



Banco General

Management Discussion

Third Quarter 2018



General Information

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 Condensed Consolidated Interim Financial Information and supplementary financial information contained in this document. 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). Effective January 1, 2018, we adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments. Due to the application of IFRS 9 and our election not to restate prior period information, as permitted by the standard, the data of the financial statements are not comparable with previous years. Please refer to "Note 3 Summary of Significant Accounting Policies", and "Note 19 Adoption of IFRS 9 Financial Instruments" of the Condensed Consolidated Interim Financial Information as of September 2018, for more information.

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.

Recent Developments

On July 31, 2018, the subsidiary Finanzas Generales, S.A. through its subsidiary Vale General S.A., acquired 100% shares of company Pases Alimenticios, S.A.. As of September 30, 2018, Vale General, S.A. merged with the subsidiary Pases Alimenticios, S.A., all assets, liabilities, and equity accounts were incorporated into the statement of financial position of the subsidiary Vale General, S.A., as of that date.



ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of September 30, 2018, the Bank's gross loan portfolio increased 3.9% from U.S.\$11,405.6 million in September 2017 to U.S.\$11,846.1 million. During this period, the Bank's residential mortgage portfolio expanded 7.5% to U.S.\$4,264.8 million, the consumer loan portfolio grew 6.8% to U.S.\$1,746.8 million, and the corporate loan portfolio, comprised of both local and regional corporate clients, grew 0.9% to U.S.\$5,276.5 million, and other loans (comprised of pledge loans, overdrafts, and financial leases) slightly decreased from U.S.\$575.5 million to U.S.\$558.1 million. The Bank's local corporate loan portfolio increased by 1.4% or U.S.\$57.0 million to U.S.\$4,251.6 million, and the Bank's regional corporate loan portfolio decreased by 0.7% or U.S.\$7.4 million to U.S.\$1,024.9 million. The Bank's total investments portfolio, made up of the Bank's primary liquid assets (comprised of cash, bank deposits and investment-grade, liquid, fixed-income investments), and its local and regional corporate fixed income portfolio, expanded by 9.2% from U.S.\$4,303.5 million in September 2017 to U.S.\$4,698.0 million in September 2018.

Total Liabilities

The Bank's total client deposits grew by U.S.\$375.0 million or 3.4%, from the prior-year period, to U.S.\$11,532.0 million. Client time deposits, the Bank's main source of funding, increased U.S.\$242.0 million to U.S.\$5,704.5 million, representing 49.5% of total client deposits as of September 30, 2018, with an average remaining life of 15.9 months, and 68.5% having original maturities of greater than one year. Savings accounts grew by U.S.\$42.4 million to U.S.\$3,415.5 million or 29.6% of total client deposits, while demand deposits increased U.S.\$90.6 million to U.S.\$2,412.0 million as of September 30, 2018.

In keeping with the Bank's financial policies, we have been able to develop and access medium- and long-term funding alternatives. As of September 30, 2018, the Bank's total medium- and long- term borrowings and placements grew by U.S.\$328.4 million, or 12.2%, to U.S.\$3,016.6 million as compared to the same period in 2017.

During the last twelve months we have accessed various financing sources, among which the following are notable: (i) a U.S.\$800 million medium-term syndicated loan, whose funds were used to cancel in advance the financing of U.S.\$500 million agreed in 2015, due in May 2018, and (ii) in June 2018, the Bank increased the previously mentioned syndicated loan by U.S.\$300 million, among commercial banks in the United States, Europe, Asia, the Middle East and Latin America.

Equity

As of September 30, 2018, the Bank's equity grew by 6.6%, or U.S.\$134.8 million, from U.S.\$2,053.9 million in 2017 to U.S.\$2,188.7 million in 2018. This increase was driven by retained earnings of U.S.\$132.7 million, with the Bank retaining 55.20% of its net profits in the period. The Bank's solid capital base allowed it to absorb a 4.6% asset growth, while maintaining healthy capitalization levels, with an equity to total assets ratio of 12.1% as of September 30, 2018, compared with 11.9% as of September 30, 2017.

