Banco General, S.A.
Management Discussion
Second 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 us 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 June 30, 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 economic and social impact of the COVID-19 pandemic, in an effort to safeguard the public health and preserve the stability and soundness of the financial system, the Government of Panama 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, 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 issued agreement No. 09-2020 modifying the agreement No. 02-2020 in which additional and temporary measures are established to adjust and comply with credit risk requirements established in the agreement No. 04-2013. 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.

On June 11, 2021, the Superintendency of Banks of Panama issued agreement No. 02-2021, through which the parameters and guidelines that will be applicable to modified credits are established. The dispositions of this agreement are intended to establish guidelines and parameters for managing the credit and counterparty risk of modified loans in accordance with agreement No. 02-2020. Also, under this new agreement debtors impacted by the pandemic are responsible of contacting their bank to reach an agreement no later than September 30, 2021. Lastly, this agreement revokes the General Resolution of the Board of Directors No. SBP-GJD-0010-2020 of December 29, 2020.

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 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) disbursement of loans to individuals with personal loans, credit cards, cars and mortgages, (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. As a result of the above situation, the Bank has provided strong support and financial relief to its clients mostly through the monthly deferral of the contractual payments. As of June 30, 2021, the Bank maintains the following monthly payment deferrals: (i) 22.7% of residential mortgage clients, equivalent to US$1,085.4 million or 23.5% of the total outstanding residential mortgage portfolio; (ii) 13.3% of consumer clients, equivalent to US$278.1 million or 16.0% of the total outstanding consumer portfolio; and (iii) 4.2% of corporate clients, equivalent to US$462.0 million or 9.7% of the total outstanding corporate portfolio. The total deferrals portfolio amounted to 16.2% of the loan portfolio or US$1,825.5 million; 76.3% of deferred loans or US$1,393.0 million was backed by mortgage collateral. We anticipate that with the progressive and sustained reopening by the government of economic activities most 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$3.2 million in donations during the first semester of 2021 and is working to protect the most vulnerable and prevent the spread of the virus, by focusing our efforts on several sectors: education, healthcare, food distribution, and support of non-profit organizations.

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:

- 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 June 30, 2021, the Bank had:
    - Approximately 1,496 employees working remotely and 2,712 on site, which represents 97% of our labor force in Panama; the remaining 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. Consequently, our customer´s usage of our digital products continues to grow in importance, with 69.4% of our clients actively using our online or mobile banking platforms in June 2021, compared to 57.9% in June 2020.
- 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 to our employees.

I. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of June 30, 2021, the Bank's gross loan portfolio decreased 5.7% from US$11,986.1 million to US$11,302.4 million. During this period, the Bank's residential mortgage portfolio grew 1.2%, from US$4,570.9 million to US$4,627.3 million; the consumer loan portfolio decreased 5.3%, from US$1,837.2 million to US$1,740.4 million; the corporate loan portfolio, comprised of both local and regional corporate clients, decreased 11.6% from US$5,096.2 million to US$4,503.1 million, and other loans (comprised of pledge loans, overdrafts, and financial leases) decreased from US$481.8 million to US$431.6 million. The Bank's local corporate loan portfolio decreased 12.7%, from US$4,045.4 million to US$3,531.8 million, and the Bank's regional corporate loan portfolio decreased 7.6%, or US$79.6 million, from US$1,050.9 million to US$971.2 million. As of June 30, 2021, the Bank's total investment portfolio, primarily made up of investment-grade liquid fixed-income investments and its local and regional corporate fixed-income portfolio, increased 5.5%, from US$5,578.1 million in June 2020 to US$5,885.2 million in June 2021.

Total Liabilities

As of June 30, 2021, he Bank's total client deposits grew by US$697.2 million, or 5.4%, from US$12,891.4 million in June 2020 to US$13,588.7 million in June 2021. Client time deposits, the Bank's main source of funding, decreased by US$215.0 million, from US$6,015.6 million to US$5,800.5 million, representing 42.7% of total client deposits as of June 30, 2021, with an average remaining life of 14 months, and 74% having original maturities of more than one year. Savings accounts grew by US$556.2 million or 13.6%, from US$4,091.7 million to US$4,647.9 million representing 34.2% of total client deposits. Demand deposits increased by US$356.1 million from US$2,784.1 million to US$3,140.2 million as of June 30, 2021, representing 23.1% of client deposits.

As of June 30, 2021, the Bank's total medium and long-term borrowings and placements decreased by US$944.3 million, or 40.3%, from US$2,342.3 million in June 2020 to US$1,398.0 million in June 2021.

Equity

As of June 30, 2021, the Bank's equity grew 1.7%, or US$43.3 million, from US$2,607.6 million as of June 30, 2020 to US$2,650.9 million as of June 30, 2021, driven by: (i) an increase in retained earnings of US$15.3 million, (ii) an increase of US$21.6 million in capital reserves, influenced by an increase of US $12.9 million in the valuation of investments and other financial assets and US$8.7 million in the valuation of hedging instruments, mainly attributed to higher market volatility experienced during the last twelve months. The Bank's equity to total assets ratio increased from 13.40% in June 2020 to 14.09% as of June 30, 2021.

A. Liquidity and Funding Sources

The Bank's Assets and Liabilities Committee ("ALCO") is responsible for developing and proposing policies relating to the management of the Bank's assets and liabilities, to enable us to maintain interest rate, market, maturity and liquidity, and foreign exchange exposures, within the Bank's 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 8.65% 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 33.55% as of June 30, 2021, equivalent to US$4,896.3 million in primary liquidity. Primary liquidity increased 10.0%, as compared to US$4,451.1 million as of June 30, 2020, or a liquidity ratio of 29.55% as of such date. The Bank's total primary liquidity has an average credit rating of AA- of which 48.5% are AAA. As of June 30, 2021, these liquid assets represented 36.03% of total deposits, and 26.03% 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 deposits, with maturities of less than 186 days, excluding subsidiaries and pledge deposits. For the calculation of this indicator, the SBP allows considering as liquid assets, in addition to those used for calculating internal liquidity, all loan installments and maturities to be classified as standard with a term of less than 186 days. Loan payments and maturities can only represent for up to 30% of the total liquid assets used in this calculation. As of June 30, 2021, the Bank maintained a regulatory liquidity of 44.78%, complying with the requirements established by law.

