Banco General, S.A.
Management Discussion
First Quarter - 2021

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 the information contained in the condensed consolidated interim financial statements, as of March 31, 2021. 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).

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 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 (initially, 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 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. Loans 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 agreement No. 9-2020 modifying agreement No. 2-2020 in which additional and temporary measures are established to adjust and comply with credit risk requirements established in 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 banks 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 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.

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 to 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 1.2 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: May 31, 2021, for the primary sector, August 30, 2021, for the secondary sector, and October 31, 2021, for the tertiary sector. 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 March 31, 2021, the Bank maintains the following monthly payment deferrals: (i) 29.0% of residential mortgage clients, equivalent to US$1,407.4 million or 30.6% of the total outstanding residential mortgage portfolio; (ii) 16.1% of consumer clients, equivalent to US$346.9 million or 20.0% of the total outstanding consumer portfolio; and (iii) 4.8% of corporate clients, equivalent to US$567.7 million or 11.9% of the total outstanding corporate portfolio. The total deferrals portfolio amounted to 20.6% of the loan portfolio or US$2,322.0 million; 75.0% or US$1,742.2 million was backed by mortgage collateral. 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, and 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 US$2.0 million in donations in the first quarter of 2021, and is working to protect the most vulnerable and prevent the spread of the virus, by focusing our efforts on three sectors:

- **Healthcare:** Donations focused on 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 testing in other hospitals**.**

- **Food**: Donations for a special food program "Alimenta Una Vida," created to help non-profit organizations, as well as other food-related programs. This program is responsible for feeding people in vulnerable conditions. In addition to funding, employees have also volunteered their time.

- **Non-Profit Organizations:** Execution without interruption of our foundation's annual donation, 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. These funds were in part used to purchase computers to allow children to continue studying from home.

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 March 31, 2021, the Bank had:
    - Approximately 1,698 employees working remotely and 2,524 either on-site or remotely (which combined, represent 94% of our labor force); the remaining employees were on leave or paid vacation.
    - We expanded our call center capabilities and promoted the use of our digital channels to continue serving our customers from their homes.
- 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 March 31, 2021, the Bank's gross loan portfolio decreased 7.5% from US$12,181.4 million in March 2020 to US$11,263.8 million. During this period, the Bank's residential mortgage portfolio grew 0.3%, from US$4,584.4 million to US$4,598.9 million; the consumer loan portfolio decreased 9.1%, from US$1,909.1 million to US$1,735.1 million; the corporate loan portfolio, comprised of both local and regional corporate clients, decreased 13.0% from US$5,163.7 million to US$4,491.7 million, and other loans (comprised of pledge loans, overdrafts, and financial leases) decreased from US$524.2 million to US$438.1 million. The Bank's local corporate loan portfolio decreased 10.9% or US$440.0 million, from US$4,030.9 million to US$3,590.9 million, and the Bank's regional corporate loan portfolio decreased 20.5%, or US$232.0 million, from US$1,132.8 million to US$900.8 million. 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 11.6%, from US$5,055.4 million in March 2020 to US$5,639.4 million in March 2021.

Total Liabilities

The Bank's total client deposits grew by US$1,079.0 million, or 8.6%, from US$12,510.7 million in March 2020 to US$13,589.6 million in March 2021. Client time deposits, the Bank's main source of funding, decreased by US$216.2 million, from US$6,094.5 million to US$5,878.3 million, representing 43.3% of total client deposits as of March 31, 2021, with an average remaining life of 14 months, and 76.8% having original maturities of more than one year. Savings accounts grew by US$870.5 million or 23.4%, from US$3,714.6 million in March 2020, to US$4,585.1 million in March 2021, representing 33.7% of total client deposits. Demand deposits increased by US$424.7 million from US$2,701.6 million in March 2021 to US$3,126.2 million in March 2021, representing 23.0% of client deposits.

As of March 31, 2021, the Bank's total medium and long-term borrowings and placements decreased by US$1,346.4 million, or 52.3%, from US$2,572.0 million in March 2020 to US$1,225.6 million in March 2021.

Equity

As of March 31, 2021, the Bank's equity grew 4.5%, or US$111.2 million, from US$2,482.9 million in March 2020 to US$2,594.0 million in March 2021, driven by a US$108.4 million increase in the bank's total capital reserves which was influenced by an increase of US$95.0 million in the valuation of investments and other financial assets, mainly attributed to higher market volatility seen during 2020. The Bank's equity to total assets ratio increased from 12.60% in March 2020 to 13.86% as of March 31, 2021.

Liquidity and Funding Sources

The Bank's Assets and Liabilities Committee ("ALCO") is responsible for developing and proposing policies relating to the management of the Bank's assets and liabilities, to enable us to maintain interest rate, market, maturity and liquidity, and foreign exchange exposures, within the Bank's 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 7.60% 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 32.15% as of March 31, 2021, equivalent to US$4,695.4 million in primary liquidity. This represents an increase of 13.1%, compared to US$4,151.2 million as of March 31, 2020, with a liquidity ratio of 27.76% as of such date. The Bank's total primary liquidity has an average credit rating of AA-, of which 51.0% are AAA rated investments. As of March 31, 2021, these liquid assets represented 34.55% of total deposits and 25.09% of total assets.