Liquidity and Funding

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 it to maintain interest rate, market, maturity and liquidity, and foreign exchange exposures within the Bank's established limits while maximizing the return on shareholders' equity.

The Bank's asset and liability management policy seeks to ensure that 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 working capital needs.



The 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 policy requires 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 base of deposits, (iii) medium- and long-term financing (representing 19.0% of total liabilities), and (iv) low levels of short-term institutional liabilities (0.6% of total liabilities), all of which gives us a very 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 26.1% as of September 30, 2018, equivalent to U.S.\$3,767.6 million in primary liquidity. This represents an increase of 5.4%, compared to U.S.\$3,574.9 million in 2017, with a liquidity ratio of 25.9%. The Bank's total primary liquidity has an average credit rating of AA-, of which 52.3% are AAA rated investments. As of September 30, 2018, these liquid assets represented 32.7% of total deposits, and 20.9% 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 (SBP), 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 SBP 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 September 30, 2018, the Bank maintained a regulatory liquidity of 38.6%, complying with the requirements established by law.

Loan Portfolio

The Bank's loan portfolio is well-diversified across clients, products and borrowers segments. As of September 30, 2018, total loans amounted to U.S.\$11,846.1 million, of which 44.5% was comprised of corporate loans (35.9% local corporate loans and 8.7% foreign corporate loans), 50.7% of retail loans (36.0% residential mortgages and 14.7% consumer loans), and 4.8% in other loans (comprised of pledge 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 September 30, 2018, 79.7% of all loans were secured by properties or deposits in the Bank; 73.0% of all loans were secured by first lien mortgages on land and improvements (residential mortgages, commercial mortgages and interim construction loans), and 6.7% 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 0.42% of total loans annually in the two years ended December 31, 2017.

As of September 30, 2018, 88.3% of the Bank's loan portfolio was placed with local clients, who are borrowers (individuals and corporations) established in Panama, and 11.7% was placed with regional clients based in Mexico, Colombia, Guatemala, El Salvador and Peru, and with our universal banking subsidiary in Costa Rica, Banco General (Costa Rica), S.A., which has 11 branches. As of September 30, 2018, 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 by type of loan as of September 30, 2018 and 2017, and as of December 31, 2017, 2016, and 2015:

	As of September 30			As of December 31		
	2018	2017	% Change	2017	2016	2015
	(in thousands of U.S. dollars, except for percentages)					
Local Loans						
Commercial	384,110	350,978	9.4%	371,838	300,783	272,110
Interim construction loans	801,732	840,311	-4.6%	807,678	780,855	615,271
Lines of credit	1,206,603	1,242,421	-2.9%	1,301,407	1,233,583	1,281,098
Residential mortgage loans	4,013,014	3,713,591	8.1%	3,798,892	3,405,347	3,043,017
Commercial mortgage loans	1,859,114	1,760,842	5.6%	1,789,765	1,644,394	1,502,432
Installment loans to individuals	1,729,594	1,618,778	6.8%	1,652,578	1,513,916	1,342,808
Pledge loans and overdrafts	360,751	353,620	2.0%	333,660	313,490	298,504
Leasing and factoring	109,190	122,521	-10.9%	120,391	124,878	111,720
Total Local Loans	10,464,109	10,003,062	4.6%	10,176,209	9,317,246	8,466,960
Foreign Loans						
Commercial	366,865	457,497	-19.8%	382,626	518,113	441,503
Interim construction loans	3,100	0	100.0%	0	0	47,841
Lines of credit	390,414	307,602	26.9%	317,635	307,604	266,066
Residential mortgage loans	251,807	254,142	-0.9%	254,472	251,639	229,542
Commercial mortgage loans	264,527	267,249	-1.0%	259,842	276,622	184,660
Installment loans to individuals	17,160	16,747	2.5%	17,034	15,367	11,803
Pledge loans and overdrafts	88,136	99,335	-11.3%	98,242	82,419	103,850
Total Foreign Loans	1,382,010	1,402,572	-1.5%	1,329,851	1,451,764	1,285,264
Total loans	11,846,119	11,405,634	3.9%	11,506,061	10,769,010	9,752,225
Allowance for loan losses	153,711	140,936	9.1%	144,832	128,917	112,275
Unearned discount	40,383	38,089	6.0%	38,255	35,511	32,091
Total loans, net	11,652,025	11,226,609	3.8%	11,322,974	10,604,582	9,607,858

