, 2020, total charge-offs amounted to US$36.9 million (0.42% of total loans), as compared to US$51.5 million (0.57% of total loans) for the same period in 2019. The US$14.6 million, or 28.4% decrease in charge-offs are attributable to: (i) a US$12.4 million reduction in corporate loans charge offs (mainly because in 2019 there was an extraordinary charge-off of a single loan in the amount of US$12.1 million), (ii) a US$1.5 million decrease in consumer loans charge-offs, and (iii) a US$0.72 million decrease in residential mortgage loans charge offs; the reduction in consumer loan charge-off is due to the deferral of monthly payments of part of the portfolio, which resulted in fewer total charge-offs.

The Bank's low levels of charge-offs are primarily attributable to the following factors: (i) the consistent application of strict underwriting policies over time; (ii) the Bank's strategy to extend high-quality loans, secured by mortgages on residential and commercial properties, with adequate loan to value ratios; and (iii) the diligent monitoring of the performance of the loans, allowing for early adoption of appropriate measures to minimize losses when warranted.

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 September 30, 2020, the Bank´s total regulatory capital amounted to US$2,827.1 million, or 262.5% of the minimum 8% regulatory capital ratio required by the SBP. The ratio of total capital to risk-weighted assets was 21.00%, based on a Tier I capital of US$2,827.1 million over total risk weighted assets of US$13,462.3 million. Total risk-weighted assets include US$11,447.3 million of risk-weighted assets in our loan portfolio and investments, US$1,427.4 million of risk-weighted assets due to market risk requirements, and US$587.6 million of risk-weighted assets from operational risk. Market risk-weighted assets and operational risk-weighted assets are included in accordance with regulatory requirement set forth in Regulations No. 11-2018 and No 6-2019 issued by the SBP. Our shareholder's equity to total assets ratio was 14.17% as of September 2020; our dividend payout ratio has averaged 57.44% of our net income over the last five years ended December 31, 2019.

In addition to the above-mentioned regulatory capital adequacy requirements, Regulation 4-2013 issued by the SBP requires all banks to maintain a countercyclical dynamic reserve of not less than 1.25% and no more than 2.50% of the risk-weighted loans classified as standard loans. The dynamic reserve is presented as part of the legal reserves in the equity section of the Bank's financial statements. The dynamic reserve balance is considered part of the regulatory capital, if a bank's regulatory capital exceeds the minimum capital adequacy ratio of 8%. As of September 30, 2020, the Bank´s dynamic reserve balance was US$152.3 million. Also, regulation 4-2013 requires all banks to maintain provisions equivalent to three percent (3%) of the modified loan portfolio gross balance.

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, 2020, all subsidiaries were 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, 2020 and 2019, and as of December 31, 2019, 2018 and 2017:

	As of September 30		As of December 31		
	2020	2019	2019	2018	2017
	(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	187,863	183,887	186,240	182,341	180,080
Other items comprehensive income	113,504	87,253	89,125	3,642	35,797
Retained earnings	1,851,762	1,700,776	1,703,100	1,498,282	1,329,585
Less: Regulatory adjustments	43,713	49,271	50,074	57,802	61,725
Total Regulatory Primary Capital (Tier 1)	**2,609,416**	**2,422,646**	**2,428,391**	**2,126,463**	**1,983,736**
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	**2,827,096**	**2,640,326**	**2,646,071**	**2,344,143**	**2,201,416**
Total Capital (Tier I + Tier II)	**2,827,096**	**2,640,326**	**2,646,071**	**2,344,143**	**2,201,416**
Credit Risk Weighted Assets	11,447,276	12,107,029	11,931,120	12,053,460	11,521,593
Market Risk Weighted Assets (1)	1,427,442	-	422,023	-	-
Operational Risk Weighted Assets (1)	587,580	-	630,172	-	-
Total Risk-Weighted Assets	**13,462,299**	**12,107,029**	**12,983,315**	**12,053,460**	**11,521,593**
Capital ratios					
Total Primary Capital (Tier 1)	**21.00%**	**21.81%**	**20.38%**	**19.45%**	**19.11%**
Total capital (Tier I + Tier II)	**21.00%**	**21.81%**	**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)

Our levels of capitalization reflect the Board of Director's commitment to maintaining a strong capital base in order to support depositors and enable us to support growth opportunities and weather unexpected adverse events that may affect our operations.