In addition to our 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, for up to 30% of the total liquid assets used. As of March 31, 2021, the Bank maintained regulatory liquidity of 45.20%, complying with the requirements established by the SBP.

Loan Portfolio

The Bank's loan portfolio is well diversified across clients, products, and product segments. As of March 31, 2021, total gross loans amounted to US$11,263.8 million, of which 39.9% was comprised of corporate loans (31.9% local corporate loans and 8.0% foreign corporate loans), 56.2% of retail loans (40.8% residential mortgages and 15.4% consumer loans); and 3.9% 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 deposits in the Bank, in addition to applying strict underwriting guidelines and "know your customer" policies. As of March 31, 2021, 78.5% of all loans were secured by residential or business properties or deposits in the Bank; 73.6% of all loans were secured by first lien mortgages on land and improvements (residential mortgages loans, commercial mortgages loans and interim construction loans), and 4.9% of all loans were backed by pledge of 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 write-offs of 0.62% of total loans over the last two years ending on December 31, 2020.

As of March 31, 2021, 89.6% of the Bank's loan portfolio was comprised of local borrowers (individuals and corporations) based in Panama, and 10.4% 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 March 31, 2021, 99.9% of the Bank's loans were denominated in US dollars, which is legal tender in Panama. The Bank classifies its portfolios according to the 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 March 31, 2021, and 2020, and as of December 31, 2020, 2019, and 2018:

	As of March 31			As of December 31		
	2021	**2020**	**(%) Change**	**2020**	**2019**	**2018**
	(in thousands of U.S. dollars, except for percentages)					
Local Loans						
Commercial	327,270	343,221	-4.6%	323,258	397,805	355,306
Interim construction loans	463,081	543,228	-14.8%	482,879	565,399	700,899
Lines of credit	871,868	1,117,136	-22.0%	924,713	1,050,023	1,235,506
Residential mortgage loans	4,399,244	4,367,417	0.7%	4,390,972	4,321,904	4,091,043
Commercial mortgage loans	1,928,684	2,027,306	-4.9%	1,952,981	2,020,115	1,920,858
Personal loans, auto loans and credit cards	1,724,125	1,894,641	-9.0%	1,759,520	1,894,882	1,776,981
Pledge loans and overdrafts	297,556	360,285	-17.4%	299,947	358,283	356,635
Leasing	76,792	96,718	-20.6%	79,984	100,191	108,302
Total Local Loans	**10,088,620**	**10,749,952**	**-6.2%**	**10,214,254**	**10,708,602**	**10,545,529**
Foreign Loans						
Commercial	521,012	582,211	-10.5%	551,106	600,867	447,699
Interim construction loans	-	-	0.0%	-	-	3,100
Lines of credit	199,222	342,999	-41.9%	208,211	257,641	351,265
Residential mortgage loans	199,652	216,970	-8.0%	204,561	223,143	249,376
Commercial mortgage loans	180,548	207,611	-13.0%	188,603	208,335	259,581
Personal loans, auto loans and credit cards	10,928	14,429	-24.3%	11,966	15,323	16,779
Pledge loans and overdrafts	63,769	67,192	-5.1%	65,722	69,778	79,055
Total Foreign Loans	**1,175,132**	**1,431,413**	**-17.9%**	**1,230,170**	**1,375,087**	**1,406,855**
Total Loans	**11,263,752**	**12,181,365**	**-7.5%**	**11,444,423**	**12,083,689**	**11,952,385**
Allowance for loan losses	409,774	171,902	138.4%	383,795	165,159	158,531
Unearned commissions	35,984	43,231	-16.8%	37,045	43,302	41,104
Total loans, net	**10,817,994**	**11,966,232**	**-9.6%**	**11,023,583**	**11,875,228**	**11,752,749**

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 their 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. To the extent borrowers remain current with the modified loans, those loans would be considered current and not overdue.

The following table presents non-accrual loans, according to loan type, as of March 31, 2021, and 2020, and as of December 31, 2020, 2019, and 2018:

	As of March 31			As of December 31		
	2021	2020	(%) Change	2020	2019	2018
	(in thousands of U.S. dollars, except for percentages)					
Non accrual loans						
Commercial	5,425	5,901	-8.1%	8,959	6,805	8,931
Interim construction loans	1,918	1,838	4.3%	1,918	1,956	2,424
Lines of credit	6,624	5,595	18.4%	5,800	6,538	15,157
Residential mortgage loans	83,845	62,612	33.9%	84,801	52,977	41,370
Preferential mortgage loans	26,208	20,363	28.7%	25,791	16,923	15,335
Commercial mortgage loans	23,124	26,881	-14.0%	24,238	20,425	8,580
Personal loans, auto loans and credit cards	16,513	26,740	-38.2%	12,659	23,385	22,499
Pledge loans and overdrafts	296	635	-53.5%	183	234	399
Leasing	2,116	629	236.2%	2,276	124	906
Total non accrual loans [1]	**166,069**	**151,195**	**9.8%**	**166,625**	**129,365**	**115,601**
Total Loans	11,263,752	12,181,365		11,444,423	12,083,689	11,952,385
Allowance for loan losses	409,774	171,902		383,795	165,159	158,531
Non accrual loans as a percentage of total loans	1.47%	1.24%		1.46%	1.07%	0.97%
Allowance for loans losses as a percentage of non accrual loans	246.75%	113.70%		230.33%	127.67%	137.14%
Allowance for loan losses + Dynamic Reserve / non accrual loans	338.43%	214.40%		321.71%	245.36%	267.86%

[1] 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.