As of September 30, 2018, the Bank's loan portfolio maintained low levels of non-accrual and, past due loans, with levels of 0.94% (September 2017: 0.88%) and 1.29% (September 2017: 1.08%), respectively, of the total loan portfolio. As of September 30, 2018, the Bank's loan loss reserve coverage of past due loans was 100.25% (September 2017: 114.58%), and the coverage of non-accrual loans was 138.05% (September 2017: 140.74%); charge-offs amounted to U.S.\$40.1 million, or 0.45% (September 2017: 0.43%) of total loans.

The Bank's charge-offs, which remained stable as compared to the prior-year period, stood at 0.53% of total loans in the quarter, as a result of 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 loans, allowing for 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) principal and interest payments past due level has reached the limits established by the SBP (91 or more days of principal and/or interest payments past due for all loans, except for mortgages which cease accruing



interest after 120 days past due, and overdrafts after 30 days past due); or (ii) 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.

The following table presents our non-accrual loans, according to loan type, as of September 30, 2018 and 2017, and as of December 31, 2017, 2016, and 2015:

	As of September 30		As of December 31		
	2018	2017	2017	2016	2015
(in thousands of U.S. dollars, except for percentages)					
Non accrual loans					
Commercial	170	9,251	395	5,608	2,135
Interim construction loans	6,176	5,209	7,238	6,170	6,540
Lines of credit	6,014	8,527	6,525	4,389	7,189
Residential mortgage loans	55,922	39,484	41,875	33,628	30,078
Commercial mortgage loans	12,470	10,456	11,106	9,427	6,404
Installment loans to individuals	28,833	25,293	20,811	19,147	16,434
Pledge loans and overdrafts	830	992	587	641	1,277
Leasing and factoring	928	926	1,193	935	231
Total Non accrual loans	111,343	100,137	89,729	79,947	70,289
Total Loans	11,846,119	11,405,634	11,506,061	10,769,010	9,752,225
Allowance for loans losses	153,711	140,936	144,832	128,917	112,275
Non accrual loans as a percentage of total loans	0.94%	0.88%	0.78%	0.74%	0.72%
Allowance for loans losses as a percentage of non accrual loans	138.05%	140.74%	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, over due within 31-90 days, and past due more than 90 days) and (ii) the principal payment status of a loan at final maturity as: (a) current, or (b) past due, if not paid after 30 days of the final maturity of the loan.

The following table presents past due loans, according to loan type, as of September 30, 2018 and 2017, and as of December 31, 2017, 2016, and 2015:

	As of September 30		As of December 31		
	2018	2017	2017	2016	2015
(in thousands of U.S. dollars, except for percentages)					
Past due loans					
Commercial	180	9,289	385	5,608	1,612
Interim construction loans	6,176	5,209	7,238	6,170	6,540
Lines of credit	9,735	8,527	6,486	4,489	7,124
Residential mortgage loans	94,572	61,882	69,565	56,322	43,667
Commercial mortgage loans	11,926	10,456	11,173	9,347	5,834
Installment loans to individuals	28,455	25,145	20,711	19,110	16,289
Pledge loans and overdrafts	1,357	1,571	1,344	1,074	1,980
Leasing and factoring	928	926	1,193	444	19
Total past due loans	153,329	123,005	118,096	102,564	83,064
Total Loans	11,846,119	11,405,634	11,506,061	10,769,010	9,752,225
Allowance for loan losses	153,711	140,936	144,832	128,917	112,275
Past due loans to total loans	1.29%	1.08%	1.03%	0.95%	0.85%
Allowance for loans losses as a percentage of Past due loans	100.25%	114.58%	122.64%	125.70%	135.17%



Allowance for Loan Losses

We have adopted IFRS 9, Financial Instruments with effect as of January 1, 2018. IFRS 9 replaced the "incurred loss" model of IAS 39 with an "expected credit loss" (ECL) model. Please refer to "Note 3h Summary of Significant Accounting Policies - Impairment of Financial Instruments" of the "Consolidated Financial Statements" as of September 2018 for more information on the adoption of IFRS 9.

