Banco General

Management Discussion

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.

The following discussion is based on information contained in the audited consolidated financial statements, as of December 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 replaced 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 audited consolidated financial information as of December 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 during different extended periods. 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". The new regulations also allow banks to evaluate and consider possible financial relief for loans granted to individual and business clients whose payment capacity has been affected by the measures of confinement and temporary closures of companies due to measures adopted by the Government of Panama. To provide temporary financial relief banks can allow for the deferral of contractual 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, 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 must 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 enacted will be classified as "Restructured Credits".

The SBP, on September 21, 2020 approved the agreement No. 9-2020 modifying the agreement No. 2-2020 in which additional and temporary measures are established to adjust and comply with credit risk requirements established in the agreement No. 4-2013. In addition, this agreement establishes that banking entities must maintain as part of their allowance for loan losses an allowance equivalent to three percent (3%) of the modified loan portfolio's gross balance. On October 21, 2020 the SBP issued agreement 13-2020, which allows banking entities to continue evaluating clients' loans whose payment capacity has been affected by the pandemic and, if appropriate, provide temporary financial relief up until June 30, 2021.

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 applied to borrowers whose income and payment capacity, as determined by the lending bank, was impaired by suspension or termination of employment contracts, the closing down of businesses and other measures mandated by the Government to protect public health. Additionally, under agreement 13-2020, borrowers who had arrears of more than 90 days (under Law 156 of 2020) may also be subject to modification by the bank.

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. The sustained reopening of the economy is subject to health and sanitary measures such as social distance requirements and maximum capacity restrictions and the mandatory use of protective masks, among other measures.

On October 12, 2020, the Government of Panama officially opened its borders with the reopening of Tocumen International Airport and resumed international flights.

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 provide support to our client base and are conscious of the role that the Bank must continue to play to contribute with the fight against COVID-19 and contribute actively to restart the country´s economy. We have been closely monitoring the overall situation and have implemented, and will continue to implement, all 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 new mortgage and consumer loans, (ii) providing temporary financial relief through payment deferrals to companies and individuals whose activities have been impacted by business closings and confinements, (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 many other supportive measures.

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 December 31, 2020, the Bank maintains the following monthly payment deferrals: (i) 36.2% of residential mortgage clients, equivalent to US$1,790.6 million or 39.0% of the total outstanding residential mortgage portfolio; (ii) 11.4% of consumer clients, equivalent to US$263.5 million or 14.9% of the total outstanding consumer portfolio; and (iii) 5.9% of corporate clients, equivalent to US$804.8 million or 16.4% of the total outstanding corporate portfolio. We anticipate that with the progressive and sustained reopening 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) contributed over US$10.0 million in donations, in comparison to US$5.8 million in 2019, and 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$1.3 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.

- **Food**: Disbursed more than US$3.0 million in donations for a special food program "Alimenta Una Vida", created to help more than 160 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.

- **Non-Profit Organizations**: Executed without interruption our foundation's annual donation of US$7.4 million, 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. The following is a summary of the main aspects of our plan:

- On March 10, 2020 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 our contingency plan for the whole organization.
- The Bank continues to be 100% operational in all of its channels and has transitioned successfully into a hybrid (physical and remote) operation.
- As of December 31, 2020 the Bank had:
    - Approximately 2,115 employees working remotely and 1,895 on site, which represents 91% of our labor force; the remaining 9%, or 381 employees, are on leave or paid vacation.
    - We expanded our call center capabilities and promoted the use of our digital channels to continue serving our customers.
- 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 our offices and branches, providing masks, and applying diagnostic and serological tests.

I. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of December 31, 2020, the Bank's gross loan portfolio decreased 5.3% from US$12,083.7 million in December 2019, to US$11,444.4 million. During this period, the Bank's residential mortgage portfolio grew 1.1%, from US$4,545.0 million to US$4,595.5 million; the consumer loan portfolio decreased 7.3%, from US$1,910.2 million to US$1,771.5 million; the corporate loan portfolio, comprised of both local and regional corporate clients, decreased 9.2%, from US$5,100.2 million to US$4,631.8 million, and other loans (comprised of pledge loans, overdrafts and financial leases) decreased from US$528.3 million to US$445.7 million. During the year, the Bank's local corporate loan portfolio decreased 8.7% or US$349.5 million, from US$4,033.3 million to US$3,683.8 million, and the Bank's regional corporate loan portfolio decreased 11.1% or US$118.9 million, from US$1,066.8 million to US$947.9 million. As of December 31, 2020, the Bank's total investment portfolio, made up of: (i) the Bank's primary liquid assets, and its (ii) local and regional corporate fixed-income portfolio, increased 13.0%, from US$4,998.3 million in December 2019 to US$5,646.5 million in December 2020.

Total Liabilities

The Bank's total client deposits grew by US$1,086.7 million, or 8.8%, from US$12,356.5 million in December 2019 to US$13,443.2 million in December 2020. Client's time deposits, the Bank's main source of funding, decreased by US$155.7 million, from US$6,150.0 million to US$5,994.4 million, representing 44.6% of total client deposits as of December 31, 2020, with an average remaining life of 14 months, and 72.8% having original maturities of more than one year. Savings accounts grew by US$871.8 million or 24.2%, from US$3,598.2 million to US$4,470.0 million representing 33.3% of total client deposits as of December 31, 2020. Demand deposits increased by US$370.6 million from US$2,608.3 million to US$2,978.8 million as of December 31, 2020, representing 22.2% of client deposits.

As of December 31, 2020, the Bank's total medium and long-term borrowings and placements decreased by US$1,242.1 million, or 49.0%, from US$2,632.1 million to US$1,294.1 million as compared to the same period in the previous year.