Loan Portfolio

The Bank's loan portfolio is well diversified across clients, and products segments. As of June 30, 2021, total gross loans amounted to US$11,302.4 million, 56.3% was comprised of retail loans (40.9% of residential mortgages and 15.4% of consumer loans); and 39.8% was comprised of corporate loans (31.2% of local corporate loans and 8.6% of foreign corporate loans), and 3.8% 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 addition to applying strict underwriting guidelines and "know your customer" policies. As of June 30, 2021, 77.9% of all loans were secured by residential or business properties, deposits, or other financial assets; 73.3% of all loans were secured by first lien mortgages on land and improvements (residential mortgages loans, commercial mortgages loans and interim construction loans), and 4.6% of all loans were backed by pledge of deposits and other financial assets. The combination of sound underwriting policies and security interests held on collateral resulted in average gross write-offs of 0.61% of total loans for the last two years ended June 30, 2021.

As of June 30, 2021, 89.0% of the Bank's loan portfolio was comprised of local borrowers (individuals and corporations) based in Panama, and 11.0% was comprised of regional clients based in Mexico, Colombia, Guatemala, El Salvador, and Peru; and Costa Rica, through of our universal banking subsidiary in Costa Rica, Banco General (Costa Rica), S.A., which has 8 branches. As of June 30, 2021, 99.9% of the Bank's loans were denominated in USA dollars, which is 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 June 30, 2021 and 2020, and as of December 31, 2020, 2019 and 2018:

	As of June 30			As of December 31		
	2021	2020	(%) Change	2020	2019	2018
	(in thousands of U.S. dollars, except for percentages)					
Local Loans						
Commercial	316,216	328,395	-3.7%	323,258	397,805	355,306
Interim construction loans	451,151	532,259	-15.2%	482,879	565,399	700,899
Lines of credit	804,094	1,147,472	-29.9%	924,713	1,050,023	1,235,506
Residential mortgage loans	4,430,644	4,357,514	1.7%	4,390,972	4,321,904	4,091,043
Commercial mortgage loans	1,960,384	2,037,237	-3.8%	1,952,981	2,020,115	1,920,858
Personal loans, auto loans and credit cards	1,729,978	1,823,858	-5.1%	1,759,520	1,894,882	1,776,981
Pledge loans and overdrafts	298,193	324,808	-8.2%	299,947	358,283	356,635
Leasing	72,249	90,538	-20.2%	79,984	100,191	108,302
Total Local Loans	**10,062,909**	**10,642,081**	**-5.4%**	**10,214,254**	**10,708,602**	**10,545,529**
Foreign Loans						
Commercial	514,251	583,383	-11.9%	551,106	600,867	447,699
Interim construction loans	-	-	0.0%	-	-	3,100
Lines of credit	269,968	264,748	2.0%	208,211	257,641	351,265
Residential mortgage loans	196,694	213,355	-7.8%	204,561	223,143	249,376
Commercial mortgage loans	187,017	202,728	-7.7%	188,603	208,335	259,581
Personal loans, auto loans and credit cards	10,398	13,300	-21.8%	11,966	15,323	16,779
Pledge loans and overdrafts	61,186	66,484	-8.0%	65,722	69,778	79,055
Total Foreign Loans	**1,239,515**	**1,343,998**	**-7.8%**	**1,230,170**	**1,375,087**	**1,406,855**
Total Loans	**11,302,423**	**11,986,080**	**-5.7%**	**11,444,423**	**12,083,689**	**11,952,385**
Allowance for loan losses	439,147	212,900	106.3%	383,795	165,159	158,531
Unearned commissions	36,290	40,612	-10.6%	37,045	43,302	41,104
Total loans, net	**10,826,986**	**11,732,567**	**-7.7%**	**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 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. 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 June 30, 2021 and 2020, and as of December 31, 2020, 2019 and 2018:

	As of June 30			As of December 31		
	2021	2020	(%) Change	2020	2019	2018
	(in thousands of U.S. dollars, except for percentages)					
Non accrual loans						
Commercial	6,593	5,954	10.7%	8,959	6,805	8,931
Interim construction loans	1,918	1,956	-1.9%	1,918	1,956	2,424
Lines of credit	6,427	6,692	-4.0%	5,800	6,538	15,157
Residential mortgage loans	82,020	80,951	1.3%	84,801	52,977	41,370
Preferential mortgage loans	27,628	27,640	0.0%	25,791	16,923	15,335
Commercial mortgage loans	24,089	27,442	-12.2%	24,238	20,425	8,580
Personal loans, auto loans and credit cards	13,588	7,789	74.4%	12,659	23,385	22,499
Pledge loans and overdrafts	378	2,013	-81.2%	183	234	399
Leasing	2,996	1,496	100.3%	2,276	124	906
Total non accrual loans	**165,637**	**161,933**	**2.3%**	**166,625**	**129,365**	**115,601**
Total Loans	11,302,423	11,986,080		11,444,423	12,083,689	11,952,385
Allowance for loan losses	439,147	212,900		383,795	165,159	158,531
Non accrual loans as a percentage of total loans	1.47%	1.35%		1.46%	1.07%	0.97%
Allowance for loans losses as a percentage of non accrual loans	265.13%	131.47%		230.33%	127.67%	137.14%
Allowance for loan losses + Dynamic Reserve / non accrual loans	357.05%	225.50%		321.71%	245.36%	267.86%

Non-accrual loans reported to SBP were US$165.6 million as of June 30, 2021, compared to US$161.9 million as of June 30, 2020. The US$3.7 million, or 2.3%, is primarily attributed to the closure of businesses and the different measures implemented to mitigate the effects of the pandemic. The Bank experienced: (i) a US$1.1 million increase in the residential and preferential mortgage non-accrual balance from US$108.6 million, or 0.91% of the total loan portfolio to US$109.6 million, or 0.97% of the total loan portfolio, and (ii) a US$5.8 million, increase in the consumer loans non-accrual balance from US$7.8 million, or 0.06% of the total loan portfolio, to US$13.6 million, or 0.12% the total loan portfolio. The increase in the non-accrual balance described above was partially offset by a US$3.2 million decrease in the corporate and other loans non-accrual balance from US$45.6 million, or 0.38% of the total loan portfolio, to US$42.4 million, or 0.35% the total loan portfolio.