C. Results of Operations for the three months ended September 30, 2020 and 2019

The following table presents the Bank´s principal consolidated results of operations for the three and nine months ended September 30, 2020 and 2019, respectively:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2020	2019	(%) Change	2020	2019	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Net interest and comission income	**168,691**	**177,794**	**-5.1%**	**510,974**	**522,506**	**-2.2%**
Total Provisions, net	**(93,042)**	**(10,725)**	**767.5%**	**(169,331)**	**(35,394)**	**378.4%**
Other Income (expenses):						
Fees and other comissions	50,393	58,817	-14.3%	145,015	167,525	-13.4%
Insurances premiums, net	8,116	8,834	-8.1%	27,240	24,591	10.8%
Gain (loss) on financial instruments, net	13,702	2,036	573.0%	8,727	10,980	-20.5%
Other Income, net	7,744	7,065	9.6%	20,189	21,060	-4.1%
Comissions expenses and other expenses	(18,070)	(23,608)	-23.5%	(58,078)	(70,242)	-17.3%
Total other income, net	**61,886**	**53,144**	**16.4%**	**143,093**	**153,914**	**-7.0%**
General and administrative expenses	69,557	77,304	-10.0%	217,930	227,691	-4.3%
Equity participation in associates	1,767	2,502	-29.4%	5,706	8,213	-30.5%
Net income before income tax	**69,744**	**145,411**	**-52.0%**	**272,513**	**421,548**	**-35.4%**
Income tax, net	15,208	(16,729)	-190.9%	3,112	(47,523)	-106.5%
Net Income	**84,952**	**128,682**	**-34.0%**	**275,625**	**374,025**	**-26.3%**

For the three months ended September 30, 2020, the Bank's net income was US$84.95 million, which represents a decrease of US$43.73 million, or 34.0%, compared to US$128.68 million. For the three months ended September 30, 2019, ROAE was 12.77%, compared to 21.02% in 2019, and the ROAA was 1.78%, as compared to 2.71% for the same period in 2019. 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, 2020 and 2019, respectively:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2020	2019	(%) Change	2020	2019	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	249,354	275,422	-9.5%	766,529	813,445	-5.8%
Total interest expenses	80,664	97,627	-17.4%	255,555	290,939	-12.2%
Net interest and commission income	**168,691**	**177,794**	**-5.1%**	**510,974**	**522,506**	**-2.2%**
Average interest - earning assets	17,654,311	17,271,868	2.2%	17,569,491	17,208,417	2.1%
Average interest - bearing liabilities	12,284,724	12,537,018	-2.0%	12,349,877	12,544,507	-1.6%
Net interest margin [(1)(4)]	3.82%	4.12%		3.88%	4.05%	
Average interest rate earned [(1)(4)]	5.65%	6.38%		5.82%	6.30%	
Average interest rate paid [(1)(4)]	2.63%	3.11%		2.76%	3.09%	

(1) Net interest and commission income (before provisions for possible loan losses) as a percentage of average total interest 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 are annualized

The 5.1% decrease in net interest and commission income for the three months ended September 30, 2020, as compared to the same period for 2019 was primarily a result of: (i) a 7.2%, or 30 basis points, decrease in the Bank's net interest margin from 4.12% in 2019 to 3.82% in 2020, and (ii) 2.2% increase in interest earning-assets.

The decrease in the Bank's net interest margin in the three months ended September 30, 2020, as compared to the same period in 2019, was primarily attributable to a decrease in the average interest rate earned our loan portfolio which decreased 37 basis points, from 7.62% on September 30, 2019 to 7.25% on September 30, 2020. The decrease in the Bank's net interest margin was offset by: (i) a decrease in the average rate paid on medium- and long term borrowings and placements which decreased 109 basis points from 4.31% to 3.22%, and (ii) a 19 basis points decrease in the average rate paid on client's time deposits, which decreased from 3.96% to 3.77%.

