



ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the year ended December 31, 2017

The Bank operates under a General License granted by the Superintendence of Banks of Panama ("SBP"), which allows it to carry out banking business in Panama and abroad. All references to "we," "us," "our," the "Bank" and "Banco General" are to Banco General, S.A., a corporation (Sociedad anónima) organized under the laws of Panama, and, unless otherwise indicated or the context otherwise requires, its consolidated subsidiaries.

The following discussion is based on information contained in the audited consolidated financial statements and supplementary financial information contained in the section entitled "Financial Information Summary". Certain amounts (including percentages) appearing here have been rounded.

The Bank prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The Bank's operating results are affected both positively and negatively by a set of events and situations, many of which are beyond its control, including, without limitation, the situation of the Panamanian and foreign economy, and interest rates in the United States.

I. COMPANY INFORMATION

A. Description of Business

1. Bank Summary

As of December 31, 2017, the Bank has a total loan portfolio of U.S.\$ 11,506.06 million, total deposits of U.S.\$ 11,458.43 million, and a total equity of U.S.\$ 2,045.84 million. The Bank's participates principally in the local Panamanian market, with 88.44% of its loans made to local companies and individuals, and 96.39% of its deposits obtained from local clients. According to the last Executive Summary published by the Superintendence of Banks, as of December 31, 2017, the Bank had a leading market share in local loans (19.44%), residential mortgage loans (26.97%), consumer loans (16.00%), business loans (16.87%) and local private sector deposits (26.68%). In accordance with its conservative capitalization and liquidity policies, as of December 31, 2017, the Bank maintained an equity to total assets ratio of 11.64%, and a total capital (Tier 1 and 2) to risk-weighted assets ratio of 19.11%. The total primary liquidity of the Bank represented 21.05% of total assets, with an average credit rating of AA-, of which 52.3% are AAA rated investments. The Bank's net income for the year ended December 31, 2017 was U.S.\$ 429.75 million, and a return on average assets and average equity of 2.53% and 21.69%, respectively.

The Bank's strategy has been to develop its universal banking franchise, with a leading position in residential mortgage loans, consumer loans and corporate banking. As of December 31, 2017, residential mortgage loans represented approximately 35.23% of the Bank's loan portfolio; consumer loans (auto loans, personal loans and credit cards) represented approximately 14.51%; business loans represented approximately 45.46%; and other loans, mainly overdrafts, secured loans, factoring, and financial leases, represented approximately 4.80% of the Bank's loan portfolio. Depending on the type of client, the services offered by the Bank include, but is not limited to the following: receipt of deposits (checking and savings accounts, and time deposits), residential mortgage loans, personal loans, credit cards, car loans, commercial mortgages, lines of credit, interim loans to finance construction projects, commercial loans, business financing through private bonds, opening and financing of local and international letters of credit, collections, and payroll processing services.

In addition to its traditional banking operations, the Bank offers related financial services either directly or through its subsidiaries, including, private banking, investment banking, mutual fund and portfolio management, securities brokerage, life and general insurance, management of retirement funds, financial leases, factoring, fiduciary services, pension and severance products, credit card processing, and the administration and marketing of pretax food and health related contributions in Panama.

Banco General, S.A. is authorized by the Superintendence of Banks of Panama to operate as a general license bank in Panama and abroad; the subsidiary Banco General (Overseas), Inc. is authorized by the Superintendence of Banks of Panama to operate as a licensed bank for representation in the Republic of Panama. The subsidiary General de Seguros, S.A. is authorized by the Superintendence of Insurance and Reinsurance to operate as an insurance and reinsurance company in the Republic of Panama. The subsidiary BG Investment Co., Inc. is authorized by the Superintendence of the Securities Markets of the Republic of Panama to operate as a brokerage in the Republic of Panama. The subsidiary Finanzas Generales, S.A. is authorized by the Office of Financial Entities of the Ministry of Commerce and Industry to operate as a financial and leasing company in the Republic of Panama. The subsidiary BG Valores, S. A., is authorized by the Superintendence of the Securities Markets of the Republic of Panama to operate as a brokerage. The subsidiary Banco General (Costa Rica), S.A. ("BGCR") is authorized by the General Superintendence of Financial Institutions (SUGEF) to operate as a general license bank in Costa Rica. The subsidiary Vale General is authorized to operate by the Ministry of Labor and Labor Development and is regulated by Law No. 59 of August 7, 2003, amended by Law No. 60 of October 23, 2009.

2. History and Organization

Banco General, the first and oldest Panamanian-owned private sector bank, was founded in 1955 by a group of prominent Panamanian businessmen. The Bank was originally established to complement the operations of Compañía General de Seguros S.A., which later became part of ASSA Compañía de Seguros, S.A.), one of the largest insurers in Panama.

Pursuant to the requirements of Cabinet Decree No. 238 of July 2, 1970, we began to operate as a mortgage bank. However, in the 1980s, following significant reforms to the Panamanian banking regulatory framework, banks were no longer required to operate as either commercial banks or mortgage banks, thus enabling banks to expand the services and products they offered. As a result, we were able to expand our business operations and, in 1985, we acquired Bank of America's branch network in Panama, enabling us to enter corporate and consumer banking. In 1988, we entered the credit card business through the acquisition of Diners Club International's operations in Panama, which we expanded further when we began issuing Visa cards in 1990 and MasterCard cards in 1999. In 1990, we were recognized as a "universal" bank for our complete range of consumer, mortgage and corporate services.

Since then, we have entered into certain key strategic alliances, which include a series of important acquisitions to consolidate our local brand and to complement our existing universal banking services. Most notably, in January 2007, Empresa General de Inversiones, S.A. ("EGI"), our parent company, and Grupo Financiero Continental, SA, 100% owner of Banco Continental de Panamá S.A. ("BCP"), the second-largest private bank by assets in Panama, agreed to integrate their respective banking operations under a new company named Grupo Financiero BG, S.A., resulting in the creation of the largest Panamanian bank.

Our merger with BCP, which carried out corporate banking operations through representative offices in Central America, allowed us to increase our international presence in the region, which was subsequently strengthened with the establishment of a universal bank in Costa Rica in 2007. BGCR began operations primarily as a corporate and retail private company and bank, and has developed its retail business by acquiring Citibank's residential mortgage portfolio in Costa Rica in 2009 and the strategic expansion of its branch network in San Jose, the capital of Costa Rica.

3. Strategy

Our business strategy is to grow and strengthen our universal banking franchise, emphasizing our high quality service, financial strength and operational efficiency. We plan to pursue our business strategy by focusing on the following main drivers and initiatives:

- Maintain our position as the premier universal bank franchise in Panama
- Deepen our relationship with our clients and to continue improving customer satisfaction
- Emphasize profitability measures to increase shareholder value and strengthen operational excellence
- Maintain a solid financial profile, with strong capitalization, high asset quality and reserves, conservative liquidity levels and highly profitable and efficient operations
- Permanent investment in, and development of, our "Human Capital"
- Continue the expansion of our universal banking operation in Costa Rica, and strengthen our regional network of corporate banking offices as a complement to our universal banking franchise in Panama.

Strategy, discipline and profitability were all factors permitting the Bank to be one of the few in Latin America with an investment-grade rating from two prestigious rating agencies, Fitch Ratings, Inc. (BBB+), and Standard & Poor's (BBB).