Non-accrual loans, in accordance with SBP regulations, represented 1.47% of total loans as of June 30, 2021, compared to 1.35% as of June 30, 2020. The Bank´s allowance coverage for loan losses was 265.13% of non-accrual loans, as compared to 131.47% during the same period of 2020.

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 and corporate loans that have been modified based on accord No. 04-2013, as subsequently amended to date. 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. Non-accrual loans in accordance with the provisions of the complementary policy applied by the Bank amount to US$349.9 million as of June 30, 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 June 30, 2021 and 2019, and as of December 31, 2020, 2019 and 2018:

	As of June 30			As of December 31		
	2021	2020	(%) Change	2020	2019	2018
	(in thousands of U.S. dollars, except for percentages)					
Past due loans						
Commercial	6,602	5,954	10.9%	8,959	6,805	8,931
Interim construction loans	1,918	1,956	-1.9%	1,918	1,956	2,424
Lines of credit	7,503	6,692	12.1%	5,766	6,538	14,426
Residential mortgage loans	91,068	81,306	12.0%	93,567	68,947	54,594
Preferential mortgage loans	33,241	27,960	18.9%	29,317	25,391	24,373
Commercial mortgage loans	24,718	28,567	-13.5%	24,336	20,164	8,618
Personal loans, auto loans and credit cards	12,942	7,324	76.7%	9,464	23,042	22,413
Pledge loans and overdrafts	465	2,322	-80.0%	438	460	1,131
Leasing	2,996	1,496	100.3%	2,276	124	906
Total past due loans	**181,453**	**163,578**	**10.9%**	**176,041**	**153,426**	**137,815**
Total Loans	11,302,423	11,986,080		11,444,423	12,083,689	11,952,385
Allowance for loan losses	439,147	212,900		383,795	165,159	158,531
Past due loans as a percentage of total loans	1.61%	1.36%		1.54%	1.27%	1.15%
Allowance for loan losses as percentage of past due loans	242.02%	130.15%		218.01%	107.65%	115.03%
Allowance for loan losses + Dynamic Reserve / past due loans	325.92%	223.23%		304.50%	206.88%	224.69%

Past due loans were US$181.5 million as of June 30, 2021, compared to US$163.6 million as of June 30, 2020. The Bank presented an increase in the past due balance as a result of: (i) a US$15.0 million increase in the residential and preferential mortgage past due balance from US$109.3 million, or 0.91% of the total loan portfolio to US$124.3 million, or 1.10% of the total loan portfolio, and (ii) a US$5.6 million increase in the consumer loans past due balance from US$7.3 million or 0.06% of the total loan portfolio in 2020 to a US$12.9 million or 0.11% of the total loans portfolio in 2020. The increase in the past due balance described above was partially offset by a US$2.8 million decrease in the corporate and other loans past due balance from US$47.0 million, or 0.39% of the total loan portfolio, to US$44.2 million, or 0.39% of the total loan portfolio.

Past due loans represented 1.61% of total loans outstanding as of June 30, 2021, compared to 1.36% as of June 30, 2020. The Bank´s allowance coverage for loan losses was 242.02% for past due loans, as compared to 130.15% during the same period of 2020. 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 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 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-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 initial recognition. This requires the calculation of ECL based on the asset's remaining lifetime probability of default (LTPD). The allowance for credit losses are higher in his 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.

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

The following table presents the breakdown of the allowance for loan losses under IFRS 9 parameters As of June 30, 2021, and December 31, 2020:

	June 30, 2021			December 31, 2020			(%) Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
	(in thousands of U.S. dollars,except percentages)							
Stage 1	9,798,111	208,065	2.1%	10,133,492	225,723	2.2%	-3.3%	-7.8%
Stage 2	903,095	62,564	6.9%	846,056	71,959	8.5%	6.7%	-13.1%
Stage 3	601,217	168,518	28.0%	464,875	86,113	18.5%	29.3%	95.7%
Total	**11,302,423**	**439,147**	**3.9%**	**11,444,423**	**383,795**	**3.4%**	**-1.2%**	**14.4%**

The allowance for loan losses was increased to US$439.1 million in June 2021, or 3.89% 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 and the negative impact it has had 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 loans decreased from US$225.7 million (2.2% of loans) as of December 2020 to US$208.1 million (2.1% of loans) as of June 2021. The amount of loans in Stage 2 increased from US$846.1 million in December 31, 2020 to US$903.1 million in June 30, 2021, and the level of allowance decreased from US$72.0 million (8.5% of loans) in December 2020 to US$62.6 million (6.9% of loans) in 2021. The amount of Stage 3 loans increased from US$464.9 million in 2020 to US$601.2 million in 2021, and the level of allowance increased from US$86.1 million (18.5% of loans) in December 2020 to US$168.5 million (28.0% of loans) as of June 2021.

The increments described above for Stages 2 and 3 are mainly attributable to the migration of corporate and consumer clients from Stage 1, which were identified in advance with a higher level of credit risk according to the complementary models. The increase in the allowance for Stage 3 is consistent with the migration of loans to this Stage, as captured by the complementary models and their estimates.