Non-accrual loans reported to SBP were US$166.1 million as of March 31, 2021, compared to US$151.2 million as of March 31, 2020. The US$14.9 million, or 9.8% increase is primarily attributed to the closure of businesses, as means of containing and preventing the spread of COVID-19, resulting in substantial temporary employee suspensions and/or reductions in their income or job losses as well as interruption of operations for a significant proportion of businesses. The Bank experienced a US$27.1 million increase in the residential and preferential mortgage non-accrual balance from US$83.0 million, or 0.68% of the total loan portfolio to US$110.1 million, or 0.98% of the total loan portfolio. The increase in the non-accrual balance described above was partially offset by: (i) a US$2.0 million, decrease in the corporate non-accrual balance from US$41.5 million, or 0.34% of the total loan portfolio, to US$39.5 million, or 0.32% of the total loan portfolio, and (ii) a US$10.2 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 and write-offs in the amount of US$18.3 million.

Non-accrual loans, under SBP regulations, represented 1.47% of total loans as of March 31, 2021, compared to 1.24% as of March 31, 2020. The Bank´s allowance coverage for loan losses was 246.75% for non-accrual loans, as compared to 113.70%.

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 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. Loans in non-accrual status calculated under the complementary policy applied by the bank amounted to US$388.4 million as of March 31, 2021.

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 March 31, 2021 and 2020, and as of December 31, 2020, 2019, and 2018:

	As of March 31			As of December 31		
	2021	2020	(%) Change	2020	2019	2018
	(in thousands of U.S. dollars, except for percentages)					
Past due loans						
Commercial	5,492	6,302	-12.8%	8,959	6,805	8,931
Interim construction loans	1,918	1,838	4.3%	1,918	1,956	2,424
Lines of credit	7,342	5,733	28.1%	5,766	6,538	14,426
Residential mortgage loans	91,602	84,693	8.2%	93,567	68,947	54,594
Preferential mortgage loans	30,383	32,108	-5.4%	29,317	25,391	24,373
Commercial mortgage loans	24,072	28,086	-14.3%	24,336	20,164	8,618
Personal loans, auto loans and credit cards	12,510	26,404	-52.6%	9,464	23,042	22,413
Pledge loans and overdrafts	516	1,814	-71.6%	438	460	1,131
Leasing	2,116	629	236.2%	2,276	124	906
Total past due loans	**175,950**	**187,609**	**-6.2%**	**176,041**	**153,426**	**137,815**
Total Loans	11,263,752	12,181,365		11,444,423	12,083,689	11,952,385
Allowance for loan losses	409,774	171,902		383,795	165,159	158,531
Past due loans as a percentage of total loans	1.56%	1.54%		1.54%	1.27%	1.15%
Allowance for loan losses as percentage of past due loans	232.89%	91.63%		218.01%	107.65%	115.03%
Allowance for loan losses + Dynamic Reserve / past due loans	319.43%	172.78%		304.50%	206.88%	224.69%

Past due loans were US$175.9 million as of March 31, 2021, compared to US$187.6 million as of March 31, 2020. The US$11.7 million, or 6.2% decrease in past due balances was principally as consequence of the deferral of monthly payments of part of the portfolio, which resulted in fewer loans reaching past due status. The Bank presented a US$5.1 million increase in the residential and preferential mortgage past due balance from US$116.8 million, or 0.96% of the total loan portfolio to US$121.9 million, or 1.08% of the total loan portfolio. The increase in the past due balance described above was partially offset by: (i) a US$2.9 million decrease in the corporate past due balance from US$44.4 million, or 0.36% of the total loan portfolio, to US$41.5 million, or 0.37% of the total loan portfolio, and (ii) a US$13.9 million decrease in the consumer loans past due balance from US$26.4 million or 0.22% of the total loan portfolio to US$12.5 million, or 0.11% of the total loans portfolio, as a consequence of the write-off of US$18.3 million of loans balance and the deferral of monthly payments on part of the portfolio.

Past due loans represented 1.56% of total loans outstanding as of March 31, 2021, compared to 1.54% as of March 31, 2020. As of March 31, 2021, the Bank´s allowance coverage for loan losses was 232.89% for past due loans, as compared to 91.63% in 2020. Past due balances are positively impacted by the relief measures implemented by the Bank, including the deferral of monthly scheduled payments, as permitted by the laws and SBP regulations previously described.

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 write-offs are applied against this allowance.