The Bank has received awards from various renowned international journals, which confirms the Bank's positioning in the financial market:

Global Finance

Best Bank in Panama	2002, 2003, 2004, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, and 2016
Best Digital Bank in Panama	2015 and 2016

Euromoney

Best Bank in Panama	2002, 2003, 2004, 2007, 2008, 2009, 2010, 2011, 2012, 2014, 2015, 2016, and 2017
Best Local Bank in Private Banking and Asset Management in Panama	2013, 2014, and 2017

Latin Finance

Best Bank in Panama	2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, and 2017
Best Bank in Central America	2014

The Banker

Best Bank in Panama	2010, 2011, 2012, 2013, 2014, 2015, and 2017
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4. Product and Service Distribution Channels

a) Branches

On December 31, 2017, the Bank operated 73 branches in the country, 51 of which were located in and around the periphery of Panama City, and the remaining 22 branches distributed in the west and east of the province of Panama, in Colón, and the interior of the country. The Bank has consistently made investments in branches for the purpose of expanding and improving its facilities. The Bank's branches offer a complete range of banking products and services for private clients, both in the area of credit (residential mortgage loans and consumer loans - personal loans, credit cards and car loans - are marketed), and in the area of deposit capture. Our branch network also provide business customers with a wide network of offices, with a presence in 9 provinces, which complement business credit products that are typically handled by officers located in our head office.

In addition, the Bank has a regional presence, with 5 representative offices in Mexico, Colombia, Guatemala, El Salvador and Peru, and 11 branches in Costa Rica under the subsidiary Banco General (Costa Rica), S.A.

b) Internet and Mobile Banking

Our clients' preference for adopting our electronic payment platforms continues to be notable. The bank's online banking services accounted for 18.1% of all transactions in 2017, increasing the volume of transactions by 13.1% compared to 2016. Mobile banking continues to grow in popularity; customer affiliation grew 15.1% in 2017, ending the year with more than 301,000 affiliated customers, representing 6.1% of total transactions.

c) Electronic Banking - ATM

We are a founding member of Telered, the only network of ATMs and points of sale in Panama, which had a total network of more than 2,000 ATM's located throughout the country. The Bank owns 626 ATMs, or approximately 30.1% of the ATMs in the network, of which 71.6% are in the Province of

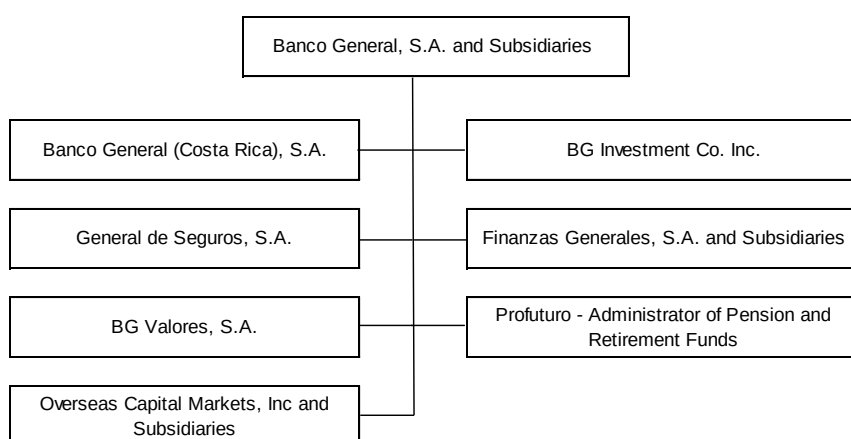
Panama. As a result of the breadth of our network and the strategic location of our ATMs throughout Panama City and the country's interior, we processed a leading 49.4% of all ATM transactions of the network in 2017.

d) Call Center

We offer quality service and support through our extensive client service center. Our customer service center is accessible seven days a week by phone, chat, social networks (Instagram, Facebook and Twitter) and by email. The successful implementation of our automated call center in 2015 allowed us to improve agent efficiency by providing customer recognition technology, automating our sales campaigns and providing self-service functionality to our customers.

B. Organizational Structure

The following table shows the organizational structure of the Bank:



5. Bank Subsidiaries

The Bank's subsidiary companies are dedicated to the following activities:

Finanzas Generales, S. A.: financial leasing, loans and factoring in Panama. This has, in turn, the following subsidiaries:

- BG Trust, Inc.: administration of trusts in Panama.
- Vale General, S. A.: administration and marketing of food vouchers in Panama.

BG Investment Co., Inc.: securities brokerage, asset management and stock brokerage in Panama.

General de Seguros, S. A.: insurance and reinsurance in Panama.

Overseas Capital Markets, Inc.: holding company in the Cayman Islands. This has, in turn, the following subsidiaries:

- Banco General (Overseas), Inc.: international bank in the Cayman Islands.
- Commercial Re. Overseas, Ltd.: international reinsurance company in the British Virgin Islands.

BG Valores, S. A.: securities brokerage, asset management and stock brokerage in Panama.

Banco General (Costa Rica), S. A.: banking activity in Costa Rica.

ProFuturo Administradora de Fondos de Pensiones y Cesantía, S. A.: administrator of pension and retirement, severance and investment funds in Panama.

II. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING TABLE PRESENTS THE BANK'S CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEARS ENDING DECEMBER 31, 2017, 2016 AND 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Net interest and commission income	598,390	554,571	506,582	7.90%	9.47%
Total Provisions, net	(45,025)	(46,321)	(29,578)	-2.80%	56.61%
Other Income (expenses):					
Fees and other commissions	199,462	179,744	161,873	10.97%	11.04%
Insurance premiums, net	26,885	22,498	17,688	19.50%	27.20%
Gain (loss) on financial instruments, net	16,477	4,639	(4,081)	255.22%	213.66%
Other income, net	39,086	18,080	21,581	116.19%	-16.22%
Commissions expenses and other expenses	(77,758)	(72,253)	(65,943)	7.62%	9.57%
Total other income, net	204,152	152,708	131,118	33.69%	16.47%
General and administrative expenses	280,399	254,896	240,457	10.01%	6.00%
Equity participation in associates	8,570	8,040	5,569	6.59%	44.38%
Net income before income tax	485,688	414,102	373,234	17.29%	10.95%
Income tax, net	55,941	48,714	44,567	14.84%	9.30%
Net income	429,747	365,388	328,666	17.61%	11.17%

The Bank's net income as of December 31, 2017 was U.S.\$ 429.8 million, which represents an increase of U.S.\$ 64.4 million, or 17.6% over the net profit of U.S.\$ 365.4 million in 2016. ROAE was 21.69%, compared to 20.57% in 2016, and the ROAA was 2.53%, compared to 2.33% for the same period in 2016. These results in net income, ROAE and ROAA were mainly product of the following factors:

Net Interest and Commission Income

The following table presents the Bank's net interest and commission income and related average rate and margin information for the years ended December 31, 2017, 2016 and 2015, respectively:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Total interest and commission income	891,651	808,397	725,809	10.30%	11.38%
Total interest expenses	293,261	253,826	219,227	15.54%	15.78%
Net interest and commission income	598,390	554,571	506,582	7.90%	9.47%
Average interest-earning assets	15,565,485	14,422,676	12,824,368	7.92%	12.46%
Average interest-bearing liabilities	11,360,764	10,422,351	9,168,497	9.00%	13.68%
Net interest margin ⁽¹⁾	3.84%	3.85%	3.95%		
Average interest rate earned ⁽²⁾	5.73%	5.61%	5.66%		
Average interest rate paid ⁽³⁾	2.58%	2.44%	2.39%		