The following table presents the breakdown of the allowance for loans losses as of June 30, 2021 and 2020, and as of December 31, 2020, 2019 and 2018:

	As of June 30			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	76,919	69,819	10.2%	280,947	41,954	41,983
Write-offs:						
Commercial	99	8	1167.9%	521	6,236	249
Interim construction loans	-	-	0.0%	-	415	207
Lines of credit	95	644	-85.2%	1,819	6,774	607
Residential mortgage loans	338	425	-20.5%	977	1,862	885
Commercial mortgage loans	18	16	13.6%	1,267	434	397
Personal and auto loans and credit cards	34,460	30,657	12.4%	78,192	46,057	48,787
Auto	*978*	*1,685*	*-42.0%*	*2,279*	*2,331*	*1,869*
Personal	*22,067*	*16,597*	*33.0%*	*48,178*	*28,509*	*31,147*
Credit cards	*11,415*	*12,376*	*-7.8%*	*27,735*	*15,217*	*15,771*
Pledge loans and overdrafts	77	224	-65.4%	394	864	484
Leasing	-	12	-100.0%	48	337	133
Total write-offs	**32,183**	**31,986**	**0.6%**	**83,218**	**62,981**	**51,750**
Recoveries	10,616	9,909	7.1%	20,907	27,654	23,053
Allowance at the end of period	**439,147**	**212,900**	**106.3%**	**383,795**	**165,159**	**158,531**
Total Loans	11,302,423	11,986,080		11,444,423	12,083,689	11,952,385
Allowance for loan losses as percentage of total loans	3.89%	1.78%		3.35%	1.37%	1.33%
(Allowance for loan losses + Dynamic Reserve) / total loans	5.23%	3.05%		4.68%	2.63%	2.59%
Net write-off to total loans (1)	0.38%	0.37%		0.54%	0.29%	0.24%
Write-off to total loans (1)	0.57%	0.53%		0.73%	0.52%	0.43%

(1) Percentages for the six 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.

During the first semester of 2021, total write-offs amounted to US$32.2 million (0.57% of total loans, annualized), as compared to US$32.0 million (0.53% of total loans, annualized), during the first semester of 2020.

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 since 1997, currently holding the following ratings BBB by Standard & Poor's, Baa2 by Moody's, and BBB- by Fitch Ratings.

In May 2021, we became the first Panamanian bank to issue Additional Tier 1 perpetual bonds (AT1 PerpNC10) in the international markets for an amount of US$400.0 million, with a fixed coupon of 5.25%, strengthening our Tier 1 Capital. The proceeds were partially used to repay certain indebtedness (including the redemption of our local perpetual bonds issued in 2008 with an outstanding balance of US$217.7 million).

As of June 30, 2021, the Bank´s total regulatory capital amounted to US$2,986.8 million, or 2.83 times of the total regulatory capital of 8.0% required by the SBP. The ratio of total capital to risk-weighted assets was 22.65%, calculated on a Tier I capital of US$2,986.8 million over total risk weighted assets of US$13,187.0 million. Total risk-weighted assets include US$11,341.5 million of risk-weighted assets in our loan portfolio and investments, US$1,235.3 million of risk-weighted assets due to market risk requirements, and US$610.2 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 Regulations No. 11-2018 and No. 06-2019 issued by the SBP. Our shareholder's equity to total assets ratio was 14.09% as of June 2021.

In addition to the above-mentioned regulatory capital adequacy requirements, Regulation 4-2013 issued by the SBP requires all banks to maintain a countercyclical dynamic reserve of not less than 1.25% and no more than 2.50% of the risk-weighted loans classified as standard loans. The dynamic reserve is presented as part of the legal reserves in the equity section of the Bank's financial statements. The dynamic reserve balance is considered part of the regulatory capital if a bank's regulatory capital exceeds the minimum capital adequacy ratio of 8%. As of June 30, 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 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). As of June 30, 2021, the Bank has not made use of the dynamic reserve, which remains at the same level as of December 31, 2019.

The Bank's securities brokerage, insurance and pension fund management subsidiaries are also subject to minimum capital requirements stipulated under Panamanian law. In addition, our subsidiary in Costa Rica is also subject to minimum capital requirements stipulated under by the General Superintendency of Financial Entities (SUGEF). As of June 30, 2021, all subsidiaries were in compliance with all of the minimum capital requirements applicable according to regulations.

The following table presents information regarding the Bank's capital levels as of June 30, 2021 and 2020, and as of December 31, 2020, 2019 and 2018:

	As of June 30		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	189,489	187,320	188,396	186,240	182,341
Other items comprehensive income	107,355	85,714	159,987	89,125	3,642
Retained earnings	1,842,963	1,827,651	1,772,980	1,703,100	1,498,282
Less: Regulatory adjustments	52,963	42,924	53,674	50,074	57,802
Total regulatory primary capital	**2,586,845**	**2,557,760**	**2,567,690**	**2,428,391**	**2,126,463**
Minimum regulatory primary capital - CET 1 (4.5%)	**593,414**	**612,321**	**604,434**	**584,249**	**542,406**
Additional primary capital (Tier 1)					
Subordinated debt - perpetual bonds	400,000	217,680	217,680	217,680	217,680
Total additional primary capital	**400,000**	**217,680**	**217,680**	**217,680**	**217,680**
Total primary capital	**2,986,845**	**2,775,440**	**2,785,370**	**2,646,071**	**2,344,143**
Minimum regulatory total primary capital (6.0%)	**791,219**	**816,428**	**805,912**	**778,999**	**723,208**
Credit risk-weighted assets	11,341,460	11,603,251	11,273,084	11,931,120	12,053,460
Market risk-weighted assets (1)	1,235,288	1,317,660	1,551,596	422,023	-
Operational risk-weighted assets (1)	610,230	686,218	607,186	630,172	-
Risk-weighted assets	**13,186,977**	**13,607,129**	**13,431,866**	**12,983,315**	**12,053,460**
Capital ratios					
Total regulatory primary capital ratio	**19.62%**	**18.80%**	**19.12%**	**18.70%**	**17.64%**
Total primary capital ratio	**22.65%**	**20.40%**	**20.74%**	**20.38%**	**19.45%**
Total capital ratio	**22.65%**	**20.40%**	**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.