The allowance for loan losses at amortized cost consists of expected credit losses (ECL) based on loans' credit risk rating and the mechanisms used to determine the loans' probability of default depending on the impairment stage into which each loan is assigned to. The ECL model is determined by grouping loans with similar credit risk characteristics, and segmented methodologies for "Consumer Banking" and "Corporate Banking". Both methodologies consist of the probability of default, loss given default, and exposure at 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 month 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 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 an increase in credit risk and the impact of a longer time horizon in comparison with 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 March 31, 2021, and December 31, 2020:

	March 31, 2021			December 31, 2020			(%) Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
	(in thousands of U.S. dollars,except percentages)							
Stage 1	9,712,569	169,073	1.7%	10,133,492	225,723	2.2%	-4.2%	-25.1%
Stage 2	915,476	62,657	6.8%	846,056	71,959	8.5%	8.2%	-12.9%
Stage 3	635,707	178,043	28.0%	464,875	86,113	18.5%	36.7%	106.8%
Total	**11,263,752**	**409,774**	**3.6%**	**11,444,423**	**383,795**	**3.4%**	**-1.6%**	**6.8%**

The allowance for loan losses increased to US$409.8 million as of March 2021, or 3.64% of the total loan portfolio, from US$383.8 million, or 3.35% of the total loan portfolio, as of December 31, 2020, to account for the deterioration of the overall economy, due to COVID-19, and the negative impact it will have on businesses and individual clients' payment capacity arising from the increase in work suspensions, income reductions and job losses.

The allowance for Stage 1 loans decreased 25.1% from US$225.7 million, or 2.23% in December 2020, to US$169.1 million, or 1.74% in March 2021. The amount of loans in Stage 2 increased 8.2%, from US$846.1 million in December 2020 to US$915.5 million in March 2021, and the level of allowance decreased from US$72.0 million (8.51% of loans) in December 2020 to US$62.7 million (6.84% of loans) in March 2021. The amount of Stage 3 loans increased 36.7% from US$464.9 million in December 2020 to US$635.7 million in March 2021 and the level of allowance increased from US$86.1 million (18.52% of loans) in December 2020 to US$178.1 million (28.01% of loans) in March 2021. The increments in Stage 2 and Stage 3 loan balances described above are mainly explained by the migration of corporate and consumer clients from Stage 1, who were identified with a higher level of credit risk according to the Bank´s complementary, policies and models. Accordingly, the increase in the allowance for Stage 3 is consistent with the stage loan migration, as captured by the complementary models and its estimates.

The following table presents the breakdown of the allowance for loans losses as of March 31, 2021 and 2020, and as of December 31, 2020, 2019 and 2018:

	As of March 31			As of December 31		
	2021	2020	(%) Change	2020	2019	2018
	(in thousands of U.S. dollars, except for percentages)					
Allowance at the beginning of period	383,795	165,159	132.4%	165,159	158,531	144,832
Provision charged to expenses, net of recoveries	39,812	11,683	240.8%	280,947	41,954	41,983
Write-offs:						
Commercial	94	8	1094.8%	521	6,236	249
Interim construction loans	-	-	0.0%	-	415	207
Lines of credit	95	-	100.0%	1,819	6,774	607
Residential mortgage loans	193	372	-48.0%	977	1,862	885
Commercial mortgage loans	16	4	298.1%	1,267	434	397
Personal and auto loans and credit cards	18,341	12,156	50.9%	78,192	46,057	48,787
Auto	*249*	*760*	*-67.2%*	*2,279*	*2,331*	*1,869*
Personal	*12,743*	*6,781*	*87.9%*	*48,178*	*28,509*	*31,147*
Credit cards	*5,348*	*4,615*	*15.9%*	*27,735*	*15,217*	*15,771*
Pledge loans and overdrafts	36	33	10.3%	394	864	484
Leasing	-	-	0.0%	48	337	133
Total write-offs	**18,775**	**12,573**	**49.3%**	**83,218**	**62,981**	**51,750**
Recoveries	4,942	7,633	-35.3%	20,907	27,654	23,053
Allowance at the end of period	**409,774**	**171,902**	**138.4%**	**383,795**	**165,159**	**158,531**
Total Loans	11,263,752	12,181,365		11,444,423	12,083,689	11,952,385
Allowance for loan losses as percentage of total loans	3.64%	1.41%		3.35%	1.37%	1.33%
(Allowance for loan losses + Dynamic Reserve) / total loans	4.99%	2.66%		4.68%	2.63%	2.59%
Net write-off to total loans (1)	0.49%	0.16%		0.54%	0.29%	0.24%
Write-off to total loans (1)	0.67%	0.41%		0.73%	0.52%	0.43%

(1) Percentages for the three months ended annualized

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 March 31, 2021, total write-offs amounted to US$18.8 million (0.67% of total loans, on annualized basis), as compared to US$12.6 million (0.41% of total loans, on annualized basis) in the same period of 2020.

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, and has supported our investment grade ratings since 1997, currently holding the following ratings: BBB by Standard & Poor's, Baa2 by Moody's, and BBB- by Fitch Ratings.

As of March 31, 2021, the Bank´s total regulatory capital amounted to US$2,747.5 million, or 2.78x the regulatory total capital ratio of 8.0% required by the SBP. The ratio of total capital to risk-weighted assets was 22.24%, on total risk weighted assets of US$12,351.2 million. Total risk-weighted assets include US$11,085.5 million of risk-weighted assets in our loan portfolio and investments, US$718.7 million of risk-weighted assets due to market risk requirements, and US$546.9 million of risk-weighted assets from operational risk. Market risk-weighted assets and operational risk-weighted assets are included in accordance with regulatory requirements outlined in Accords No. 11-2018 and No 6-2019 issued by the SBP. Our shareholder's equity to total assets ratio was 13.86% as of March 2021.