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

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

⁽³⁾ Total interest expenses divided by average interest bearing liabilities

The Bank's net income from interest and fees increased U.S.\$ 43.8 million, or 7.9%, from U.S.\$ 554.6 million in 2016 to U.S.\$ 598.4 million in 2017, as the result of an increase in average interest earning assets in relation to liabilities; the net interest margin was 3.84% in 2017, compared to 3.85% in 2016.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the years ended December 31, 2017, 2016, and 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Total interest and commission income	891,651	808,397	725,809	10.30%	11.38%
Average interest - earning assets:					
Deposits with banks	275,779	287,260	284,876	-4.00%	0.84%
Loans, net	10,976,984	10,092,139	9,091,974	8.77%	11.00%
Securities and other financial assets	4,312,723	4,043,276	3,447,518	6.66%	17.28%
Total	15,565,485	14,422,676	12,824,368	7.92%	12.46%
Average nominal rates earned:					
Deposits with banks	2.25%	1.79%	1.48%		
Loans, net	6.85%	6.73%	6.74%		
Securities and other financial assets	3.09%	3.08%	3.15%		
Total	5.73%	5.61%	5.66%		

The Bank's interest and commission income is derived principally from a diversified portfolio, which represented 70.52% of the Bank's total average interest earning assets, which generated 84.34% of the total income from interest and commissions for the period. The 10.30% increase in interest from interest and commission income, from U.S.\$ 808.40 million in 2016 to U.S.\$ 891.65 million in 2017, resulted primarily by (i) a 7.92% increase in average interest earning assets, compared to the same period in 2016, and (ii) an increase in the average rate earned on interest earning assets, which increased from 5.61% in 2016 to 5.73% in 2017.

The growth in average interest earning assets was derived from the 8.77% increase in average loans, net, which, in turn was mainly due to (i) an 9.18% increase in consumer loans (credit cards increased 19.29%, and personal loans 7.52%), and (ii) sustained growth in the residential mortgage portfolio (with a growth of 10.84%), as well as in the corporate loan portfolio (with a growth of 3.34%). The increase in the average rate earned on interest earning assets was mainly caused by higher rates on loans, which rose from 6.73% in 2016 to 6.85% in 2017.

The following table presents the effect of changes in the Bank's interest and commission income as a result in changes in (i) the average volume of interest earning assets, and (ii) the average nominal interest rates existing during the years ended 2017, 2016 and 2015

	Change (%)		
	2016-2017	2015-2016	2014-2015
	(in thousands of U.S. dollars)		
Due to changes in average volume of interest - earning assets	64,055	90,458	80,718
Due to changes in average nominal interest rates earned	19,199	(7,870)	(16,743)
Net change	83,254	82,588	63,975

Total Interest Expenses

The following table presents information as to the Bank's total interest expenses for the years ended December 31, 2017, 2016 and 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Total interest expenses	293,261	253,826	219,227	15.54%	15.78%
Average interest - bearing liabilities:					
Savings deposits	3,320,687	3,170,436	2,913,605	4.74%	8.81%
Time deposits - clients	5,339,354	4,893,509	4,503,955	9.11%	8.65%
Time deposits - interbank	151,329	136,328	163,031	11.00%	-16.38%
Borrowings and placements	2,549,394	2,222,079	1,587,907	14.73%	39.94%
Total	11,360,764	10,422,351	9,168,497	9.00%	13.68%
Average nominal rates paid:					
Savings deposits	0.71%	0.70%	0.69%		
Time deposits - clients	3.44%	3.40%	3.42%		
Time deposits - interbank	0.78%	0.46%	0.24%		
Borrowings and placements	3.34%	2.90%	2.80%		
Total	2.58%	2.44%	2.39%		

The Bank's total interest expense is mainly attributable to the interest paid on customer deposits, which represented 70.60% of the total interest expense, compared to 74.34% for the same period in 2016.

The growth of 15.54% in total interest expense for 2017, as compared to the previous year, was mainly due to (i) an increase of 9.00% in the average interest bearing liabilities, in comparison with 2016, and (ii) an increase of 14 basis points, or 6.0%, in the average rate paid on interest bearing liabilities, which grew from 2.44% in 2016 to 2.58% in 2017. The increase in the average balance of interest bearing liabilities is mainly generated by (i) an increase of 14.73% in average medium- and long-term borrowings and placements to complement deposit growth and fund loan growth; (ii) a 9.11% increase in average client time deposits, the Bank's principal source of funding; and (iii) an increase of 4.74% in average savings deposits. The increase in the average rate of interest paid on interest bearing liabilities was mainly due to the increase in the cost of borrowings and placements, which increased from 2.90% in 2016 to 3.34% in 2017.

The following table shows the effect on the Bank's interest expenses due to changes in (i) the average volume of interest bearing liabilities, and (ii) nominal interest rates paid:

	Change (%)		
	2016-2017	2015-2016	2014-2015
	(in thousands of U.S. dollars)		
Due to changes in average volume of interest - bearing liabilities	22,854	29,981	25,839
Due to changes in average nominal interest rates paid	16,580	4,619	(3,453)
Net change	39,435	34,599	22,387

Provision for Loan Losses

The following table shows the movement of the loan loss provision for the years ended December 31, 2017, 2016 and 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Balance at beginning of year	128,917	112,275	106,035	14.82%	5.89%
Provision charged to expenses, net of recoveries	44,485	45,532	29,237	-2.30%	55.74%
Recoveries of loan charge-offs	21,368	18,198	13,102	17.42%	38.89%
Loan charge-offs	(49,938)	(47,088)	(36,098)	6.05%	30.44%
Balance at end of year	144,832	128,917	112,275	12.35%	14.82%
Provisions to average loans	0.40%	0.44%	0.32%		
Loan charge-offs to average loans	0.45%	0.46%	0.39%		
Allowance to total loans	1.26%	1.20%	1.15%		

The provision for loan losses of U.S.\$ 44.48 million, or 0.40% of loans, was similar to prior year as a result of stable charge-offs, a 6.84% growth in the loan portfolio, and improved credit quality. The provision of U.S.\$ 44.48 million covered net charge-offs of U.S.\$ 28.57 million, allowing the reserve to grow by 12.35% and, as a percentage of total loans, to increase from 1.20% to 1.26% in 2017.

As of December 31, 2017, the Bank's allowance for loan losses amounted to U.S.\$ 144.83 million, with a coverage of 161.41% of the loans in non-accrual status, and 122.64% of past due loans. We believe the allowance for loan losses adequately covers credit risk in the Bank's portfolio.

Fees, Commissions, and Other Income, Net

The following table presents the information as to the Bank's fees, commission and other income, net for the years ended December 31, 2017, 2016 and 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Fees and commission income, net	121,704	107,491	95,930	13.22%	12.05%
Insurance premiums, net	26,885	22,498	17,688	19.50%	27.20%
Gain (loss) on financial instruments, net	16,477	4,639	(4,081)	255.22%	213.66%
Other income, net	39,086	18,080	21,581	116.19%	(16.22%)
Total other income, net	204,152	152,708	131,118	33.69%	16.47%

Total Other Income, Net

The increase of 33.69% in total other income, net for the period ended December 31, 2017 primarily reflects the following factors:

Fees and Commission Income, Net

The 13.22% increase in fees and commissions income, net of commission expenses as of December 31, 2017, was mainly due to (i) an increase of 10.01% in commission and fees for credit and debit card operations; (ii) an increase of 12.20% in banking services; (iii) an 11.69% increase in income from Mutual and Pension funds; and (iv) an increase of 50.66% in income from wealth management services. The increase in income was partially offset by an increase of 7.62% in commission and other expenses, primarily attributable to the 9.80% increase in fees for credit and debit cards and ATM charges.

Insurance Premiums, Net

Net insurance premiums increased by 19.50% in 2017, mainly due to (i) the growth in life insurance premiums in the Bank's growing portfolio of auto loans, personal loans, credit cards and residential mortgages, and (ii) slightly lower levels of claims.