Equity

As of December 31, 2020, the Bank's equity grew by 6.1%, or US$150.5 million, from US$2,482.7 million as of December 31, 2019 to US$2,633.2 million as of December 31, 2020, driven by retained earnings of US$164.3 million. The Bank's equity to total assets ratio increased from 13.26% as of December 31, 2019 to 14.14% as of December 31, 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 8.1% of total liabilities); and (iv) low levels of short-term institutional 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 29.40% as of December 31, 2020, equivalent to US$4,270.9 million. Liquid assets increased 5.92% from US$4,032.1 million as of December 31, 2019, resulting in a liquidity ratio of 27.29% as of such date. The Bank's total primary liquidity has an average international credit rating of AA- and 50.0% of our liquid assets are AAA rated investments. As of December 31, 2020, our primary liquidity represented 31.77% of total deposits, and 22.94% 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, and such loan installments and maturities can only account up to 30% of the total liquid assets used in this calculation. As of December 31, 2020, the Bank maintained a regulatory liquidity of 40.45%, complying with the requirements established by the SBP.

Loan Portfolio

The Bank's loan portfolio is well diversified across clients, products, and products segments. As of December 31, 2020, total gross loans amounted to US$11,444.4 million, of which 40.5% was comprised of corporate loans (32.2% local corporate loans and 8.3% foreign corporate loans), 55.6% of retail loans (40.2% residential mortgages and 15.4% consumer loans); and 3.9% in other loans (comprising pledged loans, overdrafts, and financial leases).

To minimize the risk of credit losses, we focus on granting loans secured by collateral, particularly single-family homes, properties, and deposits at the Bank, in addition to applying strict underwriting guidelines and "know your customer" policies. As of December 31, 2020, 78.1% of all loans were secured by residential or commercial properties or deposits in the Bank; 73.0% of all loans were secured by first lien mortgages on land and improvements (residential mortgages, commercial mortgages, and interim construction loans), and 5.0% of all loans were backed by pledged deposits in the Bank and other types of liquid collateral. The combination of sound underwriting policies and security interests held on collateral resulted in average gross charge-offs of 0.62% of total loans in the two-year period ended December 31, 2020.

As of December 31, 2020, 88.6% of the Bank's loan portfolio was comprised of local borrowers (individuals and corporations) based in Panama, and 11.4% was comprised of regional clients mainly 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 December 31, 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 December 31, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	**2019**	**2018**	**2019/2020**	**2018/2019**
	(in thousands of U.S. dollars, except for percentages)				
Local Loans					
Commercial	323,258	397,805	355,306	(18.7%)	12.0%
Interim financing	482,879	565,399	700,899	(14.6%)	(19.3%)
Lines of credit	924,713	1,050,023	1,235,506	(11.9%)	(15.0%)
Residential mortgage loans	4,390,972	4,321,904	4,091,043	1.6%	5.6%
Commercial mortgage loans	1,952,981	2,020,115	1,920,858	(3.3%)	5.2%
Consumer loans	1,759,520	1,894,882	1,776,981	(7.1%)	6.6%
Pledge loans and overdrafts	299,947	358,283	356,635	(16.3%)	0.5%
Leasing	79,984	100,191	108,302	(20.2%)	(7.5%)
Total Local Loans	**10,214,254**	**10,708,602**	**10,545,529**	**(4.6%)**	**1.5%**
Foreign Loans					
Commercial	551,106	600,867	447,699	(8.3%)	34.2%
Interim financing	-	-	3,100	0.0%	(100.0%)
Lines of credit	208,211	257,641	351,265	(19.2%)	(26.7%)
Residential mortgage loans	204,561	223,143	249,376	(8.3%)	(10.5%)
Commercial mortgage loans	188,603	208,335	259,581	(9.5%)	(19.7%)
Consumer loans	11,966	15,323	16,779	(21.9%)	(8.7%)
Pledge loans and overdrafts	65,722	69,778	79,055	(5.8%)	(11.7%)
Total Foreign Loans	**1,230,170**	**1,375,087**	**1,406,855**	**(10.5%)**	**(2.3%)**
Total Loans	**11,444,423**	**12,083,689**	**11,952,385**	**(5.3%)**	**1.1%**
Loan losses allowance	383,795	165,159	158,531	132.4%	4.2%
Unearned commissions	37,045	43,302	41,104	(14.4%)	5.3%
Loans, net	**11,023,583**	**11,875,228**	**11,752,749**	**(7.2%)**	**1.0%**

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 121 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 accords No. 02-2020, (subsequently amended to date by accords No. 09-2020 and No. 13-2020), 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 payment scheduled due to the impact of the economic and confinement measures implemented by the Government of Panama in the face of COVID-19.

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

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Non accrual loans					
Commercial	8,959	6,805	8,931	31.7%	(23.8%)
Interim financing	1,918	1,956	2,424	(1.9%)	(19.3%)
Lines of credit	5,800	6,538	15,157	(11.3%)	(56.9%)
Residential mortgage loans	84,801	52,977	41,370	60.1%	28.1%
Preferential mortgage loans	25,791	16,923	15,335	52.4%	10.4%
Commercial mortgage loans	24,238	20,425	8,580	18.7%	138.0%
Consumer loans	12,659	23,385	22,499	(45.9%)	3.9%
Pledge loans and overdrafts	183	234	399	(21.6%)	(41.4%)
Leasing	2,276	124	906	1737.6%	(86.3%)
Total non accrual loans	**166,625**	**129,365**	**115,601**	**28.8%**	**11.9%**
Total Loans	11,444,423	12,083,689	11,952,385		
Loan losses allowance	383,795	165,159	158,531		
Non accrual loans as a percentage of total loans	1.46%	1.07%	0.97%		
Loan losses allowance as a percentage of non accrual loans	230.33%	127.67%	137.14%		
Loan losses allowance + Dynamic Reserve / non accrual loans	321.71%	245.36%	267.86%		