C. Results of Operations for the three months ended June 30, 2021 and 2020

The following table presents the Bank´s principal consolidated results of operations for the three and six months ended June 30, 2021 and 2020, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2021	2020	(%) Change	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Net interest and comission income	**158,319**	**167,926**	**-5.7%**	**308,777**	**342,284**	**-9.8%**
Total Provisions, net	**(36,580)**	**(54,790)**	**-33.2%**	**(77,001)**	**(76,289)**	**0.9%**
Other Income (expenses):						
Fees and other comissions	59,998	37,071	61.8%	114,475	94,622	21.0%
Insurances premiums, net	8,558	9,756	-12.3%	15,284	19,124	-20.1%
Gain (loss) on financial instruments, net	10,004	14,334	-30.2%	10,724	(4,975)	n/a
Other Income, net	8,278	7,311	13.2%	14,500	12,445	16.5%
Comissions expenses and other expenses	(23,668)	(14,987)	57.9%	(45,787)	(40,008)	14.4%
Total other income, net	**63,170**	**53,484**	**18.1%**	**109,195**	**81,207**	**34.5%**
General and administrative expenses	74,002	70,208	5.4%	146,396	148,372	-1.3%
Equity participation in associates	2,480	1,712	44.8%	4,712	3,939	19.6%
Net income before income tax	**113,386**	**98,124**	**15.6%**	**199,287**	**202,769**	**-1.7%**
Income tax net	(6,221)	(98)	6238.2%	(12,063)	(12,096)	-0.3%
Net Income	**107,165**	**98,026**	**9.3%**	**187,224**	**190,673**	**-1.8%**

For the three months ended June 30, 2021, the Bank's net income was US$107.2 million, which represents an increase of US$9.1 million, or 9.3%, compared to US$98.0 million for the same period in 2020. For the three months ended June 30, 2021. ROAE was 16.26%, compared to 15.30% in 2020, and the ROAA was 2.28%, as compared to 1.98% for the same period in 2020. These results in net income, ROAE and ROAA were mainly product of the following factors:

Net Interest and Commission Income

The following table presents the Bank's net interest and commission income and related average rate and margin information for the three and six months ended June 30, 2021 and 2020, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2021	2020	(%) Change	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	229,192	253,281	-9.5%	450,361	517,175	-12.9%
Total interest expenses	70,872	85,356	-17.0%	141,584	174,891	-19.0%
Net interest and commission income	**158,319**	**167,926**	**-5.7%**	**308,777**	**342,284**	**-9.8%**
Average interest - earning assets	17,169,602	17,742,302	-3.2%	17,150,361	17,557,922	-2.3%
Average interest - bearing liabilities	11,832,793	12,508,208	-5.4%	11,797,005	12,407,934	-4.9%
Net interest margin [(1)(4)]	3.69%	3.79%		3.60%	3.90%	
Average interest rate earned [(1)(4)]	5.34%	5.71%		5.25%	5.89%	
Average interest rate paid [(1)(4)]	2.40%	2.73%		2.40%	2.82%	

[(1)] Net interest and commission income (before provisions for possible loan losses) as a percentage of average total interest assets for the indicated period.

[(2)] Total interest and commission income divided by average interest earning assets.

[(3)] Total interest expenses divided by average interest bearing liabilities.

[(4)] Percentages are annualized.

The 5.7% decrease in net interest and commission income for the three months ended June 30, 2021, as compared to the same period for 2020, was primarily a result of: (i) a 2.6%, or 10 basis points, decrease in the Bank's net interest margin from 3.79% in 2020 to 3.69% in 2021, and (ii) a 3.2% decrease in interest earning-assets.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the three and six months ended June 30, 2021 and 2020, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2021	2020	(%) Change	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest and commission income	**229,192**	**253,281**	**-9.5%**	**450,361**	**517,175**	**-12.9%**
Average interest - earning assets:						
Deposits with banks	550,774	615,772	-10.6%	568,999	531,113	7.1%
Loans, net	10,848,962	11,873,897	-8.6%	10,897,454	11,873,414	-8.2%
Securities and other financial assets	5,769,867	5,252,634	9.8%	5,683,907	5,153,396	10.3%
Total	**17,169,602**	**17,742,302**	**-3.2%**	**17,150,361**	**17,557,922**	**-2.3%**
Average nominal rates earned:						
Deposits with banks [1]	1.06%	0.97%		1.04%	1.43%	
Loans, net [1]	7.06%	7.14%		6.90%	7.26%	
Securities and other financial assets [1]	2.50%	3.04%		2.52%	3.19%	
Total [1]	**5.34%**	**5.71%**		**5.25%**	**5.89%**	

[1] Percentages are annualized.

The total interest and commission income decreased from US$253.3 million in June 2020 to US$229.2 million in June 2021, which is derived principally from a diversified loan portfolio, which represented 63.2% of the Bank's total average interest earning assets, generating 86.6% of total interest and commissions income for the period.

The 9.5% decrease in total interest and commission income for the three months ended June 30, 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 from 5.71% in June 2020 to 5.34% in June 2021 or 37 basis points.