Gain (loss) on Financial Instruments, Net

For the year ended December 31, 2017, Gain on financial instruments, net increased from U.S.\$ 4.64 million to U.S.\$ 16.48 million, mainly due to higher profits on fixed-income instruments resulting from the tightening of credit spreads.

Other income, net

Other income, net, which is mainly composed of dividends, banking services, foreign exchange fluctuations, net and miscellaneous income, increased by U.S.\$ 21.01 million, or 116.19%, to U.S.\$ 39.09 million versus 2016, principally as a result of an extraordinary gain on sale of operating properties of U.S.\$18.4 million due to the consolidation of operations into our new 31,200 thousand square meter Operating Center.

General and Administrative Expenses

General and administrative expenses increased 10.01% to U.S.\$ 280.40 million in 2017, from U.S.\$ 254.90 million in 2016.

The following table presents the Bank's the principal general and administrative expenses for the years ended December 31, 2017, 2016 and 2015:

	Change (%)				
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Salaries and other employee expenses	165,675	157,091	146,005	5.46%	7.59%
Premises and equipment expenses	22,214	18,961	16,811	17.16%	12.79%
Depreciation and amortization	23,925	18,744	16,670	27.65%	12.44%
Other expenses	68,584	60,100	60,972	14.12%	-1.43%
Total	280,399	254,896	240,457	10.01%	6.00%

The increase of 10.01% in general and administrative expenses primarily reflects by the growth of the Bank's business, with an increase of 6.84% in net loans and a 6.48% increase in deposits and borrowings, as well as the following:

Salaries and Other Personnel Expenses

Salaries and other personnel expenses (including voluntary profit-sharing, amounting to U.S.\$ 24.57 million in 2017) is the main component in the general and administrative expenses, representing 59.09% in 2017 (61.63% in 2016). Total salaries and other personnel expenses grew 5.46%, or U.S.\$ 8.58 million, from 2016 to 2017. This growth was primarily attributable to (i) salary increases during the year, and (ii) a 3.65% increase in the average number of employees, from 4,385 in 2016 to 4,545 in 2017.

Depreciation and Amortization Expenses

Total depreciation and amortization expenses of U.S.\$ 22.21 million increased by U.S.\$ 3.25 million, or 17.16%, primarily due to (i) an increase in the amortization of internally developed computer programs, and (ii) an increase in purchases and capitalizations of assets for new branches and our new Operating Center.

Premises and Equipment Expenses

The premises and equipment expense, which includes maintenance, repairs and rentals, showed an increase of U.S.\$ 5.19 million, or 27.65%, moving from U.S.\$ 18.74 million to U.S.\$ 23.93 million between the periods ended December 31, 2016 and 2017; the increase was mainly due to (i) U.S.\$ 1.46 million in technological maintenance

costs due to growth in platforms and licenses, (ii) U.S.\$ 0.82 million in maintenance for the Bank's operations, including our new Operating Center, and (iii) U.S.\$ 0.49 million in repairs and maintenance of Branches, and new projects.

Other Expenses

The increase of U.S.\$ 8.48 million, or 14.12%, in other general and administrative expenses as of December 31, 2017, compared to the same period of the previous year, was mainly due to (i) a 11.92%, or U.S.\$ 2.12 million increase, in legal and professional services, (ii) an increase of U.S.\$ 1.57 million in utility expenses, and (iii) an increase of U.S.\$ 0.75 million in value added taxes.

Taxes

Income tax returns for companies incorporated in the Republic of Panama are subject to review by the tax authorities for the last three years they have been submitted.

Income tax returns for companies incorporated in the Republic of Costa Rica maintain a tax rate of 30%, and are subject to review by tax authorities for the last three years they have been submitted.

Companies incorporated in the Cayman Islands and the British Virgin Islands are not subject to the payment of income tax in these jurisdictions, due to the nature of their foreign operations.

Estimated income tax for the period is U.S.\$ 58.29 million (2016: U.S.\$ 53.11 million) on the financial profit for the companies incorporated in the Republic of Panama, which amounted to U.S.\$ 417.71 million (2016: U.S.\$ 357.81 million). The average estimated income tax rate is 14% (2016: 15%) and the rate of income tax applicable to the net taxable income according to the legislation in force in the Republic of Panama is 25% (2016: 25%), or the alternative calculation, whichever is greater.

Operational Efficiency

The Bank's operational efficiency, measured in terms of total general and administrative expenses as a percentage of by the sum of net interest and commission income and other income and equity participation in associates, improved from 35.63% in 2016 to 34.57% in 2017. Total general and administrative expenses as a percentage of average assets was 1.65% in 2017.

The following table presents the Bank's consolidated balance sheet for the years ended December 31, 2017, 2016 and 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
(in thousands of U.S. dollars, unless otherwise indicated)					
Assets					
Cash and deposits with banks	845,388	818,703	703,689	3.26%	16.34%
Securities and other financial assets	4,414,784	4,063,953	3,735,300	8.63%	8.80%
Loans	11,506,061	10,769,010	9,752,225	6.84%	10.43%
Allowance for possible loan losses	(144,832)	(128,917)	(112,275)	12.35%	14.82%
Unearned commissions	(38,255)	(35,511)	(32,091)	7.73%	10.66%
Investments in associates	22,076	18,591	17,394	18.75%	6.88%
Other assets	966,700	909,995	745,127	6.23%	22.13%
Total assets	17,571,922	16,415,824	14,809,367	7.04%	10.85%
Liabilities and shareholder's equity					
Local deposits	11,044,313	10,668,732	9,908,590	3.52%	7.67%
Foreign deposits	414,115	403,954	411,934	2.52%	-1.94%
Total Deposits	11,458,427	11,072,686	10,320,524	3.48%	7.29%
Securities sold under repurchase agreements	45,815	273,300	238,006	-83.24%	14.83%
Medium and long term borrowings and placement	2,661,365	1,950,624	1,595,932	36.44%	22.22%
Perpetual bonds	217,680	217,680	217,680	0.00%	0.00%
Other liabilities	1,142,792	1,069,348	816,157	6.87%	31.02%
Shareholder's equity	2,045,843	1,832,186	1,621,068	11.66%	13.02%
Total liabilities and shareholder's equity	17,571,922	16,415,824	14,809,367	7.04%	10.85%
Operational data (in units):					
Number of customers ⁽¹⁾	906,534	886,436	834,041		
Number of employees ⁽²⁾	4,649	4,457	4,273		
Number of branches	84	82	79		
Number of ATMs	640	606	554		
Assets under management ⁽³⁾	10,219,936	8,946,365	7,944,856		

⁽¹⁾ Total number of clients at the end of the period includes Banco General, Banco General Overseas, Profuturo, and Banco General Costa Rica clients

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

⁽³⁾ In thousands of U.S. dollars. See note 26 of the Audited Financial Statements

Total Assets

As of December 31, 2017, the Bank's loan portfolio increased 6.84%, from U.S.\$ 10,769.01 million in December 2016, to U.S.\$ 11,506.06 million. During this period, the residential mortgage portfolio expanded 10.84%, to U.S.\$ 4,053.36 million; the consumer loan portfolio grew 9.18%, to U.S.\$ 1,669.61 million; and the corporate loan portfolio, comprised of both local and regional corporate clients, increased 3.34% to U.S.\$ 5,230.79 million. During 2017, the local corporate loan portfolio increased 7.86%, or U.S.\$ 311.07 million, to U.S.\$ 4,270.69 million, and the Bank's regional corporate loan portfolio decreased 12.90%, or U.S.\$ 142.24 million, to U.S.\$ 960.10 million. As of December 31, 2017, the Bank's total investment portfolio, consisting of (i) the Bank's primary liquid assets, and (ii) the portfolio of local and regional corporate fixed-income bonds grew 8.68%, from U.S.\$ 4,082.54 million in December 2016, to U.S.\$ 4,436.86 million.