Non-accrual loans reported to SBP were US$166.6 million as of December 31, 2020, compared to US$129.4 million as of December 31, 2019. The US$37.3 million, or 28.8% increase is primarily attributed to the closure of businesses and the implementation of extended confinements, as means of containing and preventing the spread of COVID-19, resulting in substantial temporary employee suspensions and/or reductions in their income as well as interruption of operations for a significant proportion of businesses. The Bank experienced: (i) a US$40.7 million increase in the residential and preferential mortgage non-accrual balance from US$69.9 million, or 0.58% of the total loan portfolio in 2019, to US$110.6 million or 0.97% of the total loan portfolio in 2020, and (ii) a US$7.3 million increase in the corporate non-accrual balance from US$36.1 million or 0.30% of the total loan portfolio in 2019, to US$43.4 million, or 0.36% of the total loan portfolio in 2020. The increase in the non-accrual balance described above was partially offset by a US$10.7 million decrease in the consumer loans non-accrual balance, from US$23.4 million, or 0.19% of the total loan portfolio in 2019, to US$12.7 million or 0.11% of the total loan portfolio in 2020, as a consequence of the charge off of US$78.2 million of consumer loans or 0.68% of balance and the deferral of monthly payments on part of the portfolio, which resulted in fewer loans reaching non-accrual status.

Non-accrual loans, in accordance with SBP regulations, represented 1.46% of total loans as of December 31, 2020, compared to 1.07% as of December 31, 2019. As discussed above, loans that are deferred in accordance with SBP regulations are treated as current, not overdue, to the extent the borrower complies with the amended terms. The Bank´s allowance coverage for loan losses was 230.33% for non-accrual loans, as compared to 127.67% in 2019.

As a result of the situation caused by COVID-19, the Bank approved and applied a complementary exceptional and voluntary policy of non-accrual of interest for its consumer loans that have been modified based on accord No. 4-2013, as subsequently amended to date. This policy is based on the analysis of a combination of factors other than delinquency, such as employment status, income generation, the type of credit product and its guarantees, the client's internal risk category and the number of deferred payments granted. This policy may be suspended or adjusted by the Bank's management at any time.

As of December 31, 2020, loans in non-accrual status calculated in accordance to the complementary policy applied by the bank amount to US$279.6 million.

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 December 31, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Past due loans					
Commercial	8,959	6,805	8,931	31.7%	(23.8%)
Interim financing	1,918	1,956	2,424	(1.9%)	(19.3%)
Lines of credit	5,766	6,538	14,426	(11.8%)	(54.7%)
Residential mortgage loans	93,567	68,947	54,594	35.7%	26.3%
Preferential mortgage loans	29,317	25,391	24,373	15.5%	4.2%
Commercial mortgage loans	24,336	20,164	8,618	20.7%	134.0%
Consumer loans	9,464	23,042	22,413	(58.9%)	2.8%
Pledge loans and overdrafts	438	460	1,131	(4.9%)	(59.3%)
Leasing	2,276	124	906	1737.6%	(86.3%)
Total past due loans	**176,041**	**153,426**	**137,815**	**14.7%**	**11.3%**
Total Loans	11,444,423	12,083,689	11,952,385		
Loan losses allowance	383,795	165,159	158,531		
Past due loans as a percentage of total loans	1.54%	1.27%	1.15%		
Loan losses allowance as percentage of past due loans	218.01%	107.65%	115.03%		
Loan losses allowance + Dynamic Reserve / past due loans	304.50%	206.88%	224.69%		

Past due loans were US$176.0 million as of December 31, 2020, compared to US$153.4 million as of December 31, 2019. The US$22.6 million, or 14.7% 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 or reductions in their income. The Bank presented an increase in the balance of past due loans as a result of: (i) a US$28.5 million increase in the residential and preferential mortgage past due balance from US$94.3 million or 0.78% of the total loan portfolio in 2019 to US$122.9 million or 1.07% of the total loan portfolio in 2020, and (ii) a US$7.6 million increase in the corporate past due balance from US$36.0 million or 0.30% of the total loan portfolio in 2019 to US$43.7 million or 0.36% of the total loan portfolio in 2020. The increase in the past due balance described above was partially offset by a US$13.6 million decrease in the consumer loans past due balance from US$23.0 million or 0.19% of the total loan portfolio in 2019 to a US$9.5 million or 0.08% of the total loans portfolio in 2020, as a consequence of the charge off of US$78.2 million of loans or 0.68% of balance and the deferral of monthly payments on part of the portfolio, which resulted in fewer loans reaching past due status.

Past due loans represented 1.54% of total loans as of December 31, 2020, compared to 1.27% as of December 31, 2019. As of December 31, 2020, the Bank´s allowance coverage for loan losses was 218.01% for past due loans, as compared to 107.65% 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 Loans" and "Corporate Loans". The 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 is 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.

As a result of the impact on the economy, employment and the business sector, the Bank faces possible future losses on its loan portfolio, for which it has recorded complementary reserves.

Since we are facing an unprecedented situation, the estimation of its effects on the portfolio using statistical models is subject to greater uncertainty and volatility. Therefore, the Bank has decided to create additional provisions to those determined by our ECL models, using complementary models for portfolios with high similar volumes and relatively small balances; and conducting an individual analysis of debtors with significant credit exposure (corporate portfolio mainly). The models consider, among other factors, the current employment situation of the debtor and his/her family environment, the economic activity or industry of the debtor or his/her employer, the situation of credit deferrals of his/her credit obligations, the inflows of debtors, and the guarantees covering the obligation. Moreover, in the individual analysis we consider the financial strength of the debtor and shareholders.