The decrease in the average rate earned on interest earning assets was primarily driven by: (i) a decrease in the interest rate earned on loans, net, which decreased from 7.14% to 7.06%, driven primarily by the implementation of the complementary exceptional and voluntary policy of non-accrual loans, and (ii) lower interest rates on securities and other financial assets, which decreased from 3.04% on June 30, 2020, to 2.50% on June 30, 2021, as a consequence of a decrease in interest rates on high quality fixed income investments and an increase in balances invested at lower interest 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 June 30, 2021 and 2020:

	Decrease/Increase Second - Quarter 2020/2021
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - earning assets	(8,176)
Due to changes in average nominal interest rates earned	(15,914)
Net Change	**(24,090)**

The decrease of US$572.7 million in average interest earning assets for the three months ended June 30, 2021, resulted in a decrease of US$8.2 million in interest and commission income for the period, while the decrease in the average rate earned on interest-earning assets, from 5.71% to 5.34% resulted in a decrease of US$15.9 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 and six months ended June 30, 2021 and 2020, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2021	2020	(%) Change	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest expenses	**70,872**	**85,356**	**-17.0%**	**141,584**	**174,891**	**-19.0%**
Average interest - bearing liabilties:						
Savings deposits	4,615,836	3,928,777	17.5%	4,571,835	3,792,143	20.6%
Time deposits - clients	5,846,821	6,050,684	-3.4%	5,896,801	6,103,896	-3.4%
Time deposits - interbank	6,563	61,437	-89.3%	6,024	72,654	-91.7%
Borrowings and placements	1,363,573	2,467,309	-44.7%	1,322,345	2,439,241	-45.8%
Total	**11,832,793**	**12,508,208**	**-5.4%**	**11,797,005**	**12,407,934**	**-4.9%**
Average nominal rates paid:						
Savings deposits [1]	0.67%	0.71%		0.65%	0.72%	
Time deposits - clients [1]	3.49%	3.83%		3.51%	3.86%	
Time deposits - interbank [1]	1.80%	0.54%		1.73%	1.15%	
Borrowings and placements [1]	3.57%	3.31%		3.50%	3.52%	
Total [1]	**2.40%**	**2.73%**		**2.40%**	**2.82%**	

[1] Percentages are annualized.

The Bank's total interest expenses is mainly attributable to interest paid on customer deposits, which represented 82.8% of the total interest expense for the three months ended June 30, 2021, as compared to 76.1% for the same period in 2020.

The 17.0% decrease in total interest expenses for the three months ended June 30, 2021, as compared to the same period in 2020, was mainly a result of: (i) a 5.4% decrease in the average interest-bearing liabilities, and (ii) a 33 basis points decrease in the average rate paid on interest bearing liabilities, which decreased to 2.40% in June 2021 from 2.73% for the same period in 2020.

The decrease in average interest-bearing liabilities was mainly due to a 44.7% decrease in average balance of medium - and long-term borrowings and placements. The decrease was offset by a 17.5% increase in the average balance of savings deposits, one of Bank's principal source of funding.

The 33 basis points decrease, or 12.2% in the average rate of interest paid on interest-bearing liabilities was mainly attributable to the decrease in the average cost of client time deposits, of 34 basis points, to 3.49% as of June 2021 from 3.83% in the same period in 2020.

The following table sets forth the effect of changes in the Bank's total interest expense as a result of changes in: (i) the average volume of interest-bearing liabilities, and (ii) the average nominal interest rates paid during the three months ended June 30, 2021 and 2020:

	Decrease/Increase
	Second - Quarter 2020/2021
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - bearing liabilities	(4,609)
Due to changes in average nominal interest rates paid	(9,874)
Net change	**(14,483)**

The decrease of US$675.4 million in average interest-bearing liabilities for the three months ended June 30, 2021, resulted in a decrease of US$4.6 million in interest expense for the period, while the decrease in the average rate paid on interest-bearing liabilities, from 2.73% to 2.40%, resulted in a decrease of US$9.9 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 and six months ended June 30, 2021 and 2020, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2021	2020	(%) Change	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Allowance for loan losses at the beginning of period	409,774	171,902	138.4%	383,795	165,159	132.4%
Provisions charged to expenses, net of recoveries	37,107	58,136	-36.2%	76,919	69,819	10.2%
Recovery of Write-offs	5,674	2,275	149.4%	10,616	9,909	7.1%
Write-offs	(13,408)	(19,413)	-30.9%	(32,183)	(31,986)	0.6%
Balance at the end of period	**439,147**	**212,900**	**106.3%**	**439,147**	**212,900**	**106.3%**
Total Loans	11,302,423	11,986,080		11,302,423	11,986,080	
Net loan loss provisions to total loans (1)	1.31%	1.94%		1.36%	1.17%	
Write-off to total loans (1)	0.47%	0.65%		0.57%	0.53%	
Net write-off to total loans (1)	0.27%	0.57%		0.38%	0.37%	
Allowance to total loans	3.89%	1.78%		3.89%	1.78%	

(1) Percentages are annualized.

For the three months ended June 30, 2021, the provision of US$37.1 million decreased 36.2%, as compared to the same period in 2020, partly due to (i) a decrease of US$683.7 million, or 5.7%, in the loan portfolio from US$11,986.1 million in June 2020, to US$11,302.4 million in June 2021, and (ii) a decrease in the provisioning expense of the corporate loan portfolio in comparison to the same period of 2020.

Net write-offs decreased US$9.4 million, or 54.9%, representing 0.27% of total loans as compared to 0.57% of total loans during the same period of 2020.

As a result, the allowance for loan losses increased US$226.2 million, or 106.3%, from US$212.9 million in June 2020 to US$439.1 million in June 2021. Consequently, our allowance to total loans ratio increased from 1.78% at the end of June 2020 to 3.89% at the end of June 2021, an increase of 211 basis points. Based on our IFRS 9 and overlay models estimations, we believe that our current allowance for loan losses balance adequately covers credit risk on the Bank's portfolio.