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 8.0%. As of March 31, 2021, the Bank´s dynamic reserve balance was US$152.3 million. On July 21, 2020, the SBP communicated the temporary suspension of the constitution of the dynamic reserve 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). As of March 31, 2021, the Bank has not used the dynamic reserve, which remains at the same level as of December 2019.

The Bank's securities brokerage, insurance, and pension fund management subsidiaries are also subject to minimum capital requirements stipulated under Panamanian law. As of March 31, 2021, all subsidiaries complied with all of the minimum capital requirements applicable under the regulations.

The following table presents information regarding the Bank's capital levels as of March 31, 2021, and 2020, and as of December 31, 2020, 2019, and 2018:

	As of March 31		As of December 31		
	2021	2020	2020	2019	2018
	(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	188,949	186,792	188,396	186,240	182,341
Other items comprehensive income	98,882	(9,488)	159,987	89,125	3,642
Retained earnings	1,795,596	1,799,189	1,772,980	1,703,100	1,498,282
Less: Regulatory adjustments	53,617	43,487	53,674	50,074	57,802
Total regulatory primary capital	**2,529,809**	**2,433,006**	**2,567,690**	**2,428,391**	**2,126,463**
Minimum regulatory CET 1 (4.5%)	**555,802**	**635,020**	**604,434**	**584,249**	**542,406**
Additional primary capital (Tier 1)					
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	**2,747,489**	**2,650,686**	**2,785,370**	**2,646,071**	**2,344,143**
Minimum regulatory primary capital (6.0%)	**741,069**	**846,693**	**805,912**	**778,999**	**723,208**
Credit risk-weighted assets	11,085,547	12,135,715	11,273,084	11,931,120	12,053,460
Market risk-weighted assets [(1)]	718,674	1,283,014	1,551,596	422,023	-
Operational risk-weighted assets [(1)]	546,931	692,827	607,186	630,172	-
Risk-weighted assets	**12,351,152**	**14,111,555**	**13,431,866**	**12,983,315**	**12,053,460**
Capital ratios					
Total regulatory primary capital ratio	**20.48%**	**17.24%**	**19.12%**	**18.70%**	**17.64%**
Total primary capital ratio	**22.24%**	**18.78%**	**20.74%**	**20.38%**	**19.45%**
Total capital ratio	**22.24%**	**18.78%**	**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 to support depositors and enable us to support growth opportunities and weather unexpected adverse events that may affect our operations.

Results of Operations for the three months ended March 31, 2021 and 2020.

The following table presents the Bank´s principal consolidated results of operations for the three months ended March 31, 2021, and 2020, respectively:

	For the Three Months Ended March 31		
	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)		
Net interest and comission income	**150,458**	**174,358**	**-13.7%**
Total Provisions, net	**(40,421)**	**(21,499)**	**88.0%**
Other Income (expenses):			
Fees and other comissions	54,477	57,552	-5.3%
Insurances premiums, net	6,725	9,368	-28.2%
Gain (loss) on financial instruments, net	720	(19,309)	n/a
Other Income, net	6,221	5,134	21.2%
Comissions expenses and other expenses	(22,119)	(25,021)	-11.6%
Total other income, net	**46,025**	**27,723**	**66.0%**
General and administrative expenses	72,393	78,164	-7.4%
Equity participation in associates	2,233	2,227	0.3%
Net income before income tax	**85,901**	**104,645**	**-17.9%**
Income tax net	(5,841)	(11,997)	-51.3%
Net Income	**80,059**	**92,647**	**-13.6%**

For the three months ended March 31, 2021, the Bank's net income was US$80.1 million, which represents a decrease of US$12.6 million, or 13.6%, compared to US$92.6 million. For the three months ended March 31, 2020. Annualized ROAE was 12.15% during the three months ended March 31, 2021, compared to 14.68% for the same period in 2020, and the annualized ROAA was 1.71% during the three months ended March 31, 2021, as compared to 1.93% for the same period in 2020. These results in net income, ROAE and ROAA were mainly the 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 months ended March 31, 2021, and 2020, respectively:

	For the Three Months Ended March 31		
	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)		
Total interest and commission income	221,169	263,893	-16.2%
Total interest expenses	70,712	89,535	-21.0%
Net interest and commission income	**150,458**	**174,358**	**-13.7%**
Average interest - earning assets	17,101,488	17,405,316	-1.7%
Average interest - bearing liabilities	11,736,016	12,323,295	-4.8%
Net interest margin (1)(4)	3.52%	4.01%	
Average interest rate earned (1)(4)	5.17%	6.06%	
Average interest rate paid (1)(4)	2.41%	2.91%	

(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 13.7% decrease in net interest and commission income for the three months ended March 31, 2021, as compared to the same period for 2020, was primarily a result of a 12.2%, or 49 basis points, decrease in the Bank's net interest margin from 4.01% in 2020 to 3.52% in 2021.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the three months ended March 31, 2021, and 2020, respectively:

	For the Three Months Ended March 31		
	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)		
Total interest and commission income	**221,169**	**263,893**	**-16.2%**
Average interest - earning assets:			
Deposits with banks	594,554	486,280	22.3%
Loans, net	10,926,082	11,896,135	-8.2%
Securities and other financial assets	5,580,852	5,022,902	11.1%
Total	**17,101,488**	**17,405,316**	**-1.7%**
Average nominal rates earned:			
Deposits with banks (1)	1.00%	1.90%	
Loans, net (1)	6.74%	7.38%	
Securities and other financial assets (1)	2.55%	3.36%	
Total (1)	**5.17%**	**6.06%**	

(1) Percentages for the three months ended are annualized

The Bank´s interest and commission income is derived principally from a diversified loan portfolio, which represented 63.9% 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$263.9 million in March 2020 to US$221.2 million in March 2021.