Total Liabilities

The Bank's, total client deposits grew by U.S.\$ 392.03 million, or 3.57%, to U.S.\$ 11,367.36 million. In the year ended December 31, 2017, client time deposits, the Bank's main source of funding, increased by U.S.\$ 418.73 million, to U.S.\$ 5,474.42 million, comprising 48.16% of total customer deposits, with an average remaining life of 15.2 months, and 67.7% having original maturities of more than one year. Savings accounts grew by U.S.\$ 118.53 million, to U.S.\$ 3,398.55 million, representing 29.90% of customer deposits, while demand deposits decreased by U.S.\$ 145.23 million, amounting to U.S.\$ 2,494.39 million as of December 31, 2017.

In accordance with the Bank's financial policies, we have managed to develop and have access to multiple medium and long-term funding alternatives. As of December 31, 2017, the Bank's total medium and long-term borrowings and placements increased by U.S.\$ 483.26 million, or 19.79%, to U.S.\$ 2,924.86 million, compared to the same period of 2016. In the third quarter, the Bank completed the issuance of a U.S.\$ 550 million S 144/Regs bonds with a 10-year term, and in the fourth quarter of 2017, the Bank completed a medium-term financing of U.S.\$ 800 million; these funds were used to prepay the 2015 U.S.\$ 500, million financing with expiration on May 21, 2018.

Equity

The Bank's equity grew by 11.66%, or U.S.\$ 213.66 million, from U.S.\$ 1,832.19 million in 2016 to U.S.\$ 2,045.84 million in 2017. This increase was driven by an increase in retained earnings of U.S.\$ 208.41 million, with the Bank retaining 48.81% of its net profits for the year. The Bank's solid capital base allowed it to absorb a 7.04% asset growth, while maintaining healthy capitalization levels, with an equity to total assets ratio of 11.64% as of December 31, 2017, compared with 11.16% as of December 31, 2016.

Loan Portfolio

The Bank's loan portfolio is well diversified across clients, products, and borrower segments. As of December 31, 2017, total loans amounted to U.S.\$ 11,506.06 million, of which 45.46% are made up of corporate loans (37.12% local corporate loans and 8.34% foreign corporate loans), 49.7% of retail loans (35.23% residential mortgages and 14.51% consumer loans); and 4.9% of other loans (comprising of pledged loans, overdrafts, and financial leases).

In order to reduce the risk of credit losses, we emphasize the granting of loans secured by collateral, particularly single-family residences, properties and deposits, in addition to applying strict underwriting guidelines and "know your customer" policies. As of December 31, 2017, 79.7% of all loans were secured by properties or deposits in the Bank; 73.2% of all loans were secured by first lien mortgages on land and improvements (residential mortgages, commercial mortgages and interim construction loans), and 6.5% was backed by collateral at the Bank (secured loans and overdrafts). The combination of appropriate underwriting policies and high-quality guarantees has resulted in historically low levels of charge-offs, averaging 0.38% of total loans annually over last five years ending on December 31, 2017.

As of December 31, 2017, 88.44% of the Bank's loan portfolio was placed with local clients, who are borrowers (individuals and corporations) established in Panama, and 11.56% of this was placed with regional clients based in Costa Rica, Mexico, Colombia, Guatemala, El Salvador and Peru. As of December 31, 2017, 99.9% of the Bank's loans were denominated in U.S. dollars, which is legal tender in Panama. The Bank segments its portfolios according to type of loan, economic activity, and income group, among other variables. In addition, the Bank's credit policies provide for managing concentration within economic sectors, in the case of corporate loans, and provide various underwriting criteria, depending on the level of income, in the case of retail lending.

The following table summarizes the composition of the loan portfolio as of December 31, 2017, 2016, and 2015.

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
(in thousands of U.S. dollars, except percentages)					
Local loans					
Commercial	371,838	300,783	272,110	23.62%	10.54%
Interim construction loans	807,678	780,855	615,271	3.44%	26.91%
Lines of credit	1,301,407	1,233,583	1,281,098	5.50%	-3.71%
Residential mortgage loans	3,798,892	3,405,347	3,043,017	11.56%	11.91%
Commercial mortgage loans	1,789,765	1,644,394	1,502,432	8.84%	9.45%
Installment loans to individuals	1,652,578	1,513,916	1,342,808	9.16%	12.74%
Pledge loans and overdrafts	333,660	313,490	298,504	6.43%	5.02%
Leasing and factoring	120,391	124,878	111,720	-3.59%	11.78%
Total local Loans	10,176,209	9,317,246	8,466,960	9.22%	10.04%
Foreign loans					
Commercial	382,626	518,113	441,503	-26.15%	17.35%
Interim construction loans	-	-	47,841	0.00%	-100.00%
Lines of credit	317,635	307,604	266,066	3.26%	15.61%
Residential mortgage loans	254,472	251,639	229,542	1.13%	9.63%
Commercial mortgage loans	259,842	276,622	184,660	-6.07%	49.80%
Installment loans to individuals	17,034	15,367	11,803	10.84%	30.20%
Pledge loans and overdrafts	98,242	82,419	103,850	19.20%	-20.64%
Total foreign loans	1,329,851	1,451,764	1,285,264	-8.40%	12.95%
Total loans	11,506,061	10,769,010	9,752,225	6.84%	10.43%
Allowance for loan losses	144,832	128,917	112,275	12.35%	14.82%
Unearned discount	38,255	35,511	32,091	7.73%	10.66%
Total loans, net	11,322,974	10,604,582	9,607,858	6.77%	10.37%

As of December 31, 2017, the Bank's loan portfolio maintained low levels of non-accrual and, past due loans, with levels of 0.78% and 1.03%, respectively, of the total loan portfolio. As of December 31, 2017, the Bank's loan loss reserve coverage of past due loans was 122.64% (2016: 125.70%), and the coverage of non-accrual loans was 161.41% (2016: 161.25%); charge-offs amounted to U.S.\$ 49.9 million, or 0.43% (2016: 0.44%) of total loans.

The Bank's charge-offs have historically been low, with an average of 0.43% during the twelve months ended December 31, 2017, which we attribute to the following factors: (i) the application of rigid and consistent granting policies over time; (ii) the Bank's preference to extend high-quality secured loans with collateral from residential and commercial properties, whose quality and value are carefully evaluated; and (iii) the diligent monitoring of the performance of the loans, allowing the adoption of appropriate measures to minimize losses.

Non-accrual Loans

The SBP requires the classification of a loan on non-accrual status if any of the following conditions exist: (i) if the performance of payments, measured by past due amounts of principal and interest payments owed, has reached the limits defined below; or (ii) if the debtor's financial condition, whether individual or corporate, has suffered material adverse effects (payment capacity deterioration, collateral weakness, and other factors known to us, such as fraud, death of the debtor, or personal or corporate bankruptcy) that puts our ability to collect the loan at risk.

All past due loans (see the definition below under "past due loans") are within into the category of non-accrual status, except for residential mortgage loans, which cease accruing interest after 120 days in arrears of principal and interest payments.

The following table presents non-accrual loans, by type of loan, as of December 31, 2017, 2016, and 2015.