Provisions for loan losses are accounted for as charges on income and added to the allowance for loan losses to maintain reserves at the required level. Any subsequent charge-offs are applied against this allowance.

The Bank's reserve levels have historically provided adequate coverage of non-accrual loans, amounting to 138.05% as of September 30, 2018. Additionally, the Bank's allowance for loan losses exceeds the requirements established by the SBP. As of September 30, 2018, the Bank's loan loss provision amounted to 1.30% of total loans.

The following table presents the breakdown of the allowance for loan losses as of September 30, 2018 and 2017, and as of December 31 2017, 2016, and 2015:

	As of September 30			As of December 31		
	2018	2017	% Change	2017	2016	2015
Allowance at the beginning of period	144,832	128,917	12.3%	128,917	112,275	106,035
Change due to implementation of IFRS 9	413	0	100.0%	0	0	0
Provision charged to expenses, net of recoveries	31,748	32,567	-2.5%	44,485	45,532	29,237
Charge-offs:						
Commercial	171	189	-9.6%	220	832	90
Interim construction loans	-	-	0.0%	261	0	0
Lines of credit	162	407	-60.1%	1,462	1,909	520
Residential mortgage loans	578	504	14.7%	712	354	251
Commercial mortgage loans	397	-	0.0%	4	1,842	120
Installment loans to individuals	38,376	35,360	8.5%	46,663	41,815	34,888
Auto Loans	1,405	1,061	32.4%	1,543	1,128	1,139
Personal Loans	25,239	25,263	-0.1%	32,525	30,942	25,977
Credit Cards	11,732	9,036	29.8%	12,595	9,745	7,771
Pledge loans and overdrafts	315	309	1.9%	349	336	90
Leasing and factoring	114	20	466.0%	267	0	140
Total charge-offs	40,114	36,789	9.0%	49,938	47,088	36,098
Recoveries	16,832	16,240	3.6%	21,368	18,198	13,102
Allowance at the end of period	153,711	140,936	9.1%	144,832	128,917	112,275
Total Loans	11,846,119	11,405,634		11,506,061	10,769,010	9,752,225
Allowance for loans losses as a percentage of total loans	1.30%	1.24%		1.26%	1.20%	1.15%
Net charge-off to total loans ⁽¹⁾	0.26%	0.24%		0.25%	0.27%	0.24%
Charge-offs to total loans ⁽¹⁾	0.45%	0.43%		0.43%	0.44%	0.37%

⁽¹⁾ Percentages for September 2017 and 2018 are annualized

Capital Resources

The cornerstone of our overall financial strategy is our strong capital position, which exceeds local and international regulatory requirements contained in the Basel Accords, that has supported our investment grade ratings, which we have held since 1997, from Fitch (BBB+/Stable) and Standard & Poor's (BBB/Positive, with a Stand Alone Credit Profile Rating of BBB+ as of April 2018).

As of September 30, 2018, our total regulatory capital amounted to U.S.\$2,345.4 million, or 247.8% of the total minimum capital required (Tier I and Tier II capital). The ratio of total capital to risk-weighted assets was 19.83%, comprised entirely of Tier I capital. Our shareholder's equity to total assets ratio was 12.13%, with a dividend



payout ratio averaging 56.20% of our net income in the five years ended December 31, 2017. Based on the Bank's total risk weighted assets of U.S.\$11,829.7 million as of September 30, 2018, in accordance with local regulatory requirements, we must maintain a total capital of 8.0%, or U.S.\$946.4 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 loan portfolio classified as standard.

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 8.0% of risk weighted assets to capital. As of September 30, 2018, the Dynamic Reserve balance was U.S.\$150.7 million.