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

	December 31, 2020			December 31, 2019			(%) Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
	(in thousands of U.S. dollars,except percentages)							
Stage 1	10,133,492	225,723	2.2%	11,180,460	83,608	0.7%	-9.4%	170.0%
Stage 2	846,056	71,959	8.5%	622,147	30,711	4.9%	36.0%	134.3%
Stage 3	464,875	86,113	18.5%	281,082	50,840	18.1%	65.4%	69.4%
Total	**11,444,423**	**383,795**	**3.4%**	**12,083,689**	**165,159**	**1.4%**	**-5.3%**	**132.4%**

The allowance for loan losses was increased to US$383.8 million in December 2020, or 3.35% 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 temporary closure of economic activities, the increase in work suspensions, income reductions and job losses.

The allowance for Stage 1 increased 170.0% from US$83.6 million, or 0.7%, as of December 2019 to US$225.7 million, to 2.2%, as of December 2020 to account for the deterioration of the economy and the anticipated impact on credit quality caused by COVID-19, as captured by the complementary models and its allowance estimates. The amount of loans in Stage 2 increased 36.0%, from US$622.1 million in 2019 to US$846.1, million in 2020, and the level of allowance increased from US$30.7 million (4.9% of loans) in 2019 to US$72.0 million (8.5% of loans) in 2020. The amount of Stage 3 loans increased 65.4% from US$281.1 million in 2019 to US$464.9 million in 2020. The increments described above for Stages 2 and 3 are mainly attributable to movements from Stage 1 exposures in corporate loans due to a weakening in their credit quality.

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

	As of December 31			(%) Change	
	2020	**2019**	**2018**	**2019/2020**	**2018/2019**
	(in thousands of U.S. dollars, except for percentages)				
Allowance at the beginning of period	165,159	158,531	144,832	4.2%	9.5%
Provision charged to expenses, net of recoveries	280,947	41,954	41,983	569.7%	(0.1%)
Write-offs:				0.0%	0.0%
Commercial	521	6,236	249	(91.6%)	2403.9%
Interim construction loans		415	207	(100.0%)	100.6%
Lines of credit	1,819	6,774	607	(73.2%)	1016.3%
Residential mortgage loans	977	1,862	885	(47.5%)	110.5%
Commercial mortgage loans	1,267	434	397	191.7%	9.3%
Personal and auto loans and credit cards	78,192	46,057	48,787	69.8%	(5.6%)
Personal	*48,178*	*28,509*	*31,147*	*69.0%*	*(8.5%)*
Auto	*2,279*	*2,331*	*1,869*	*(2.2%)*	*24.7%*
Credit cards	*27,735*	*15,217*	*15,771*	*82.3%*	*(3.5%)*
Pledge loans and overdrafts	394	864	484	(54.5%)	78.6%
Leasing	48	337	133	(85.7%)	153.7%
Total write-offs	**83,218**	**62,981**	**51,750**	**32.1%**	**21.7%**
Recoveries	20,907	27,654	23,053	(24.4%)	20.0%
Allowance at the end of period	**383,795**	**165,159**	**158,531**	**132.4%**	**4.2%**
Total Loans	11,444,423	12,083,689	11,952,385		
Allowance for loan losses as percentage of total loans	3.35%	1.37%	1.33%		
(Allowance for loan losses + Dynamic Reserve) / total loans	4.68%	2.63%	2.59%		
Net write-off to total loans	0.54%	0.29%	0.24%		
Write-off to total loans	0.73%	0.52%	0.43%		

As a complement to our regular write-off policies, which are based primarily on the number of days of delinquency, and, as a result of the situation caused by COVID-19, the Bank approved and applied a complementary, exceptional and voluntary write-off policy for consumer loans that have been deferred repeatedly and that demonstrate a weakened financial position and inability to pay. This policy is based on analyzing a combination of factors other than delinquency, such as the debtor's employment status and household environment, the economic activity of his employer, the situation of deferral of his credit obligations, the guarantees that collateralize the obligation, the customer's internal risk category, and the number of deferred payments granted. This exceptional policy may be suspended by the Bank's management at any time.

As of December 31, 2020, total charge-offs amounted to US$83.2 million (0.73% of total loans), as compared to US$63.0 million (0.52% of total loans) in 2019.

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 Standard & Poor's (BBB) and Fitch (BBB-).

As of December 31, 2020, our total regulatory capital amounted to US$2,785.4 million, or 259.2% of the total minimum capital required (Tier I and Tier II capital). The total capital ratio was 20.74%, comprised entirely of Tier I capital of US$2,785.4 million over total risk weighted assets of US$13,431.9 million. Total risk-weighted assets include US$11,273.1 million of risk-weighted assets in our loan portfolio and investments, US$1,551.6 million of risk-weighted assets due to market risk requirements, and US$607.2 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 Accords No.11-2018 and No 6-2019. Our shareholder's equity to total assets ratio increased from 13.26% as of December 31, 2019, to 14.14% as of December 31, 2020.

In addition to the above-mentioned regulatory capital adequacy requirements, Accord 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 December 31, 2020, the Bank´s dynamic reserve balance was US$152.3 million. On July 21, 2020, the SBP communicated a temporary suspension of the dynamic reserve in an effort to provide financial relief to banking entities. This suspension applies as of the second quarter of 2020 and will be maintained until the SBP revokes the corresponding resolution (SBP-GJD-0007-2020).

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, 2020, all subsidiaries were in compliance with all of their respective minimum capital requirements.