The 16.2% decrease in total interest and commission income for the three months ended March 31, 2021, as compared to the same period in 2020, resulted primarily from a decrease in the average rate earned on interest-earning assets which decreased 89 basis points from 6.06% to 5.17% during the period.

The decrease in the average rate earned on interest earning assets was primarily driven by: (i) the decrease of 64 basis points in the interest rate earned on loans, net, which decreased from 7.38% in March 2020 to 6.74% in March 2021, mainly attributable to the implementation of the complementary exceptional and voluntary policy of non-accrual loans described previously, and (ii) lower interest rates on securities and other financial assets, which decreased from 3.36% to 2.55% on March 31, 2021, as a consequence of the decline in interest rates for US high quality fixed income securities and an increase in balances invested at lower rates.

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 March 31, 2021, and 2020:

	Decrease/Increase First - Quarter 2020/2021 (in thousands of U.S. dollars)
Due to changes in average volume of interest - earning assets	(4,607)
Due to changes in average nominal interest rates earned	(38,117)
Net Change	**(42,724)**

The decrease of US$303.8 million in average interest earning assets for the three months ended March 31, 2021, resulted in a decrease of US$4.6 million in interest and commission income for the period, while the decrease in the average rate earned on interest-earning assets, from 6.06% to 5.17% resulted in a decrease of US$38.1 million in interest and commission income as compared to the same period in 2020.

Total Interest Expenses

The following table presents information as to the Bank’s total interest expenses for the three months ended March 31, 2021 and 2020, respectively:

	For the Three Months Ended March 31		
	2021	**2020**	**(%) Change**
	(in thousands of U.S. dollars, except for percentages)		
Total interest expenses	**70,712**	**89,535**	**-21.0%**
Average interest - bearing liabilties:			
Savings deposits	4,531,153	3,636,120	24.6%
Time deposits - clients	5,942,159	6,154,763	-3.5%
Time deposits - interbank	5,766	88,044	-93.5%
Borrowings and placements	1,256,938	2,444,368	-48.6%
Total	**11,736,016**	**12,323,295**	**-4.8%**
Average nominal rates paid:			
Savings deposits (1)	0.64%	0.86%	
Time deposits - clients (1)	3.53%	3.82%	
Time deposits - interbank (1)	1.57%	1.52%	
Borrowings and placements (1)	3.49%	3.70%	
Total (1)	**2.41%**	**2.91%**	

(1) Percentages for the three months ended are annualized

The Bank's total interest expenses is mainly attributable to interest paid on customer deposits, which represented 84.4% of the total interest expense for the three months ended March 31, 2021, as compared to 74.4% for the same period in 2020.

The 21.0% decrease in total interest expenses for the three months ended March 31, 2021, as compared to the same period in 2020, was mainly a result of: (i) a 50 basis points decrease in the average rate paid on interest bearing liabilities, which decreased from 2.91% to 2.41%, and (ii) a 4.8% decrease in average interest-bearing liabilities.

The 50 basis points decrease, or 17.1%, in the average rate of interest paid on interest-bearing liabilities was mainly attributable to: (i) a lower rate paid on time deposits, which decreased from 3.82% to 3.53% in March 2021, (ii) a 21 basis points decreased in the cost of borrowings and placements, which decreased from 3.70% to 3.49%

in March 2021, and (iii) the composition of funding with lower balances in time deposits and borrowings and placements and higher balances in savings deposits.

The decrease in average interest-bearing liabilities was mainly due to a 48.6% decrease in average medium - and long-term borrowings and placements. Such decrease was offset by a 24.6% increase in average savings deposits, one of the Bank's principal sources of funding.

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 March 31, 2021, and 2020:

	Decrease/Increase First - Quarter 2020/2021
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - bearing liabilities	(4,267)
Due to changes in average nominal interest rates paid	(14,557)
Net change	**(18,823)**

The decrease of US$587.6 million in average interest-bearing liabilities for the three months ended March 31, 2021, resulted in a decrease of US$4.3 million in interest expense for the period, while the decrease in the average rate paid on interest-bearing liabilities, from 2.91% to 2.41%, resulted in a decrease of US$14.6 million in interest expense as compared to the same period in 2020.