The Bank's securities brokerage, insurance and other pension fund management subsidiaries are also subject to minimum capital requirements stipulated under Panamanian law. As of September 30, 2018, the Bank's subsidiaries are in compliance with all of the minimum capital requirements applicable under the regulations.

The following table sets forth information regarding the Bank's capital levels as of September 30, 2018 and 2017, and as of December 31, 2017, 2016, and 2015:

	As of September 30		As of December 31		
	2018	2017	2017	2016	2015
	(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	181,469	179,622	180,080	178,381	158,232
Other items comprehensive income	13,234	48,185	35,797	32,287	0
Retained earnings	1,493,462	1,325,774	1,329,585	1,121,180	988,542
Less: Regulatory adjustments	60,493	62,795	61,725	64,343	66,960
Total Regulatory Primary Capital (Tier I)	2,127,672	1,990,786	1,983,736	1,767,505	1,579,813
Additional Primary Capital (Tier I)					
Subordinated debt - perpetual bonds	217,680	217,680	217,680	217,680	0
Total Additional Primary Capital	217,680	217,680	217,680	217,680	0
Total Primary Capital	2,345,352	2,208,466	2,201,416	1,985,185	1,579,813
Secondary Capital (Tier II)					
Subordinated debt - perpetual bonds	0	0	0	0	217,680
Total Secondary Capital	0	0	0	0	217,680
Total Capital (Tier I + Tier II)	2,345,352	2,208,466	2,201,416	1,985,185	1,797,493
Risk-weighted assets	11,829,669	11,438,217	11,521,593	10,684,527	10,444,406
Capital ratios					
Total primary capital (Tier I)	19.83%	19.31%	19.11%	18.58%	15.13%
Total capital (Tier I + Tier II)	19.83%	19.31%	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.



Results of Operations for the three months ended September 30, 2018 and 2017

The following table presents the Bank's consolidated results of operations for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
(in thousands of U.S. dollars, except for percentages)						
Net interest and commission income	164,750	151,210	9.0%	482,519	443,444	8.8%
Total Provisions, net ⁽¹⁾	(9,695)	(11,193)	-13.4%	(32,343)	(32,776)	-1.3%
Other Income (expenses):						
Fees and other commissions	52,772	50,661	4.2%	155,869	146,458	6.4%
Insurance premiums, net	7,583	6,783	11.8%	21,821	19,694	10.8%
Loss (gain) on financial instruments, net	(1,026)	10,906	-109.4%	(9,172)	21,735	-142.2%
Other income, net ⁽²⁾	6,367	23,451	-72.8%	16,633	33,148	-49.8%
Commissions expenses and other expenses	(21,089)	(19,328)	9.1%	(62,726)	(57,469)	9.1%
Total other income, net	44,606	72,474	-38.5%	122,425	163,566	-25.2%
General and administrative expenses	74,144	72,789	1.9%	219,232	209,463	4.7%
Equity participation in associates	2,510	2,274	10.4%	7,263	6,279	15.7%
Net income before income tax	128,027	141,976	-9.8%	360,632	371,050	-2.8%
Income tax, net	15,835	14,618	8.3%	43,308	41,674	3.9%
Net income	112,192	127,358	-11.9%	317,324	329,375	-3.7%

(1) Total provisions, net includes: provision for loan losses, provision for securities impairment and provision (reversal) for foreclosed assets

(2) Operating Results for the three months ended September 2017, benefited from a non-recurring gain of U.S.\$18.4 million from property sales

For the three months ended September 30, 2018, the Bank's net income was U.S.\$112.2 million, which represents a decrease of U.S.\$15.2 million, or 11.9% below net income of U.S.\$127.4 million in the same period in 2017. Operating results for the third quarter of 2017 benefited from a non-recurring gain of US \$ 18.4 million from property sales. ROAE was 20.64%, compared to 25.13% in 2017, and the ROAA was 2.49%, as compared to 2.98% for the same period of 2017. These results in net income, ROAE and ROAA were mainly the product of the following factors:

Net Interest and Commission Income

The following table presents the Bank's net interest and commission income and related average rate and margin information for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
(in thousands of U.S. dollars, except for percentages)						
Total interest and commission income	255,630	227,397	12.4%	740,840	657,952	12.6%
Total interest expenses	90,880	76,187	19.3%	258,321	214,508	20.4%
Net interest and commission income	164,750	151,210	9.0%	482,519	443,444	8.8%
Average interest-earning assets	16,543,944	15,660,750	5.6%	16,352,826	15,428,738	6.0%
Average interest-bearing liabilities	12,238,688	11,467,296	6.7%	12,107,400	11,236,764	7.7%
Net interest margin ⁽¹⁾	3.98%	3.86%		3.93%	3.83%	
Average interest rate earned ⁽²⁾	6.18%	5.81%		6.04%	5.69%	
Average interest rate paid ⁽³⁾	2.97%	2.66%		2.84%	2.55%	

(1) Net interest and commission income (before provisions for loan losses) as a percentage of average total interest-earning assets for the indicated period. (Percentages for the three and nine months ended are annualized)

(2) Total interest and commission income divided by average interest-earning assets. (Percentages for the three and nine months ended are annualized)

(3) Total interest expense divided by average interest-bearing liabilities. (Percentages for the three and nine months ended are annualized)



The 9.0% increase in net interest and commission income for the three months ended September 30, 2018 as compared to the same period in 2017 was primarily a result of: (i) a 5.6% increase in average interest-earning assets, which in turn was mainly due to an 5.2% increase in the average net loan portfolio, and (ii) an 3.14% increase in the Bank's net interest margin from 3.86% in 2017 to 3.98% in 2018.

The increase in the Bank's net interest margin in the three months ended September 30, 2018 as compared to the same period in 2017 was primarily as a result of an increase in the average interest rate earned on interest-earning assets of 37 basis points, from 5.81% in 2017 to 6.18% in 2018, which was driven by: (i) an increase in the rate earned on our loan portfolio which increased 31 basis points from 6.96% in 2017 to 7.27% in 2018, and (ii) an increase in the interest rate earned in securities and other financial assets, which increased from 3.09% to 3.61%. This increase was offset by a 31 basis point increase in the average interest rate paid on average interest bearing liabilities, from 2.66% to 2.97%, which in turn was driven by: (i) a 60 basis point increase in the average rate paid on medium- and long-term borrowings and placements which increased from 3.58% in 2017 to 4.18% in 2018, as a result of the increase in LIBOR rates, and (ii) an increase in the cost of time deposits, which increased from 3.48% to 3.72%.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
(in thousands of U.S. dollars, except for percentages)						
Total interest and commission income	255,630	227,397	12.4%	740,840	657,952	12.6%
Average interest - earning assets:						
Deposits with banks	235,728	249,411	-5.5%	244,785	261,610	-6.4%
Loans, net	11,618,064	11,043,458	5.2%	11,509,108	10,861,817	6.0%
Securities and other financial assets	4,690,152	4,367,881	7.4%	4,598,933	4,305,310	6.8%
Total	16,543,944	15,660,750	5.6%	16,352,826	15,428,738	6.0%
Average nominal rates earned:						
Deposits with banks ⁽¹⁾	3.41%	2.56%		3.23%	2.27%	
Loans, net ⁽¹⁾	7.27%	6.96%		7.10%	6.81%	
Securities and other financial assets ⁽¹⁾	3.61%	3.09%		3.54%	3.05%	
Total ⁽¹⁾	6.18%	5.81%		6.04%	5.69%	

(1) Percentages for the three and nine months ended September 2017 and 2018 are annualized

The Bank's interest and commission income is derived principally from a diversified loan portfolio, which represented 70.2% of the Bank's total average earning assets, generating 82.7% of total interest and commission income in the quarter, which increased to U.S.\$255.6 million, from U.S.\$227.4 million in 2017.

The 12.4% increase in total interest and commission income for the three months ended September 30, 2018 as compared to the same period in 2017, resulted from: (i) a 5.6% increase in average interest-earning assets as compared to the same period in 2017, and (ii) a 37 basis points increase in the average rate earned, which increased from 5.81% in 2017 to 6.18% in 2018.