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, 2020 and 2019, respectively:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2020	2019	(%) Change	2020	2019	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	**249,354**	**275,422**	**-9.5%**	**766,529**	**813,445**	**-5.8%**
Average interest - earning assets:						
Deposits with banks	525,960	357,766	47.0%	527,673	361,279	46.1%
Loans, net	11,543,009	11,830,621	-2.4%	11,755,336	11,824,593	-0.6%
Securities and other financial assets	5,585,342	5,083,481	9.9%	5,286,482	5,022,545	5.3%
Total	**17,654,311**	**17,271,868**	**2.2%**	**17,569,491**	**17,208,417**	**2.1%**
Average nominal rates earned:						
Deposits with banks (1)	1.21%	2.82%		1.37%	2.57%	
Loans, net (1)	7.25%	7.62%		7.26%	7.48%	
Securities and other financial assets (1)	2.77%	3.75%		3.04%	3.80%	
Total (1)	**5.65%**	**6.38%**		**5.82%**	**6.30%**	

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

The Bank´s interest and commission income is derived principally from a diversified loan portfolio, which represented 65.4% of the Bank's total average interest earning assets, generating 83.9% of total interest and commissions income for the period, which decreased from US$275.4 million in September 2019 to US$249.4 million in September 2020.

The decrease in total interest and commission income for the three months ended September 30, 2020, as compared to the same period in 2019, resulted primarily from a decrease in the average rate earned on interest-earning assets which decreased from 6.38% to 5.65% or 73 basis points; partially offset by a 2.2% increase in average interest-earning assets, primarily driven by a 9.9% increase in securities and other financial assets.

The decrease in the average rate earned on interest earning assets was primarily driven by: (i) lower interest rates on securities and other financial assets, which decreased from 3.75% on September 30, 2019, to 2.77% on September 30, 2020, as consequence of the decline in interest rates for US dollars high quality fixed income securities, and (ii) a decrease in the interest rate earned on loans, net, which decreased from 7.62% to 7.25%.

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, 2020 and 2019:

	Decrease/Increase Third - Quarter 2019/2020 (in thousands of U.S. dollars)
Due to changes in average volume of interest - earning assets	6,099
Due to changes in average nominal interest rates earned	(32,166)
Net Change	**(26,067)**

The increase of US$382.4 million in average interest earning assets for the three months ended September 30, 2020, resulted in an increase of US$6.1 million in interest and commission income for the period, while the decrease in the average rate earned on interest-earning assets, from 6.38% to 5.65% resulted in a decrease of US$32.2 million in interest and commission income as compared to the same period in 2019.

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, 2020 and 2019, respectively:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2020	2019	(%) Change	2020	2019	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest expenses	**80,664**	**97,627**	**-17.4%**	**255,555**	**290,939**	**-12.2%**
Average interest - bearing liabilties:						
Savings deposits	4,134,762	3,496,893	18.2%	3,899,232	3,489,199	11.8%
Time deposits - clients	6,013,616	6,167,396	-2.5%	6,076,617	6,037,699	0.6%
Time deposits - interbank	37,928	92,151	-58.8%	61,424	86,759	-29.2%
Borrowings and placements	2,098,419	2,780,578	-24.5%	2,312,604	2,930,849	-21.1%
Total	**12,284,724**	**12,537,018**	**-2.0%**	**12,349,877**	**12,544,507**	**-1.6%**
Average nominal rates paid:						
Savings deposits [(1)]	0.68%	0.71%		0.70%	0.68%	
Time deposits - clients [(1)]	3.77%	3.96%		3.83%	3.87%	
Time deposits - interbank [(1)]	0.35%	1.83%		0.98%	1.58%	
Borrowings and placements [(1)]	3.22%	4.31%		3.45%	4.40%	
Total [(1)]	**2.63%**	**3.11%**		**2.76%**	**3.09%**	

(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 79.0% of the total interest expense for the three months ended September 30, 2020, as compared to 68.9% for the same period in 2019.

The 17.4% decrease in total interest expenses for the three months ended September 30, 2020, as compared to the same period in 2019, was mainly a result of: (i) a 48 basis points decrease in the average rate paid on interest bearing liabilities, which decreased from 3.11% to 2.63%, and (ii) a 2.0% decrease in average interest-bearing liabilities.

The decrease in the average interest-bearing liabilities was mainly due to a 24.5% decrease in average medium - and long-term borrowings and placements and a 2.5% decrease in client's time deposits. The above decrease was offset by an 18.2% increase in average savings deposits, one of the Bank's principal sources of funding.

The 48 basis points decrease, or 15.7% in the average rate of interest paid on interest-bearing liabilities was mainly attributable the decrease in the cost of borrowings and placements, of 109 basis points, from 4.31% as of September 2019 to 3.22% in the same period in 2020.