The following table presents information regarding the Bank's capital levels as of December 31, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Regulatory Primary Capital (Tier 1)					
Common Shares	500,000	500,000	500,000	0.0%	0.0%
Legal reserve	188,396	186,240	182,341	1.2%	2.1%
Other items comprehensive income	159,987	89,125	3,642	79.5%	2347.1%
Retained earnings	1,772,980	1,703,100	1,498,282	4.1%	13.7%
Less: Goodwill and intangible assets	53,674	50,074	57,802	7.2%	(13.4%)
Total Regulatory Primary Capital	**2,567,690**	**2,428,391**	**2,126,463**	**5.7%**	**14.2%**
Additional Primary Capital (Tier 1)					
Subordinated debt - perpetual bonds	217,680	217,680	217,680	0.0%	0.0%
Total Additional Primary Capital	**217,680**	**217,680**	**217,680**	**0.0%**	**0.0%**
Total Primary Capital	**2,785,370**	**2,646,071**	**2,344,143**	**5.3%**	**12.9%**
Credit Risk Weighted Assets	11,273,084	11,931,120	12,053,460	(5.5%)	(1.0%)
Market Risk Weighted Assets (1)	1,551,596	422,023	-	267.7%	0.0%
Operational Risk Weighted Assets (1)	607,186	630,172	-	(3.6%)	0.0%
Total Risk-Weighted Assets	**13,431,866**	**12,983,315**	**12,053,460**	**3.5%**	**7.7%**
Total Primary Capital	**20.74%**	**20.38%**	**19.45%**		
Total Capital	**20.74%**	**20.38%**	**19.45%**		

(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 years ended December 31, 2020, 2019 and 2018.

The following table presents the Bank´s principal consolidated results of operations for the years ended December 31, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Net interest and comission income	**662,739**	**699,182**	**650,934**	**(5.2%)**	**7.4%**
Total Provisions, net [1]	**(283,992)**	**(44,923)**	**(45,804)**	**532.2%**	**(1.9%)**
Other Income (expenses):					
Fees and other comissions	204,466	229,221	212,897	(10.8%)	7.7%
Insurances premiums, net	35,593	33,930	29,998	4.9%	13.1%
Gain (loss) on financial instruments, net	19,252	15,348	(11,538)	25.4%	233.0%
Other Income, net	30,439	28,608	25,649	6.4%	11.5%
Comissions expenses and other expenses	(78,686)	(94,964)	(85,278)	(17.1%)	11.4%
Total other income, net	**211,063**	**212,143**	**171,727**	**(0.5%)**	**23.5%**
General and administrative expenses	(290,239)	(308,175)	(293,967)	(5.8%)	4.8%
Equity participation in associates	7,329	10,898	9,934	(32.7%)	9.7%
Net income before income tax	**306,900**	**569,124**	**492,825**	**(46.1%)**	**15.5%**
Income tax net	(14,260)	64,858	58,616	(122.0%)	10.6%
Net Income	**321,160**	**504,266**	**434,208**	**(36.3%)**	**16.1%**

[1] Total provisions, net includes: Provision for loan losses, net, provision for impairment of investments, net and (reversal) provisions for foreclosed assets, net.

As of December 31, 2020, the Bank's net income was US$321.16 million, which represents a decrease of US$183.11 million, or 36.3%, over the net income of US$504.27 million for December 2019. ROAE was 12.30% compared to 21.07% in 2019, and ROAA was 1.68%, as compared to 2.68% for the same period in 2019. Our results were mainly a 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, 2020, 2019 and 2018, respectively:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Total interest and commission income	994,471	1,086,146	1,003,566	(8.4%)	8.2%
Total interest expenses	331,732	386,964	352,632	(14.3%)	9.7%
Net interest and commission income	**662,739**	**699,182**	**650,934**	**(5.2%)**	**7.4%**
Average interest - earning assets	17,478,227	17,213,490	16,636,017	1.5%	3.5%
Average interest - bearing liabilities	12,215,836	12,502,839	12,179,112	(2.3%)	2.7%
Net interest margin [1]	3.79%	4.06%	3.91%		
Average interest rate earned [2]	5.69%	6.31%	6.03%		
Average interest rate paid [3]	2.72%	3.10%	2.90%		

[1] Net interest and commission income (before provisions for possible loan losses) as a percentage of average 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 5.2% decrease in net interest and commission income for the year ended December 31, 2020 as compared to the same period in 2019, was primarily a result of a 27 basis points, or 6.65% decrease in the Bank's net interest margin from 4.06% to 3.79% in 2020, partially offset by a 1.54% increase in average interest-earning assets.

The decrease in the Bank's net interest margin and commission income in 2020, as compared to the same period in 2019, was primarily attributable to a decrease in the average interest rate earned in (i) our loan portfolio which decreased 38 basis points, from 7.50% in 2019 to 7.12% on 2020, and (ii) the rate earned on our securities and other financial assets, which decreased from 3.77% in 2019 to 3.00% in 2020.

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, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Total interest and commission income	**994,471**	**1,086,146**	**1,003,566**	**(8.4%)**	**8.2%**
Average interest - earning assets:					
Deposits with banks	517,780	363,161	395,324	42.6%	(8.1%)
Loans, net	11,619,679	11,825,641	11,566,997	(1.7%)	2.2%
Securities and other financial assets	5,340,769	5,024,688	4,673,696	6.3%	7.5%
Total	**17,478,227**	**17,213,490**	**16,636,017**	**1.5%**	**3.5%**
Average nominal rates earned:					
Deposits with banks	1.37%	2.57%	2.01%		
Loans, net	7.12%	7.50%	7.15%		
Securities and other financial assets	3.00%	3.77%	3.61%		
Total	**5.69%**	**6.31%**	**6.03%**		

The Bank´s total interest and commission income is derived principally from a diversified loan portfolio, which represented 66.5% of the Bank's total average interest earning assets, generating 83.2% of total interest and commissions income for the period, which decreased from US$1,086.1 in 2019 to US$994.5 million in 2020.