	2017	2016	2015
	(in thousands of U.S. dollars, except percentages)		
Non accrual loans			
Commercial	395	5,608	2,135
Interim construction loans	7,238	6,170	6,540
Lines of credit	6,525	4,389	7,189
Residential mortgage loans	41,875	33,628	30,078
Commercial mortgage loans	11,106	9,427	6,404
Installment loans to individuals	20,811	19,147	16,434
Pledge loans and overdrafts	587	641	1,277
Leasing and factoring	1,193	935	231
Total Non accrual loans	89,729	79,947	70,289
Total Loans	11,506,061	10,769,010	9,752,225
Allowance for loans losses	144,832	128,917	112,275
Non accrual loans as a percentage of total loans	0.78%	0.74%	0.72%
Allowance for loans losses as a percentage of non accrual loans	161.41%	161.25%	159.73%

Past Due Loans

The Bank classifies its loan portfolio according to: (i) the status of principal and interest payments (current, overdue 31-90 days, and past due more than 90 days), and (ii) the principal payment status of a loan at final maturity as current or, if not paid after 30 days of the final maturity of the loan, as past due. Our total past due loans include all of the overdue and past due principal on loans with principal or interest payments that are overdue and past due by 91 days or more and/or with maturities of the principal payments in arrears by 31 days or more upon maturity of the loan.

The following table presents past due loans, according to loan type, as of December 31, 2017, 2016, and 2015:

	2017	2016	2015
	(in thousands of U.S. dollars, except percentages)		
Past due loans			
Commercial	385	5,608	1,612
Interim construction loans	7,238	6,170	6,540
Lines of credit	6,486	4,489	7,124
Residential mortgage loans	69,565	56,322	43,667
Commercial mortgage loans	11,173	9,347	5,834
Installment loans to individuals	20,711	19,110	16,289
Pledge loans and overdrafts	1,344	1,074	1,980
Leasing and factoring	1,193	444	19
Total past due loans	118,096	102,564	83,064
Total Loans	11,506,061	10,769,010	9,752,225
Allowance for loan losses	144,832	128,917	112,275
Past due loans as a percentage of total loans	1.03%	0.95%	0.85%
Allowance for loans losses as a percentage of past due loans	122.64%	125.70%	135.17%

Allowance for Loan Losses

Our allowance for loan losses is assessed using provisioning guidelines of IAS 39 as well as requirements established by the SBP. According to IAS 39 and SBP directives, there are two types of reserves: (a) Specific Reserves, and (b) Collective Reserves (defined as, those expected to be incurred based on the historical performance of the "Standard" portfolio). Additionally, we have included a (c) Country Risk Reserve in our model.

Provisions for loan losses are accounted for as expenses and included in the allowance for loan losses to maintain reserves at the required level. Any subsequent charge-offs are applied against this allowance.

The Bank's reserve levels have historically provided adequate coverage of non-accrual loans, amounting to 161.41% as of December 31, 2017. Additionally, the Bank's allowance for loan losses exceeds the requirements established by the SBP. As of December 31, 2017, the Bank's loan loss provision amounted to 1.26% of total loans.

The following table presents the breakdown of provisions and loan charge-offs as of December 31, 2017, 2016 and 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, except percentages)				
Allowance at the beginning of period	128,917	112,275	106,035	14.82%	5.89%
Provision charged to expenses, net of recoveries	44,485	45,532	29,237	-2.30%	55.74%
Charge-offs:					
Commercial	220	832	90	-73.57%	828.68%
Interim construction loans	261	-	-		
Lines of credit	1,462	1,909	520	-23.41%	266.84%
Residential mortgage loans	712	354	251	101.13%	40.96%
Commercial mortgage loans	4	1,842	120	-99.79%	1438.77%
Installment loans to individuals	46,663	41,815	34,888	11.59%	19.86%
Pledge loans and overdrafts	349	336	90	3.95%	273.83%
Leasing and factoring	267	-	140	100.00%	-100.00%
Total charge-offs	49,938	47,088	36,098	6.05%	30.44%
Recoveries	21,368	18,198	13,102	17.42%	38.89%
Allowance at the end of period	144,832	128,917	112,275	12.35%	14.82%
 Total Loans	 11,506,061	 10,769,010	 9,752,225		
Allowance for loans losses as a percentage of total loans	1.26%	1.20%	1.15%		
Net charge-off to loans	0.25%	0.27%	0.24%		
Ratio of income statement charges to loans	0.43%	0.44%	0.37%		

The level of total loan charge-offs in 2017 was U.S.\$ 49.94 million, or 0.43% of the total loan portfolio, a similar level to 2016, which was 0.44%.

Asset and Liability Management

The main objective of the integrated management of our assets and liabilities is to control our exposure to interest rate, market, liquidity and foreign exchange risks. Accordingly, we seek to maintain a structure of assets and liabilities that allows us (i) to optimize net interest income in the short, medium and long term, while minimizing income volatility within the constraints of general market conditions and (ii) to preserve the value of our net assets through the counterbalance of interest rates on assets and liabilities. Our ALCO monitors and decides on the management of liquidity and interest rate positions, as well as the overall market and credit risk faced by the balance sheet. The ALCO also implements and follows the policies, guidelines, and limits set by our Risk Committee and the board of directors, as well as the local regulations, principally on credit quality, duration, concentration, and market value volatility.

Maturity of Assets and Liabilities

An essential component of the Bank's asset and liabilities management is liquidity management. Our asset and liability management policy seeks to ensure that sufficient liquidity is available in order to honor potential deposit withdrawals, disburse previously approved credits, pay obligations to its creditors, and make the necessary investments for optimal functioning. Liquidity is monitored on a daily basis, measured based on the maturity profile of the Bank's assets and liabilities.

The following table lists the Bank's asset and liability maturity profiles as of December 31, 2017:

	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Assets				
Cash and deposits with banks	\$845,388,176	\$0	\$0	\$845,388,176
Securities and other financial assets	765,283,645	2,111,254,931	1,560,321,032	\$4,436,859,608
Loans, net	3,475,246,913	6,912,622,458	935,104,322	\$11,322,973,693
Other Assets	585,803,979	31,674	380,864,818	\$966,700,471
Total Assets	<u>\$5,671,722,713</u>	<u>\$9,023,909,063</u>	<u>\$2,876,290,172</u>	<u>\$17,571,921,948</u>
Liabilities				
Deposits	\$9,064,869,243	\$2,392,507,467	\$1,050,376	\$11,458,427,086
Securities sold under repurchase agreements	0	45,814,600	0	45,814,600
Borrowings an placements	519,259,126	1,444,900,242	914,885,840	2,879,045,208
Other liabilities	886,227,867	8,574,031	247,990,346	1,142,792,244
Total Liabilities	<u>\$10,470,356,236</u>	<u>\$3,891,796,340</u>	<u>\$1,163,926,562</u>	<u>\$15,526,079,138</u>
Equity	<u>\$0</u>	<u>\$0</u>	<u>\$2,045,842,810</u>	<u>\$2,045,842,810</u>
Net liquidity gap	(4,798,633,523)	5,132,112,723	(333,479,200)	0
Cumulative gap	(4,798,633,523)	333,479,200	0	0

In the opinion of management, there are highly liquid investments (rated AAA to BBB-) of U.S.\$ 2,869,561,949 in the investment portfolio and among the Bank's other financial assets, which can be converted into cash in a period of less than a week.

Interest Rate Sensitivity

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or repricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets or liabilities mature or re-price in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive interest rate gap denotes asset sensitivity and normally means that an increase in interest rates would have a positive effect on net interest revenue while a decrease in interest rates would have a negative effect on net interest revenue. A negative interest rate gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income.