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, 2020 and 2019:

	Decrease/Increase Third - Quarter 2019/2020
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - bearing liabilities	(1,965)
Due to changes in average nominal interest rates paid	(14,999)
Net change	**(16,964)**

The decrease of US$252.3 million in average interest-bearing liabilities for the three months ended September 30, 2020, resulted in a decrease of US$2.0 million in interest expense for the period, while the decrease in the average rate paid on interest-bearing liabilities, from 3.11% to 2.63%, resulted in an decrease of US$15.0 million in interest expense as compared to the same period in 2019.

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, 2020 and 2019, respectively:

	For the Three Months Ended September 30			**For the Nine Months Ended September 30**		
	2020	**2019**	**(%) Change**	**2020**	**2019**	**(%) Change**
	(in thousands of U.S. dollars, except for percentages)					
Allowance for loan losses at the beginning of period	212,900	156,172	36.3%	165,159	158,531	4.2%
Provisions charged to expenses, net of recoveries	94,305	10,099	833.8%	164,119	32,514	404.8%
Recovery of Charge-offs	5,996	7,378	-18.7%	15,910	19,839	-19.8%
Charge-offs	(4,885)	(14,247)	-65.7%	(36,871)	(51,483)	-28.4%
Balance at the end of period	**308,317**	**159,402**	**93.4%**	**308,317**	**159,402**	**93.4%**
Total Loans	11,680,136	12,081,031		11,680,136	12,081,031	
Net loan loss provisions to average loans	0.81%	0.08%		1.41%	0.27%	
Charge-off[1] to average total loans	0.17%	0.47%		0.42%	0.57%	
Allowance to total loans	2.64%	1.32%		2.64%	1.32%	

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

The US$84.2 million or 833.8%, increase in provisions for loan losses for the three months ended September 30, 2020 as compared to the same period in 2019, is primarily attributable to a higher provision charged to expenses as a result of the deterioration of the economy due to the COVID-19 pandemic and the anticipated impact on credit quality. The provision for loan losses required was positively affected by (i) a US$9.4 million or, 65.7%, decrease in charge-offs, and (ii) a 2.6% reduction in the loan portfolio from US$11,986.1 million in the second quarter of 2020 to US$11,680.1 million in the third quarter of 2020.

Our allowance for loan losses totaled US$308.3 million as of September 30, 2020, or 2.64% of the total loan portfolio, compared to US$159.4 million, or 1.32% of the total loan portfolio, as of September 30, 2019, representing 195.37% coverage of non-accrual loans and 190.07% of past due loans.

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, 2020 and 2019, respectively:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2020	**2019**	**(%) Change**	**2020**	**2019**	**(%) Change**
	(in thousands of U.S. dollars, except for percentages)					
Fees and comission income, net	32,323	35,209	-8.2%	86,937	97,283	-10.6%
Insurance premiums, net	8,116	8,834	-8.1%	27,240	24,591	10.8%
Gain (loss) on financial instruments, net	13,702	2,036	573.0%	8,727	10,980	-20.5%
Other Income, net	7,744	7,065	9.6%	20,189	21,060	-4.1%
Total of other income, net	**61,886**	**53,144**	**16.4%**	**143,093**	**153,914**	**-7.0%**

The 16.4% increase in total other income, net for the three months ended September 30, 2020 primarily reflects the following factors:

Fees and Commission Income, net

The 8.2% decrease in fees and commission income, net of commission expenses for the three months ended September 30, 2020, was mainly due to: (i) a 15.5% decrease in commissions and fees related to credit and debit card operations, as a result of lower transaction volumes reflecting the effects of the COVID-19 pandemic, and (ii) a 51.4% decrease in demand and savings deposits fees as a consequence of the mobility restrictions imposed on our clients, temporary branch closures and fee waivers enacted to provide financial relief.

Insurance Premiums, net

Net insurance premiums, decreased by 8.1% for the three months ended September 30, 2020, mainly due to: (i) higher claim expenses in the life insurance segment, and (ii) lower growth in premiums from life insurance coverage.

Gain (loss) on Financial Instruments, net

The gain on financial instruments, net of US$13.7 million for the three months ended September 30, 2020, as compared to a gain of US$2.0 in million 2019 was principally due to a gain of US$12.9 million from the proprietary investment book. The US$12.9 million gain from the proprietary investment book was due to: (i) a gain of US$15.1 million from our fixed income investments, and (ii) a US$2.2 million loss from our local Panamanian equity holdings which trade in the local Panamanian exchange.