Provision for Loan Losses

The following table presents the Bank's allowance for loan losses, net of write-offs and recoveries included in the Bank's results of operations for the three months ended March 31, 2021, and 2020, respectively:

	For the Three Months Ended March 31		
	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)		
Allowance for loan losses at the beginning of period	383,795	165,159	132.4%
Provisions charged to expenses, net of recoveries	39,812	11,683	240.8%
Recovery of Write-offs	4,942	7,633	-35.3%
Write-offs	(18,775)	(12,573)	49.3%
Balance at the end of period	**409,774**	**171,902**	**138.4%**
Total Loans	11,263,752	12,181,365	
Net loan loss provisions to total loans	0.35%	0.10%	
Write-off to total loans (1)	0.67%	0.41%	
Net write-off to total loans (1)	0.49%	0.16%	
Allowance to total loans	3.64%	1.41%	

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

The US$28.1 million or 240.8%, increase in provisions for loan losses for the three months ended March 31, 2021, as compared to the same period in 2020, 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 the credit quality of personal and corporate clients. The allowance to total loans increased 29 basis points from 3.35% in the fourth quarter of 2020 to 3.64% in the first quarter of 2021.

Other Income, Net

The following table presents the information as to the Bank's fees, commission and other income, net for the three months ended March 31, 2021 and 2020, respectively:

	For the Three Months Ended March 31		
	2021	**2020**	**(%) Change**
	(in thousands of U.S. dollars, except for percentages)		
Fees and comission income, net	32,358	32,531	-0.5%
Insurance premiums, net	6,725	9,368	-28.2%
Gain (loss) on financial instruments, net	720	(19,309)	n/a
Other Income, net	6,221	5,134	21.2%
Total of other income, net	**46,025**	**27,723**	**66.0%**

The 66.0% increase in total other income, net for the three months ended March 31, 2021, primarily reflects the following factors:

Fees and Commission Income, net

The 0.5% decrease in fees and commission income, net of commission expenses for the three months ended March 31, 2021, was mainly driven by: (i) an 8.6% decrease in commissions and fees related to credit and debit card operations, as a result of lower transaction volumes, (ii) a 10.9% decrease in wealth management revenue, and (iii) an 11.6% decrease in commission expenses and other expenses. Such decrease was partially offset by a 29.2% increase in banking services which are comprised of wire transfers and online banking fees, among others.

Insurance Premiums, net

Net insurance premiums, decreased by 28.2% for the three months ended March 31, 2021, 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$0.7 million for the three months ended March 31, 2021, was principally due to profits generated during the first quarter of 2021 by the Bank´s private banking services against the loss of US$19.3 million in the first quarter of 2020 due to the unrealized loss on our fixed income portfolio, which resulted from an increase in credit spreads due to the volatility experienced in the US capital markets.

Other income, net

Other income, net, increased by US$1.1 million or 21.2%, for the three months ended March 31, 2021, compared to the same period in 2020 mainly due to the Bank's pension fund assets returns.

General and Administrative Expenses

The following table presents the Bank's principal general and administrative expenses for the three months ended March 31, 2021 and 2020, respectively:

	For the Three Months Ended March 31		
	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)		
Salaries and other employee expenses	40,486	45,348	-10.7%
Depreciation and Amortization expenses	7,007	7,287	-3.8%
Premises and Equipment expenses	6,124	5,786	5.8%
Other expenses	18,777	19,744	-4.9%
Total	**72,393**	**78,164**	**-7.4%**

The 7.4% decrease in general and administrative expenses for the three months ended March 31, 2021, primarily reflects the following factors:

Salaries and other employee expenses

Salaries and other employee expenses represented 55.9% of total general and administrative expenses for the three months ended March 31, 2021, as compared to 58.0% during the same period in 2020. The 10.7% decrease in salaries and other expenses was attributable to (i) a decrease in the number of employees, representing a 3.8% decrease in headcount as compared to the same period in 2020, (ii) lower variable compensation, and (iii) savings in employee-related expenses.

Depreciation and Amortization expenses

Total depreciation and amortization expense for the three months ended March 31, 2021, as compared to the same period in 2020, decreased US$0.3 million or 3.8%.

Premises and Equipment expenses

Premises and equipment expenses increased by US$0.3 million or 5.8% for the three months ended March 31, 2021, as compared to the same period in 2020, mainly due to a US$0.4 million increase in technological maintenance costs due to growth in platforms and licenses.

Other expenses

Other expenses decreased US$1.0 million or 4.9%, for the three months ended March 31, 2021, as compared to the same period in 2020, as a result of: (i) a US$0.7 million decrease in legal and professional services, savings in advertising and office supplies, and (ii) a US$0.2 million decrease in utility expenses.

Taxes

Income tax, net amounted to US$5.8 million for the three months ended March 31, 2021, as compared to US$12.0 million in 2020; the US$6.2 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 operating efficiency was 36.43% for the three months ended March 31, 2021, as compared to 38.26% in 2020, mainly as a result of a US$5.8 million, or 7.4%, decrease in the Bank's general and administrative expenses.