The 8.4% decrease in total interest and commission income for 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 62 basis points from 6.31% in 2019 to 5.69% in 2020.

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 3.77% in 2019 to 3.00% in 2020, as consequence of the decline in interest rates of our portfolio for US dollars high quality fixed income securities, and (ii) a decrease in the interest rate earned on loans, net, which decreased from 7.50% to 7.12%

The following table presents the effect of changes in the Bank's total 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 2020, 2019 and 2018:

	(%) Change		
	2019/2020	2018/2019	2017/2018
Due to changes in average volume of interest - earning assets	16,705	34,836	61,324
Due to changes in average nominal interest rates earned	(108,379)	47,744	50,591
Net Change	**(91,674)**	**82,580**	**111,915**

The increase of US$264.7 million in average interest earning assets for the year ended December 31, 2020, resulted in an increase of US$16.7 million in interest and commission income for the period, while the decrease in the average rate earned on interest-earning assets, from 6.31% to 5.69%, resulted in a decrease of US$108.4 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 years ended December 31, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Total interest expenses	**331,732**	**386,964**	**352,632**	**(14.3%)**	**9.7%**
Average interest - bearing liabilties:					
Savings deposits	4,006,414	3,505,368	3,400,839	14.3%	3.1%
Time deposits - clients	6,057,033	6,071,979	5,634,614	(0.2%)	7.8%
Time deposits - interbank	50,392	89,396	97,922	(43.6%)	(8.7%)
Borrowings and placements	2,101,997	2,836,096	3,045,737	(25.9%)	(6.9%)
Total	**12,215,836**	**12,502,839**	**12,179,112**	**(2.3%)**	**2.7%**
Average nominal rates paid:					
Savings deposits	0.69%	0.69%	0.65%		
Time deposits - clients	3.80%	3.90%	3.66%		
Time deposits - interbank	0.92%	1.66%	1.10%		
Borrowings and placements	3.50%	4.39%	4.05%		
Total	**2.72%**	**3.10%**	**2.90%**		

The Bank's total interest expenses is primarily attributable to interest paid on clients deposits, which accounted for 77.7% of the total interest expense for the year ended December 31, 2020, as compared to 67.4% for the same period in 2019.

The 14.3% decrease in total interest expenses for 2020, as compared to the same period in 2019, was mainly a result of: (i) a 38 basis points, or 12.26%, decrease in the average rate paid on interest bearing liabilities, which decreased from 3.10% to 2.72%, and (ii) a 2.3% decrease in average interest-bearing liabilities.

The decrease in the average interest-bearing liabilities balance was mainly due to a 25.9% decrease in average medium- and long-term borrowings and placements. This decrease was offset by a 14.3% increase in average savings deposits, one of the Bank's principal sources of funding.

The decrease in the average interest rate paid on interest-bearing liabilities was mainly due to: (i) the decrease in the cost of borrowings and placements of 89 basis points, passing from 4.39% in 2019 to 3.50% in 2020, and (ii) the decrease in the cost of client time deposits, passing from 3.90% in 2019 to 3.80% in 2020.

The following table presents 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		
	2019/2020	2018/2019	2017/2018
	(in thousands of U.S. dollars)		
Due to changes in average volume of interest - bearing liabilities	(8,883)	9,373	21,124
Due to changes in average nominal interest rates paid	(46,349)	24,959	38,247
Net change	**(55,232)**	**34,332**	**59,371**

The decrease of US$287.0 million in average volume of interest-bearing liabilities for the year ended December 31, 2020, resulted in a decrease of US$8.9 million in interest expense for the period, while the decrease in the average nominal interest rate paid on interest-bearing liabilities, from 3.10% to 2.72%, resulted in a decrease of US$46.3 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 years ended December 31, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in millions of U.S. dollars, except for percentages)				
Allowance for loan losses at the beginning of period	165,159	158,531	144,832	4.2%	9.5%
Provisions charged to expenses, net of recoveries	280,947	41,954	41,983	569.7%	(0.1%)
Recovery of write-offs	20,907	27,654	23,053	(24.4%)	20.0%
Write-offs	(83,218)	(62,981)	(51,750)	32.1%	21.7%
Balance at the end of period	**383,795**	**165,159**	**158,531**	**132.4%**	**4.2%**
Total Loans	11,444,423	12,083,689	11,952,385		
Net loan loss provisions to average loans	2.45%	0.35%	0.36%		
Write-off to total loans	0.73%	0.52%	0.43%		
Net write-off to total loans	0.54%	0.29%	0.24%		
Allowance to total loans	3.35%	1.37%	1.33%		

The US$239.0 million or 569.7% increase in provisions for loan losses for the year ended December 31, 2020, as compared to the same period in 2019, is primarily attributable to a higher provision charge to expenses as a result of the deterioration of the economy due to the COVID-19 pandemic and the anticipated impact on credit quality of personal and corporate clients, incorporated through overlaying models to determine expected credit losses. In addition to the increase in provisions for loan losses the Bank´s allowance for loan losses benefited from a 5.3% decrease in the loan portfolio to US$11,444.4 million in 2020 from US$12,083.7 million in 2019 and was adversely affected by an increase of 76.4% in net write-offs, or US$27.0 million, representing 0.54% of total loans in comparison to 0.29% of total loans in 2019.

Our allowance for loan losses totaled US$383.8 million as of December 31, 2020, or 3.35% of the total loan portfolio, compared to US$165.2 million, or 1.37% of the total loan portfolio, as of December 31, 2019, representing 230.33% coverage of non-accrual loans in accordance with SBP regulations and 218.01% of past due loans. Please see section II. "Analysis of Financial Condition and Results of Operations" on page 10 for a breakdown of the allowance by stage.