Other income, net

Other income, net, increased by US$0.7 million or 9.6%, for the three months ended September 30, 2020, compared to the same period in 2019 primarily mainly due to: (i) additional income received from our credit card business, and (ii) an increase in the Bank's pension fund assets returns. The increase in other income, net was offset by a 65.6% decrease in income received from local dividends from equity securities.

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, 2020 and 2019, respectively:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2020	**2019**	**(%) Change**	**2020**	**2019**	**(%) Change**
	(in thousands of U.S. dollars, except for percentages)					
Salaries and other employee expenses	39,845	45,488	-12.4%	127,169	133,867	-5.0%
Depreciation and Amortization expenses	7,057	7,073	-0.2%	21,565	21,585	-0.1%
Premises and Equipment expenses	5,381	5,236	2.8%	16,583	16,460	0.7%
Other expenses	17,274	19,507	-11.4%	52,613	55,778	-5.7%
Total	**69,557**	**77,304**	**-10.0%**	**217,930**	**227,691**	**-4.3%**

The 10.0% decrease in general and administrative expenses for the three months ended September 30, 2020 primarily reflects the following factors:

Salaries and other employee expenses

Salaries and other employee expenses represented 57.3% of total general and administrative expenses for the three months ended September 30, 2020, as compared to 58.8% for the same period in 2019. The 12.4% decrease in salaries and other expenses was attributable to: (i) decreases in the number of employees, representing 3.2% decrease in headcount as compared to the same period in 2019, (ii) lower variable compensation, and (iii) savings in employee-related expenses due to temporary office closures.

Depreciation and Amortization expenses

Total depreciation and amortization expense for the three months ended September 30, 2020, as compared to the same period in 2019, remained stable.

Premises and Equipment expenses

Premises and equipment expenses increased by US$0.1 million or 2.8% for the three months ended September 30, 2020, as compared to the same period in 2019, mainly due to a US$0.1 million income in maintenance contracts on IT platforms.

Other expenses

Other expenses decreased US$2.2 million or 11.4%, for the three months ended September 30, 2020, as compared to the same period in 2019, as a result of: (i) a US$1.2 million decrease in professional services mainly due to lower transaction volumes of credit cards and savings in marketing and logistic services as a consequence of the COVID-19 impact on the overall banking activities, and (ii) a US$0.7 million decrease in other expenses.

Taxes

Income tax, net amounted to a credit of US$15.2 million for the three months ended September 30, 2020, as compared to a tax expenses of US$16.7 million in 2019; the US$31.9 million decrease in income taxes was primarily due to the recognition of a deferred tax asset as a result of the increase in the provision for loan losses during the period.

Operational Efficiency

The Bank's operational efficiency was 29.94% for the three months ended September 30, 2020, as compared to 33.12% in 2019, mainly as a result of a US$7.7 million, or 10.0%, decrease in the Bank's general and administrative expenses.

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Consolidated Income Statement
For the three months ended September 30

	30-sep-20	30-jun-20	31-mar-20	31-dec-19	30-sep-19
	(in thousands of U.S. dollars)				
Total interest and commission income	249,354	253,281	263,893	272,701	275,422
Total interest expenses	(80,664)	(85,356)	(89,535)	(96,025)	(97,627)
Net interest and commission income	**168,691**	**167,926**	**174,358**	**176,676**	**177,794**
Total Provisions, net	(93,042)	(54,790)	(21,499)	(9,529)	(10,725)
Net interest and commission income after provisions	**75,649**	**113,136**	**152,859**	**167,147**	**167,069**
Other Income (expenses):					
Fees and other commissions	50,393	37,071	57,552	61,696	58,817
Insurance premiums, net	8,116	9,756	9,368	9,339	8,834
Gain (loss) on financial instruments, net	13,702	14,334	(19,309)	4,368	2,036
Other income, net	7,744	7,311	5,134	7,548	7,065
Commissions expenses and other expenses	(18,070)	(14,987)	(25,021)	(24,722)	(23,608)
Total other income, net	**61,886**	**53,484**	**27,723**	**58,229**	**53,144**
General and administrative expenses	(69,557)	(70,208)	(78,164)	(80,484)	(77,304)
Equity participation in associates	1,767	1,712	2,227	2,684	2,502
Net income before income tax	**69,744**	**98,124**	**104,645**	**147,576**	**145,411**
Income tax, net	15,208	(98)	(11,997)	(17,335)	(16,729)
Net income	**84,952**	**98,026**	**92,647**	**130,241**	**128,682**