Other Income, Net

The following table presents the information as to the Bank's fees, commission and other income, net for the three and six months ended June 30, 2021 and 2020, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2021	2020	(%) Change	2021	2020	(%) Change
	(in thousands of U.S. dollars, except for percentages)					
Fees and comission income, net	36,330	22,083	64.5%	68,688	54,614	25.8%
Insurance premiums, net	8,558	9,756	-12.3%	15,284	19,124	-20.1%
Gain (loss) on financial instruments, net	10,004	14,334	-30.2%	10,724	-4,975	315.5%
Other Income, net	8,278	7,311	13.2%	14,500	12,445	16.5%
Total of other income, net	**63,170**	**53,484**	**18.1%**	**109,195**	**81,207**	**34.5%**

The 18.1% increase in total other income, net for the three months ended June 30, 2021, primarily reflects the following factors:

Fees and Commission Income, net

The 64.5% increase in fees and commission income, net of commission expenses for the three months ended June 30, 2021, was mainly due to: (i) an 89.2% increase in commissions and fees for debit and credit cards, as a result of a higher volume of transactions and, (ii) an increase of 51.9% in banking services composed mainly of electronic transfers and online banking commissions, among others.

Insurance Premiums, net

Net insurance premiums, decreased by 12.3% for the three months ended June 30, 2021, primarily due to higher claims in the life insurance segment, partially offset by an increase in premiums.

Gain (loss) on Financial Instruments, net

The gain on financial instruments, net for the three months ended June 30, 2021, was US$10.0 million compared to US$14.3 million in the same period of 2020. The US$10.0 million gain was mainly due to a decrease in credit spreads in fixed income markets.

Other income, net

Other income, net, increased by US$1.0 million or 13.2%, for the three months ended June 30, 2021, compared to the same period in 2020 primarily mainly due to: (i) an increase of US$0.8 million in other banking services, and (ii) a gain from the sale of fixed assets of US$0.4 million.

General and Administrative Expenses

The following table presents the Bank's principal general and administrative expenses for the three and six months ended June 30, 2021 and 2020, respectively:

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2021	**2020**	**(%) Change**	**2021**	**2020**	**(%) Change**
	(in thousands of U.S. dollars, except for percentages)					
Salaries and other employee expenses	40,227	41,976	-4.2%	80,712	178,977	-7.6%
Depreciation and Amortization expenses	7,117	7,221	-1.4%	14,124	28,600	-2.6%
Premises and Equipment expenses	6,260	5,416	15.6%	12,384	22,316	10.6%
Other expenses	20,399	15,595	30.8%	39,176	78,282	10.9%
Total	**74,002**	**70,208**	**5.4%**	**146,396**	**148,372**	**-1.3%**

The 5.4% increase in general and administrative expenses for the three months ended June 30, 2021 primarily reflects the following factors:

Salaries and other employee expenses

Salaries and other employee expenses represented 54.4% of total general and administrative expenses for the three months ended June 30, 2021, as compared to 59.8% for the same period in 2020. The 4.2% decrease in salaries and other expenses was attributable to a decrease in the number of employees, representing 2.2% decrease in headcount as compared to the same period in 2020.

Depreciation and Amortization expenses

Total depreciation and amortization expense for the three months ended June 30, 2021 decreased 1.4% or US$0.10 million as compared to the same period in 2020, mainly due to a lower depreciation of new capitalizations than the depreciation of assets that ended their useful life.

Premises and Equipment expenses

Premises and equipment expenses increased by US$0.8 million or 15.6% for the three months ended June 30, 2021, as compared to the same period in 2020, mainly due to a US$0.7 million expense in technological maintenance for an improvement in platforms and hardware.

Other expenses

Other expenses increased US$4.8 million or 30.8%, for the three months ended June 30, 2021, as compared to the same period in 2020, as a result of: (i) an increase of 83.6% a US$3.7 million increase in professional services mainly due to transaction volumes of credit cards, (ii) an increase of 23.6% or US$0.4 million in public service expenses due to the reopening of branches and offices that were closed in 2020 due to the pandemic and (iii) a 5.1% increase or US$0.4 million in other expenses.

Taxes

Income tax, net amounted to US$6.2 million for the three months ended June 30, 2021, as compared to US$0.1 million in 2020; the US$6.1 million increase in income taxes was primarily driven by lower provisioning expense during the second quarter of 2021 that resulted in higher taxable income.

Operational Efficiency

The Bank's operational efficiency was 33.04% for the three months ended June 30, 2021, as compared to 31.47% in 2020, principally as a result of an increase of US$3.8 million, or 5.4%, in the Bank’s general and administrative expenses.

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

	30-jun-21	31-mar-21	31-dec-20	30-sep-20	30-jun-20
	(in thousands of U.S. dollars)				
Total interest and commission income	229,192	221,169	227,942	249,354	253,281
Total interest expenses	(70,872)	(70,712)	(76,178)	(80,664)	(85,356)
Net interest and commission income	**158,319**	**150,458**	**151,765**	**168,691**	**167,926**
Total Provisions, net	(36,580)	(40,421)	(114,662)	(93,042)	(54,790)
Net interest and commission income after provisions	**121,739**	**110,037**	**37,103**	**75,649**	**113,136**
Other Income (expenses):					
Fees and other commissions	59,998	54,477	59,451	50,393	37,071
Insurance premiums, net	8,558	6,725	8,353	8,116	9,756
Gain (loss) on financial instruments, net	10,004	720	10,525	13,702	14,334
Other income, net	8,278	6,221	10,250	7,744	7,311
Commissions expenses and other expenses	(23,668)	(22,119)	(20,608)	(18,070)	(14,987)
Total other income, net	**63,170**	**46,025**	**67,970**	**61,886**	**53,484**
General and administrative expenses	(74,002)	(72,393)	(72,309)	(69,557)	(70,208)
Equity participation in associates	2,480	2,233	1,623	1,767	1,712
Net income before income tax	**113,386**	**85,901**	**34,387**	**69,744**	**98,124**
Income tax net	(6,221)	(5,841)	11,148	15,208	(98)
Net income	**107,165**	**80,059**	**45,535**	**84,952**	**98,026**