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

	31-mar-21	31-dec-20	30-sep-20	30-jun-20	31-mar-20
	(in thousands of U.S. dollars)				
Total interest and commission income	221,169	227,942	249,354	253,281	263,893
Total interest expenses	(70,712)	(76,178)	(80,664)	(85,356)	(89,535)
Net interest and commission income	**150,458**	**151,765**	**168,691**	**167,926**	**174,358**
Total Provisions, net	(40,421)	(114,662)	(93,042)	(54,790)	(21,499)
Net interest and commission income after provisions	**110,037**	**37,103**	**75,649**	**113,136**	**152,859**
Other Income (expenses):					
Fees and other commissions	54,477	59,451	50,393	37,071	57,552
Insurance premiums, net	6,725	8,353	8,116	9,756	9,368
Gain (loss) on financial instruments, net	720	10,525	13,702	14,334	(19,309)
Other income, net	6,221	10,250	7,744	7,311	5,134
Commissions expenses and other expenses	(22,119)	(20,608)	(18,070)	(14,987)	(25,021)
Total other income, net	**46,025**	**67,970**	**61,886**	**53,484**	**27,723**
General and administrative expenses	(72,393)	(72,309)	(69,557)	(70,208)	(78,164)
Equity participation in associates	2,233	1,623	1,767	1,712	2,227
Net income before income tax	**85,901**	**34,387**	**69,744**	**98,124**	**104,645**
Income tax net	(5,841)	11,148	15,208	(98)	(11,997)
Net income	**80,059**	**45,535**	**84,952**	**98,026**	**92,647**

BANCO GENERAL, S.A. Y SUBSIDIARIAS
Consolidated Balance Sheet
For the periods ended

	31-mar-21	31-dec-20	30-sep-20	30-jun-20	31-mar-20
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	949,614	800,585	733,400	861,135	1,010,116
Securities and other financial assets	5,615,525	5,624,784	5,517,251	5,550,323	5,028,371
Loans	11,263,752	11,444,423	11,680,136	11,986,080	12,181,365
Allowance for possible loans losses	(409,774)	(383,795)	(308,317)	(212,900)	(171,902)
Unearned comissions	(35,984)	(37,045)	(38,692)	(40,612)	(43,231)
Investments in associates	23,847	21,686	29,573	27,806	27,036
Other assets	1,306,571	1,146,145	1,157,838	1,287,473	1,673,980
Total assets	**18,713,551**	**18,616,783**	**18,771,189**	**19,459,304**	**19,705,734**
Liabilities and shareholder's equity					
Total Deposits	13,596,782	13,449,536	13,057,379	12,937,466	12,600,001
Securities sold under repurchase agreements	-	-	149,480	279,670	404,145
Medium and long term borrowings and placements	1,007,953	1,076,469	1,390,870	1,844,969	1,950,201
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,297,092	1,239,887	1,295,157	1,571,922	2,050,840
Shareholder's equity	2,594,044	2,633,211	2,660,623	2,607,596	2,482,867
Total liabilities and shareholder's equity	**18,713,551**	**18,616,783**	**18,771,189**	**19,459,304**	**19,705,734**
Operational data (in units)					
Number of customers [1]	1,241,279	1,200,346	1,167,034	1,121,090	1,100,780
Number of employees [2]	4,510	4,554	4,560	4,604	4,687
Number of branches [3]	83	83	83	86	86
Number of ATMs [3]	635	638	636	637	639
Assets under management [4]	11,393,900	11,300,281	11,157,144	11,182,756	11,450,366

[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] Assets under management exclude bank deposits. See note 27 of the interim Financial Statements.

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

	31-mar-21	31-dec-20	30-sep-20	30-jun-20	31-mar-20
Profitability and efficiency:					
Net Interest Margin (1)(2)	3.52%	3.52%	3.82%	3.79%	4.01%
Return on average assets (1) (3)	1.71%	0.97%	1.78%	1.98%	1.93%
Return on average equity (1) (3)	12.15%	6.80%	12.77%	15.30%	14.68%
Efficiency (4)	36.43%	32.67%	29.94%	31.47%	38.26%
Operating expenses / average total assets (1) (3)	1.55%	1.55%	1.46%	1.42%	1.63%
Other income/ operating income (5)	29.49%	64.69%	45.00%	32.10%	15.35%
Liquidity:					
Primary Liquidity (6) / total deposits and obligations	32.15%	29.40%	29.01%	29.55%	27.76%
Regulatory Liquidity (7) / total deposits	45.20%	40.45%	42.26%	42.64%	40.45%
Loans, net / total client deposits	79.60%	82.00%	86.91%	91.01%	95.65%
Capital:					
Total Regulatory Primary Capital (8)	20.48%	19.12%	19.38%	18.80%	17.24%
Total primary capital (8)	22.24%	20.74%	21.00%	20.40%	18.78%
Total capital (8)	22.24%	20.74%	21.00%	20.40%	18.78%
Equity / assets	13.86%	14.14%	14.17%	13.40%	12.60%
Earning retention ratio (9)	26.62%	-162.28%	29.71%	39.08%	100.00%
Asset quality:					
Past due loans (10)/ total loans	1.56%	1.54%	1.39%	1.36%	1.54%
Non accrual loans (11)/ total loans	1.47%	1.46%	1.35%	1.35%	1.24%
Allowance for possible loan losses / total loans	3.64%	3.35%	2.64%	1.78%	1.41%
Allowance for possible loan losses / past due loans	232.89%	218.02%	190.07%	130.15%	91.63%
Allowance for possible loan losses / non accrual loans	246.75%	230.33%	195.37%	131.47%	113.70%
Allowance for possible loan losses + Dynamic Reserve / non accrual loans	319.43%	304.51%	283.94%	223.23%	172.78%
Allowance for possible loan losses + Dynamic Reserve / past due loans	338.43%	321.71%	291.85%	225.50%	214.40%
Write - off (1) / total loans	0.67%	1.62%	0.17%	0.65%	0.41%

(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
(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) 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.