The following table summarizes the rate adjustment position (Repricing) of the Bank's productive assets and financial liabilities as of December 31, 2017:

	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Interest earning Assets				
Deposits with banks	\$306,685,642	\$0	\$0	\$306,685,642
Securities and other financial assets	1,630,180,832	1,598,279,179	923,375,504	4,151,835,515
Loans	11,233,449,638	239,199,556	33,411,558	11,506,060,752
Total interest earning assets	<u>\$13,170,316,112</u>	<u>\$1,837,478,735</u>	<u>\$956,787,062</u>	<u>\$15,964,581,909</u>
Interest bearing liabilities				
Deposits	7,170,767,591	2,388,434,523	1,050,376	9,560,252,490
Securities sold under repurchase agreements	45,814,600	0	0	\$45,814,600
Borrowings an placements	1,796,261,956	175,840,571	\$906,942,681	\$2,879,045,208
Total interest bearing liabilities	<u>\$9,012,844,147</u>	<u>\$2,564,275,094</u>	<u>\$907,993,057</u>	<u>\$12,485,112,298</u>
Total interest sensitivity gap	<u>\$4,157,471,965</u>	<u>\$(726,796,359)</u>	<u>\$48,794,005</u>	<u>\$3,479,469,611</u>

As of December 31, 2017, the Bank had a positive gap position at one year, of U.S.\$ 4,157.47 million. Given the aforementioned interest rate position, the Bank's net interest income should tend to gradually increase in an

environment of rising interest rates and gradually decline in an environment of decreasing interest rates. Moreover, due to the interest rate nature and pricing characteristics of the Bank's assets and liabilities, the levels of interest rate risk the Bank is subject to are reduced. The main reason for the low level of interest rate risk is that the Bank's loan portfolio is composed mostly of variable or adjustable rate loans, approximately 98.07%, which can be adjusted at any time, at the Bank's discretion, based upon our cost of funds and market conditions.

Liquidity and Funding Sources

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

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

The Bank's Treasury Department is responsible for managing the Bank's liquidity and funding position, as well as implementing the Bank's investment 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 base of deposits, (iii) medium and long-term financing (representing 18.5% of total liabilities); and (iv) low levels of short-term institutional liabilities (0.9% of total liabilities), all of which gives us a very stable assets 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 26.12% as of December 31, 2017, equivalent to U.S.\$ 3,699.38 million in primary liquidity. This represents an increase of 7.0%, compared to U.S.\$ 3,457.17 million in 2016, with a liquidity ratio of 26.00%. The Bank's total primary liquidity has an average credit rating of AA-, of which 52.28% are AAA-rated investments. As of December 31, 2017, these liquid assets represented 32.54% of total deposits, and 21.05% of total assets.

In addition to its internal liquidity requirements, the Bank must comply with liquidity requirements established by the Superintendence of Banks of Panama, which require liquid assets of no less than 30% of selected deposits received, with maturities of less than 186 days, excluding subsidiaries and pledge deposits. For the calculation of this indicator, the Superintendence allows all loan installments and maturities classified as standard with a term of less than 186 days to be considered liquid assets, in addition to those used for the calculation of internal liquidity, for up to 30% of the total liquid assets used. As of December 31, 2017, the Bank maintained a regulatory liquidity of 38.81%, complying with the requirements established by law.

Over the last 5 years we have made use of various sources of financing, among which the following are notable:

- (i) In 2013, the Bank obtained 2- and 3-year financing for U.S.\$ 225 million through a syndicated loan involving 21 banks from 11 countries.
- (ii) In June 2014, the Bank issued bonds on the Swiss market for CHF 180 million, with a coupon of 1,625% and maturity date of June 18, 2018. To cover the foreign exchange risk, the Bank entered into a contract for the future purchase of Swiss francs for the same amount.
- (iii) In 2015, the Bank completed U.S.\$ 500 million, three-year term financing with a variable, 3-month LIBOR rate plus a margin, with payment of quarterly interest and principal at maturity. The loan was syndicated among commercial banks in the United States, Asia, the Middle East and Latin America.
- (iv) In 2016, the Bank obtained a medium-term financing for U.S.\$ 206.5 million, with a variable, 3-month LIBOR rate plus a margin, and payment of quarterly interest and principal at maturity. The loans were syndicated among commercial banks in the United States, Asia, the Middle East and Latin America.

The bank is a residual beneficiary of the liquid assets of Banco General DPR Funding Limited, and in mid-2016, financing and notes backed by future cash flows from transfers received (MT103) were executed for \$50 and \$200 million, respectively.

- (v) In August 2017, the Bank issued bonds on the international markets under Rule 144A/Regs S for U.S.\$ 550 million, with a coupon of 4.125% fixed at ten years and maturing on August 7, 2027. The bonds have semi-annual interest payments on the 7th of February and August of each year, beginning on February 7, 2018. The principal will be paid upon maturity.

In December 2017, the Bank agreed to medium-term financing for U.S.\$ 800 million, with a variable 3-month LIBOR rate plus a margin. The loans were syndicated among banks in the United States, Europe, Asia, the Middle East and Latin America. These funds were used for the early payment of U.S.\$ 500 million in financing agreed to in 2015, which would have matured on May 21, 2018.

The bank is a residual beneficiary of the liquid assets of Banco General DPR Funding Limited; during 2017, financing and notes backed by future cash flows from transfers received (MT103) were executed for \$50 and \$75 million, respectively.

Capital Resources

The cornerstone of the Bank's strategy and financial position is our strong capital position, which exceeds the local and international regulatory requirements contained in the Basel Accords, which has supported our investment-grade ratings from Fitch (BBB+) and Standard & Poor's (BBB, with a "Stand Alone Credit Profile" rating of BBB+ as of May 2017) since 1997, when we successfully issued Eurobonds for U.S.\$ 115 million, distributed both in the United States and in Europe.

As of December 31, 2017, our total regulatory capital amounted to U.S.\$ 2,201.42 million, or 238.84% of the minimum required total capital (Tier I and Tier II capital). The ratio of total capital to risk-weighted assets was 19.11%, comprised entirely of Tier I capital. Our shareholders equity to total assets ratio was 11.64%; with a dividend payout ratio averaging 56.20% of our net income over the last five years ended December 31, 2017. Based on the Bank's total risk-weighted assets of U.S.\$ 11,521.59 million as of December 31, 2017, in accordance with local regulatory requirements, we must maintain a total capital of 8%, or U.S.\$ 921.73 million.

Additionally, Agreement 4-2013, which entered into force in fiscal year 2014, requires banks to establish a dynamic reserve, defined as a general reserve to cover future unexpected losses in the loan portfolio classified as standard (the "Dynamic Reserve"), and also establishes that the Dynamic Reserve cannot be lower than 1.25%, nor higher than 2.50% of the risk-weighted, normal-classified loan portfolio.

The Dynamic Reserve is presented within legal reserves in the equity section of the Bank's financial statements. The Dynamic Reserve balance is considered part of the regulatory capital if the Bank's regulatory capital exceeds the minimum of 8% of risk-weighted assets. As of December 31, 2017, the Dynamic Reserve balance was U.S.\$ 150.7 million.

The Bank's securities brokerage, insurance and pension fund management subsidiaries are also subject to minimum capital requirements stipulated under Panamanian law. As of December 31, 2017, all subsidiaries are in compliance with all of the minimum capital requirements applicable under the regulations.