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

	30-sep-20	30-jun-20	31-mar-20	31-dec-19	30-sep-19
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	733,400	861,135	1,010,116	730,474	679,673
Securities and other financial assets	5,517,251	5,550,323	5,028,371	4,973,441	5,099,898
Loans	11,680,136	11,986,080	12,181,365	12,083,689	12,081,031
Allowance for possible loans losses	(308,317)	(212,900)	(171,902)	(165,159)	(159,402)
Unearned comissions	(38,692)	(40,612)	(43,231)	(43,302)	(42,877)
Investments in associates	29,573	27,806	27,036	24,881	28,321
Other assets	1,157,838	1,287,473	1,673,980	1,119,697	1,246,251
Total assets	**18,771,189**	**19,459,304**	**19,705,734**	**18,723,721**	**18,932,895**
Liabilities and shareholder's equity					
Local deposits	12,589,817	12,432,073	12,127,100	11,924,894	11,887,234
Foreign deposits	467,562	505,393	472,901	530,374	507,154
Total Deposits	**13,057,379**	**12,937,466**	**12,600,001**	**12,455,268**	**12,394,388**
Securities sold under repurchase agreements	149,480	279,670	404,145	403,947	241,358
Medium and long term borrowings and placements	1,390,870	1,844,969	1,950,201	1,914,581	2,173,077
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,295,157	1,571,922	2,050,840	1,249,506	1,433,662
Shareholder's equity	2,660,623	2,607,596	2,482,867	2,482,739	2,472,730
Total liabilities and shareholder's equity	**18,771,189**	**19,459,304**	**19,705,734**	**18,723,721**	**18,932,895**
Operational data (in units)					
Number of customers [1]	1,167,034	1,121,090	1,100,780	1,052,219	1,012,692
Number of employees [2]	4,560	4,604	4,687	4,714	4,712
Number of branches[3]	83	86	86	86	87
Number of ATMs[3]	636	637	639	645	637
Assets under management [4]	11,157,144	11,182,756	11,450,366	11,823,121	11,608,396

[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 28 of the Consolidated Financial Statements.

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

	30-sep-20	30-jun-20	31-mar-20	31-dec-19	30-sep-19
Profitability and efficiency:					
Net Interest Margin (1)(2)	3.82%	3.79%	4.01%	4.10%	4.12%
Return on average assets (1) (3)	1.78%	1.98%	1.93%	2.76%	2.71%
Return on average equity (1) (3)	12.77%	15.30%	14.68%	20.76%	21.02%
Efficiency (4)	29.94%	31.47%	38.26%	33.88%	33.12%
Operating expenses / average total assets (1) (3)	1.46%	1.42%	1.63%	1.71%	1.63%
Other income/ operating income (5)	45.00%	32.10%	15.35%	25.84%	24.13%
Liquidity:					
Primary Liquidity (6) / total deposits and obligations	29.01%	29.55%	27.76%	27.29%	27.97%
Regulatory Liquidity (7) / total deposits	42.26%	42.64%	40.45%	38.21%	36.79%
Loans, net / total client deposits	86.91%	91.01%	95.65%	96.10%	97.08%
Capital:					
Total capital ratio (8)	21.00%	20.40%	18.78%	20.38%	21.81%
Tier 1 common equity ratio	19.38%	18.80%	17.24%	18.70%	20.01%
Total Tier 1 capital ratio (9)	21.00%	20.40%	18.78%	20.38%	21.81%
Equity / assets	14.17%	13.40%	12.60%	13.26%	13.06%
Earning retention ratio (10)	29.71%	39.08%	100.00%	6.25%	57.03%
Asset quality:					
Past due loans (11)/ total loans	1.39%	1.36%	1.54%	1.27%	1.22%
Non accrual loans (12)/ total loans	1.35%	1.35%	1.24%	1.07%	1.04%
Allowance for possible loan losses / total loans	2.64%	1.78%	1.41%	1.37%	1.32%
Allowance for possible loan losses / past due loans	190.07%	130.15%	91.63%	107.65%	107.97%
Allowance for possible loan losses / non accrual loans	195.37%	131.47%	113.70%	127.67%	126.44%
Allowance for possible loan losses + Dynamic Reserve / non accrual loans	283.94%	223.23%	172.78%	206.88%	210.32%
Allowance for possible loan losses + Dynamic Reserve / past due loans	291.85%	225.50%	214.40%	245.36%	246.31%
Charge - off(1) / total loans	0.17%	0.65%	0.41%	0.38%	0.47%

(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.