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, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	**2019**	**2018**	**2019/2020**	**2018/2019**
	(in thousands of U.S. dollars, except for percentages)				
Fees and commission income, net					
Credit and Debit Card	121,712	149,787	135,207	(18.7%)	10.8%
Banking Services	30,220	27,464	24,948	10.0%	10.1%
Demand and savings deposits fees	7,235	11,969	12,708	(39.6%)	(5.8%)
Trust and corporate finance fees	10,488	6,821	7,328	53.8%	(6.9%)
Mutual fund and pension fund income	19,548	18,807	17,087	3.9%	10.1%
Wealth management revenue	10,754	8,883	8,666	21.1%	2.5%
Foreign trade transactions fees	1,557	2,469	3,961	(36.9%)	(37.7%)
Other fees and commissions	2,953	3,021	2,991	(2.3%)	1.0%
Commission expenses and other expenses	(78,686)	(94,964)	(85,278)	(17.1%)	11.4%
Fees and comission income, net	**125,780**	**134,257**	**127,619**	(6.3%)	5.2%
Insurance premiums, net	35,593	33,930	29,998	4.9%	13.1%
Gain (loss) on financial instruments, net	19,252	15,348	(11,538)	25.4%	233.0%
Other Income, net	30,439	28,608	25,649	6.4%	11.5%
Total of other income, net	**211,063**	**212,143**	**171,727**	**(0.5%)**	**23.5%**

The 0.5% decrease in total other income, net for the year ended December 31, 2020 primarily reflects the following factors:

Fees and Commission Income, net

The 6.3% decrease in fees and commission income, net of commission expenses for the year ended December 31, 2020 was mainly due to: (i) a 13.6% 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 39.6% decrease in demand and savings deposits fees as consequence of the mobility restrictions imposed on our clients during the year, temporary branch closures and fee waivers enacted to provided financial relief. This decrease was offset by a 10.0% increase in banking services which are comprised of wire transfers an online banking fees, among others.

Insurance Premiums, net

Net insurance premiums increased by 4.9% for the year ended December 31, 2020, as compared to the same period in 2019, mainly due to the increase in premiums from life insurance coverage of US$3.7 million or 9.1%. This increase was offset by a US$2.1 million or 27.7% in claims expense, as a result of the situation caused by COVID-19 impact.

Gain (loss) on Financial Instruments, net

The gain on financial instruments, net of US$19.3 million for the year ended December 31, 2020, as compared to a gain of US$15.3 million in 2019 was principally due to: (i) a gain of US$23.0 million from our fixed income investments which benefited from lower rates and tighter credit spreads and (ii) a US$7.0 million loss from our local Panamanian equity holdings which trade in the local Panamanian exchange.

Other income, net

Other income, net, increased by US$1.8 million or 6.4%, in the year ended December 31, 2020, as compared to the same period in 2019, primarily due to additional income received from our credit card business.

General and Administrative Expenses

The following table presents the Bank's principal general and administrative expenses for the years ended December 31, 2020, 2019 and 2018:

	As of December 31			(%) Change	
	2020	2019	2018	2019/2020	2018/2019
	(in thousands of U.S. dollars, except for percentages)				
Salaries and other personnel expenses	166,278	178,977	173,009	(7.1%)	3.4%
Depreciation and Amortization expenses	28,517	28,600	24,984	(0.3%)	14.5%
Properties, furniture and Equipment expenses	22,727	22,316	25,306	1.8%	(11.8%)
Other expenses	72,717	78,282	70,668	(7.1%)	10.8%
Total	**290,239**	**308,175**	**293,967**	**(5.8%)**	**4.8%**

The 5.8% decrease in general and administrative expenses for the year ended December 31, 2020 primarily reflects the following factors:

Salaries and other personnel expenses

Salaries and other personnel expenses represented 57.3% of total general and administrative expenses as of December 31, 2020, as compared to 58.1% for the same period in 2019. The 7.1% decrease in salaries and other expenses was attributable to: (i) a decrease in the number of employees, due to voluntary retirement and decreased level of hiring, as compared to the same period in 2019, and (ii) lower variable compensation.

Depreciation and Amortization expenses

Total depreciation and amortization expense for the year ended December 31, 2020 as compared to the same period in 2019 remained stable.

Properties, furniture and Equipment expenses

Properties, furniture and equipment expenses increased by US$0.4 million or 1.8% for the year ended December 31, 2020, as compared to the same period in 2019, mainly due to a US$1.0 million increase in maintenance of hardware and software in applications.

Other expenses

Other expenses decreased US$5.6 million or 7.1%, for the year ended December 31, 2020, as compared to the same period in 2019, as a result of a US$5.5 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.

Taxes

Income tax, net amounted to US$14.3 million for the year ended December 31, 2020, (which corresponds to estimated taxes of US$40.3 million, and deferred tax credit of US$54.6 million), as compared to US$64.9 million in 2019 (which corresponds to estimated taxes of US$66.4 million and deferred tax credit of US$1.5 million). The decrease of US$79.1 million was primarily due to deferred taxes as a result of the increase in the provision for loan losses during the year.

Operational Efficiency

The Bank's operational efficiency was 32.94% in 2020, as compared to 33.42% in 2019 mainly as a result of a US$17.9 million, or 5.82%, decrease in the Bank's general and administrative expenses.