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

	30-jun-21	31-mar-21	31-dec-20	30-sep-20	30-jun-20
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	848,962	949,614	800,585	733,400	861,135
Securities and other financial assets	5,858,972	5,615,525	5,624,784	5,517,251	5,550,323
Loans	11,302,423	11,263,752	11,444,423	11,680,136	11,986,080
Allowance for possible loans losses	(439,147)	(409,774)	(383,795)	(308,317)	(212,900)
Unearned comissions	(36,290)	(35,984)	(37,045)	(38,692)	(40,612)
Investments in associates	26,230	23,847	21,686	29,573	27,806
Other assets	1,249,989	1,306,571	1,146,145	1,157,838	1,287,473
Total assets	**18,811,139**	**18,713,551**	**18,616,783**	**18,771,189**	**19,459,304**
Liabilities and shareholder's equity					
Total Deposits	13,594,370	13,596,782	13,449,536	13,057,379	12,937,466
Securities sold under repurchase agreements	-	-	-	149,480	279,670
Medium and long term borrowings and placements	997,989	1,007,953	1,076,469	1,390,870	1,844,969
Perpetual bonds	400,000	217,680	217,680	217,680	217,680
Other liabilities	1,167,850	1,297,092	1,239,887	1,295,157	1,571,922
Shareholder's equity	2,650,932	2,594,044	2,633,211	2,660,623	2,607,596
Total liabilities and shareholder's equity	**18,811,139**	**18,713,551**	**18,616,783**	**18,771,189**	**19,459,304**
Operational data (in units)					
Number of customers (1)	1,288,496	1,241,279	1,200,346	1,167,034	1,121,090
% active customers in digital channels (2)	69.4%	66.9%	63.9%	61.0%	57.6%
Number of employees (3)	4,501	4,510	4,554	4,560	4,604
Number of branches (4)	84	83	83	83	86
Number of ATMs (4)	630	635	638	636	637
Assets under management (5)	11,860,140	11,393,900	11,300,281	11,157,144	11,182,756

(1) Total number of clients at the end of the period includes BG, BGO, BGCR and Profuturo clients.

(2) Active customer represents clients that actively use online banking or our mobile application in the last 30 days.

(3) Total number of permanent full-time employees at the end of the period of BG & Subsidiaries.

(4) Total number of branches and ATMs of BG and BGCR.

(5) 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

	30-jun-21	31-mar-21	31-dec-20	30-sep-20	30-jun-20
Profitability and efficiency:					
Net Interest Margin (1)(2)	3.69%	3.52%	3.52%	3.82%	3.79%
Return on average assets (1) (3)	2.28%	1.71%	0.97%	1.78%	1.98%
Return on average equity (1) (3)	16.26%	12.15%	6.80%	12.77%	15.30%
Efficiency (4)	33.04%	36.43%	32.67%	29.94%	31.47%
Operating expenses / average total assets (1) (3)	1.58%	1.55%	1.55%	1.46%	1.42%
Other income/ operating income (5)	34.16%	29.49%	64.69%	45.00%	32.10%
Liquidity:					
Primary Liquidity (6) / total deposits and obligations	33.55%	32.15%	29.40%	29.01%	29.55%
Regulatory Liquidity (7) / qualified deposits	44.78%	45.20%	40.45%	42.26%	42.64%
Loans, net / total client deposits	79.68%	79.60%	82.00%	86.91%	91.01%
Liquidity Coverage Ratio (LCR) (8)	212.19%	223.76%	158.18%	144.04%	219.56%
Capital:					
Total regulatory primary capital ratio (9)	19.62%	20.48%	19.12%	19.38%	18.80%
Total primary capital ratio (9)	22.65%	22.24%	20.74%	21.00%	20.40%
Total capital ratio (9)	22.65%	22.24%	20.74%	21.00%	20.40%
Equity / assets	14.09%	13.86%	14.14%	14.17%	13.40%
Earning retention ratio (10)	45.18%	26.62%	-162.28%	29.71%	39.08%
Asset quality:					
Past due loans (11)/ total loans	1.61%	1.56%	1.54%	1.39%	1.36%
Non accrual loans (12)/ total loans	1.47%	1.47%	1.46%	1.35%	1.35%
Allowance for possible loan losses / total loans	3.89%	3.64%	3.35%	2.64%	1.78%
Allowance for possible loan losses / past due loans (11)	242.02%	232.89%	218.02%	190.07%	130.15%
Allowance for possible loan losses / non accrual loans (12)	265.13%	246.75%	230.33%	195.37%	131.47%
Allowance for possible loan losses + Dynamic Reserve / non accrual loans (12)	325.92%	319.43%	304.51%	283.94%	223.23%
Allowance for possible loan losses + Dynamic Reserve / past due loans (11)	357.05%	338.43%	321.71%	291.85%	225.50%
Write - off (1) / total loans	0.47%	0.67%	1.62%	0.17%	0.65%

(1) Percentages are annualized.
(2) Net interest margin refers to net interest and comission income divided by average interest-earning assets. Average interest-earning assets are determined on average monthly balances.
(3) Percentages have been calculated using monthly averages.
(4) Efficiency is defined as general and administrative expenses divided by the sum of net interest and comission income and other income equity participation in associates.
(5) Operating income is defined as the sum of net interest, comission income, and other income.
(6) Primary liquidity is comprised of: (a) cash and due from banks, (b) interest bearing deposits with banks , and (c) high quality (investment grade) fixed income securities including repos, fixed income mutual funds, treasury bills, negotiable CDs, commercial paper, corporate and sovereign bonds, MBS, CMOs and ABS.
(7) As defined in Accord 4-2008 by the SBP.
(8) As defined in Accord 2-2018 by the SBP.
(9) Total capital as percentage of risk weighted assets, in accordance with the requirements of the SBP.
(10) Earning retention ratio: net income from the period minus paid dividends from the period divided by net income.
(11) Past due loans: all loans past due 90+ days on interest and/or principal payments and all loans past due 30 days post maturity.
(12) Non accrual loans: all loans past due 90+ days on interest and/or principal payments, and residential mortgages past due 120+ days in accordance with SBP requirements.