The following table presents information regarding the Bank's capital levels as of December 31, 2017, 2016 and 2015:

				Change (%)	
	2017	2016	2015	2016-2017	2015-2016
	(in thousands of U.S. dollars, unless otherwise indicated)				
Regulatory Primary Capital (Tier I)					
Common Shares	500,000	500,000	500,000	0.00%	0.00%
Legal reserve	180,080	178,381	158,232	0.95%	12.73%
Other items comprehensive income	35,797	32,287	-	10.87%	0.00%
Retained earnings	1,329,585	1,121,180	988,542	18.59%	13.42%
Less regulatory adjustments	61,725	64,343	66,960	(4.07%)	(3.91%)
Total Regulatory Primary Capital (Tier I)	1,983,736	1,767,505	1,579,813	12.23%	11.88%
Additional Primary Capital (Tier I)					
Subordinated debt - perpetual bonds	217,680	217,680	-	0.00%	0.00%
Total Additional Primary Capital	217,680	217,680	-	0.00%	0.00%
Total Capital	2,201,416	1,985,185	1,579,813	10.89%	25.66%
Secondary Capital (Tier II)					
Subordinated debt - perpetual bonds	-	-	217,680	0.00%	-100.00%
Total Secondary Capital	-	-	217,680	0.00%	-100.00%
Total Capital (Tier I + Tier II)	2,201,416	1,985,185	1,797,493	10.89%	10.44%
Risk-weighted assets	11,521,593	10,684,527	10,444,406	7.83%	2.30%
Capital ratios					
Total primary capital (Tier I)	19.11%	18.58%	15.13%		
Total capital (Tier I + Tier II)	19.11%	18.58%	17.21%		

The relative high levels of capitalization shown by the Bank reflect the commitment of the Board of Directors to maintaining a solid capital base, which supports its depositors and allows it to meet growth needs, as well as unexpected adverse events that may affect the Bank's operations.

III. FINANCIAL SUMMARY

The following tables present a summary of the Bank's consolidated financial information. The summary of the consolidated income statement, consolidated financial statement, and consolidated financial ratios derived from the figures in the audited consolidated financial statements as of December 31, 2017, 2016, 2015, 2014 and 2013.

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

	31-dic-17	31-dic-16	31-dic-15	31-dic-14	31-dic-13
	(in thousands of U.S. dollars)				
Total interest and commission income	891,651	808,397	725,809	661,834	593,941
Total interest expenses	(293,261)	(253,826)	(219,227)	(196,840)	(179,125)
Net interest and commission income	598,390	554,571	506,582	464,994	414,816
Total Provisions, net	(45,025)	(46,321)	(29,578)	(28,476)	(22,526)
Net interest and commission income after provisions	553,365	508,250	477,004	436,518	392,291
Other Income (expenses):					
Fees and other commissions	199,462	179,744	161,873	152,210	137,591
Insurance premiums, net	26,885	22,498	17,688	14,275	11,663
Gain (loss) on financial instruments, net	16,477	4,639	(4,081)	683	5,744
Other income, net	39,086	18,080	21,581	24,398	20,711
Commissions expenses and other expenses	(77,758)	(72,253)	(65,943)	(62,373)	(58,729)
Total other income, net	204,152	152,708	131,118	129,194	116,980
General and administrative expenses	(280,399)	(254,896)	(240,457)	(222,778)	(199,966)
Equity participation in associates	8,570	8,040	5,569	6,983	3,858
Net income before income tax	485,688	414,102	373,234	349,917	313,163
Income tax, net	(55,941)	(48,714)	(44,567)	(37,084)	(40,586)
Net income	429,747	365,388	328,666	312,833	272,577

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

	2017	2016	2015	2014	2013
	(in thousands of U.S. dollars, unless otherwise indicated)				
Assets					
Cash and deposits with banks	845,388	818,703	703,689	807,372	677,060
Securities and other financial assets	4,414,784	4,063,953	3,735,300	3,226,237	2,948,791
Loans	11,506,061	10,769,010	9,752,225	8,755,430	7,808,902
Allowance for possible loan losses	(144,832)	(128,917)	(112,275)	(106,035)	(100,015)
Unearned commissions	(38,255)	(35,511)	(32,091)	(29,616)	(26,065)
Investments in associates	22,076	18,591	17,394	16,416	12,854
Other assets	966,700	909,995	745,127	563,127	494,161
Total assets	17,571,922	16,415,824	14,809,367	13,232,931	11,815,687
Liabilities and shareholder's equity					
Local deposits	11,044,313	10,668,732	9,908,590	9,162,866	8,318,809
Foreign deposits	414,115	403,954	411,934	463,572	543,716
Total Deposits	11,458,427	11,072,686	10,320,524	9,626,438	8,862,525
Securities sold under repurchase agreements	45,815	273,300	238,006	175,561	59,146
Medium and long term borrowings and placements	2,661,365	1,950,624	1,595,932	1,029,552	786,604
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,142,792	1,069,348	816,157	649,203	488,634
Shareholder's equity	2,045,843	1,832,186	1,621,068	1,534,497	1,401,098
Total liabilities and shareholder's equity	17,571,922	16,415,824	14,809,367	13,232,931	11,815,687

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

	2017	2016	2015	2014	2013
Profitability and efficiency:					
Net interest margin ^{(1) (2)}	3.84%	3.85%	3.95%	4.07%	4.04%
Return on average assets ^{(1) (3)}	2.53%	2.33%	2.35%	2.51%	2.42%
Return on average equity ^{(1) (3)}	21.69%	20.57%	20.16%	20.72%	19.72%
Operating Efficiency ⁽⁴⁾	34.57%	35.63%	37.38%	37.06%	37.33%
Operating expenses / average total assets ^{(1) (3)}	1.65%	1.63%	1.72%	1.79%	1.77%
Other income / operating income ⁽⁵⁾	26.95%	23.10%	21.56%	22.84%	22.97%
Liquidity:					
Primary Liquidity ⁽⁶⁾ / total deposits and obligations	26.12%	26.00%	25.38%	26.06%	25.65%
Regulatory liquidity ⁽⁷⁾ / total deposits	38.81%	38.90%	37.86%	35.45%	39.30%
Loans, net / total client deposits	99.61%	96.62%	94.13%	91.30%	88.47%
Capital:					
Total capital ratio ⁽⁸⁾	19.11%	18.58%	17.21%	17.66%	18.27%
Tier 1 common equity ratio	17.22%	16.54%	15.13%	15.35%	15.44%
Total Tier 1 capital ratio ⁽⁹⁾	19.11%	18.58%	15.13%	15.35%	15.44%
Equity / assets	11.64%	11.16%	10.95%	11.60%	11.86%
Earnings retention ratio ⁽¹⁰⁾	48.81%	42.26%	39.15%	45.57%	43.21%
Asset Quality:					
Past due loans ⁽¹⁰⁾ / loans	1.03%	0.95%	0.85%	0.84%	0.54%
Non accrual loans ⁽¹¹⁾ / loans	0.78%	0.74%	0.72%	0.72%	0.42%
Allowance for possible loan losses / loans	1.26%	1.20%	1.15%	1.21%	1.28%
Allowance for possible loan losses / past due loans	122.6%	125.7%	135.2%	144.1%	237.9%
Allowance for possible loan losses / non accrual loans	161.4%	161.3%	159.7%	168.1%	302.9%
Charge-offs / loans ⁽¹⁾	0.43%	0.44%	0.37%	0.38%	0.30%

⁽¹⁾ Percentages are annualized

⁽²⁾ Net interest margin refers to net interest and commission 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 commission income and other income and equity participation in associates

⁽⁵⁾ Operating income is defined as the sum of net interest and commission 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 a percentage of assets based on risk weighted assets, in accordance with the requirements of the SBP

⁽⁹⁾ Tier 1 capital as a percentage of assets based on risk weighted assets, in accordance with the requirements of the SBP

⁽¹⁰⁾ Net income for the period minus dividends paid for the period divided by net income

⁽¹¹⁾ Past due loans: All loans past due 90+ days on interest / principal payments and all loans past due 30 days post maturity

⁽¹²⁾ Non accrual loans: All loans past due 90+ days on interest / principal payments, and residential mortgages past due 120+ days in accordance with SBP requirements