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

	2020	2019	2018	2017	2016
	(in thousands of U.S. dollars)				
Total interest and commission income	994,471	1,086,146	1,003,566	891,651	808,397
Total interest expenses	(331,732)	(386,964)	(352,632)	(293,261)	(253,826)
Net interest and commission income	**662,739**	**699,182**	**650,934**	**598,390**	**554,571**
Total Provisions, net	(283,992)	(44,923)	(45,804)	(45,025)	(46,321)
Net interest and commission income after provisions	**378,747**	**654,259**	**605,130**	**553,365**	**508,250**
Other Income (expenses):					
Fees and other commissions	204,466	229,221	212,897	199,462	179,744
Insurance premiums, net	35,593	33,930	29,998	26,885	22,498
Gain (loss) on financial instruments, net	19,252	15,348	(11,538)	16,477	4,639
Other income, net	30,439	28,608	25,649	39,086	18,080
Commissions expenses and other expenses	(78,686)	(94,964)	(85,278)	(77,758)	(72,253)
Total other income, net	**211,063**	**212,143**	**171,727**	**204,152**	**152,708**
General and administrative expenses	(290,239)	(308,175)	(293,967)	(280,399)	(254,896)
Equity participation in associates	7,329	10,898	9,934	8,570	8,040
Net income before income tax	**306,900**	**569,124**	**492,825**	**485,688**	**414,102**
Income tax, net	14,260	(64,858)	(58,616)	(55,941)	(48,714)
Net income	**321,160**	**504,266**	**434,208**	**429,747**	**365,388**

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

	2020	2019	2018	2017	2016
	(in thousands of U.S. dollars)				
Assets					
Securities and other financial assets	5,624,784	4,973,441	5,188,000	4,414,784	4,114,881
Loans	11,444,423	12,083,689	11,952,385	11,506,061	10,769,010
Loan losses alowance	(383,795)	(165,159)	(158,531)	(144,832)	(128,917)
Unearned comissions	(37,045)	(43,302)	(41,104)	(38,255)	(35,511)
Investments in associates	21,686	24,881	26,035	22,076	18,591
Other assets	1,146,145	1,119,697	1,043,171	966,700	909,995
Total assets	**18,616,783**	**18,723,721**	**18,704,157**	**17,571,922**	**16,415,824**
Liabilities and total equity					
Local deposits	12,895,359	11,924,894	11,668,832	11,044,313	10,668,732
Foreign deposits	554,177	530,374	559,475	414,115	403,954
Total Deposits	**13,449,536**	**12,455,268**	**12,228,307**	**11,458,427**	**11,072,686**
Securities sold under repurchase agreements		403,947	-	45,815	273,300
Medium and long term borrowings and placements	1,076,469	1,914,581	2,886,528	2,661,365	1,950,624
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,239,887	1,249,506	1,186,619	1,142,792	1,069,348
Equity	2,633,211	2,482,739	2,185,023	2,045,843	1,832,186
Total liabilities and total equity	**18,616,783**	**18,723,721**	**18,704,157**	**17,571,922**	**16,415,824**
Operational data (in units)					
Number of customers (1)	1,200,346	1,052,219	951,034	906,534	886,436
Number of employees (2)	4,554	4,714	4,685	4,649	4,457
Number of branches	83	86	86	84	82
Number of ATMs	638	645	650	640	606
Assets under management (3)	11,300,281	11,823,121	10,885,827	10,219,936	8,946,365

(1) Total number of clients at the end of the period.

(2) Total number of permanent full-time employees at the end of the period.

(3) See note 28 of our Financial Statements.

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Financial Ratios
For the years ended December 31st

	2020	2019	2018	2017	2016
Profitability and efficiency:					
Net Interest Margin (1)	3.79%	4.06%	3.91%	3.84%	3.85%
Return on average assets (2)	1.68%	2.68%	2.41%	2.53%	2.33%
Return on average equity (2)	12.30%	21.07%	20.21%	21.69%	20.57%
Efficiency (3)	32.94%	33.42%	35.31%	34.57%	35.63%
Operating expenses / average total assets (2)	1.51%	1.64%	1.63%	1.65%	1.63%
Total other income, net / operating income (4)	35.78%	24.49%	22.11%	26.95%	23.10%
Liquidity:					
Primary Liquidity (5) / total deposits and obligations	29.40%	27.29%	28.16%	26.12%	26.00%
Regulatory Liquidity (6) / total deposits	40.45%	38.21%	42.65%	38.81%	38.90%
Loans, net / total client deposits	82.00%	96.10%	97.15%	99.61%	96.62%
Capital:					
Total capital ratio (7)	20.74%	20.38%	19.45%	19.11%	18.58%
Tier 1 common equity ratio	19.12%	18.70%	17.64%	17.22%	16.54%
Total Tier 1 capital ratio (8)	20.74%	20.38%	19.45%	19.11%	18.58%
Equity / assets	14.14%	13.26%	11.68%	11.64%	11.16%
Earning retention ratio (9)	25.63%	42.89%	39.71%	48.81%	42.26%
Asset quality:					
Past due loans (10)/ total loans	1.54%	1.27%	1.15%	1.03%	0.95%
Non accrual loans (11)/ total loans	1.46%	1.07%	0.96%	0.78%	0.74%
Loan losses alowance / total loans	3.35%	1.37%	1.33%	1.26%	1.20%
Loan losses alowance / past due loans	218.01%	107.65%	115.03%	122.64%	125.70%
Loan losses alowance / non accrual loans	230.33%	127.67%	137.14%	161.41%	161.25%
Loan losses alowance + Dynamic Reserve / non accrual loans	304.50%	206.88%	224.69%	250.29%	272.68%
Loan losses alowance + Dynamic Reserve / past due loans	321.71%	245.36%	267.86%	329.41%	349.82%
Write-offs / total loans	0.73%	0.52%	0.43%	0.43%	0.44%

(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 total 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 SBP

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

(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 capitalization of 14.14% to total assets and 20.74% Tier 1 to risk weighted assets compared to a minimum of 8% required for the SBP; and a legal liquidity of US$3,121.3 million (liquid investments and asset quality) or 40.45% (above the 30% required under the parameters of Accord No. 4-2008)