The increase in average interest-earning assets was primarily driven by a 5.2% increase in average net loans, which in turn was mainly due to: (i) a 6.8% increase in consumer loans (credit cards increased by 14.8%, and personal loans increased by 7.0%), and (ii) sustained growth in the residential mortgage portfolio (increased by 7.5%).

The increase in the average rate earned on interest earning assets was primarily due to: (i) higher rates on loans, net, which increased from 6.96% in 2017 to 7.27% in 2018, and (ii) an increase in the interest rate earned on securities and other financial assets, which increased from 3.09% in 2017 to 3.61% in 2018.



The following table presents the effect of changes in the Bank's interest and commission income as a result of changes in: (i) the average volume of interest earning assets, and (ii) the average nominal interest rate earned during the three months ended September 30, 2018 and 2017:

	Increase (decrease)
	Third Quarter 2017/2018
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - earning assets	12,824
Due to changes in average nominal interest rates earned	15,409
Net change	28,233

The increase of U.S.\$883.2 million in average interest earning assets for the three months ended September 30, 2018, resulted in an increase of U.S.\$12.8 million in interest and commission income for the period, while the increase in the average rate earned on interest-earning assets, from 5.81% to 6.18%, resulted in an increase of U.S.\$15.4 million in interest and commission income as compared to the same period in 2017.

Total Interest Expenses

The following table presents information as to the Bank's total interest expenses for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
	(in thousands of U.S. dollars, except for percentages)					
Total interest expense	90,880	76,187	19.3%	258,321	214,508	20.4%
Average interest - bearing liabilities:						
Savings deposits	3,397,200	3,344,333	1.6%	3,396,808	3,308,283	2.7%
Time deposits - clients	5,674,264	5,384,797	5.4%	5,605,718	5,298,192	5.8%
Time deposits - interbank	88,207	157,647	-44.0%	97,868	161,801	-39.5%
Borrowings and placements	3,079,017	2,580,520	19.3%	3,007,006	2,468,488	21.8%
Total	12,238,688	11,467,296	6.7%	12,107,400	11,236,764	7.7%
Average nominal rates paid:						
Savings deposits ⁽¹⁾	0.66%	0.71%		0.65%	0.71%	
Time deposits - clients ⁽¹⁾	3.72%	3.48%		3.61%	3.41%	
Time deposits - interbank ⁽¹⁾	1.17%	0.82%		1.14%	0.78%	
Borrowings and placements ⁽¹⁾	4.18%	3.58%		3.95%	3.27%	
Total ⁽¹⁾	2.97%	2.66%		2.84%	2.55%	

(1) Percentages for the three and nine months ended September 2017 and 2018 are annualized

The Bank's total interest expenses is mainly attributable to interest paid on customer deposits, which represented 64.3% of the total interest expense in the three months ending September 30, 2018, as compared to 69.2% in the same period in 2017.

The 19.3% increase in total interest expenses in the three months ended September 30, 2018 as compared to the same period in 2017, was mainly a result of: (i) a 6.7% increase in average interest-bearing liabilities compared to the same period in 2017, and (ii) a 31 basis point, or 11.8% increase in the average rate paid which increased from 2.66% in 2017 to 2.97% in 2018.

The increase in average interest-bearing liabilities was mainly due to: (i) a 19.3% increase in average medium- and long-term borrowings and placements to complement deposit growth and fund loan growth, and (ii) a 5.4% increase in average client time deposits, the Bank's principal source of funding.



The increase in the average rate of interest paid on interest-bearing liabilities was mainly due to: (i) the increase in the cost of borrowings and placements of 60 basis points, from 3.58% as of September 30, 2017 to 4.18% in the same period in 2018, as a result of the increase in LIBOR rates, and (ii) an increase in the cost of client time deposits, which increased from 3.48% in 2017 to 3.72% in 2018.

The following table sets forth the effect of changes in the Bank's total interest expense as a result of changes in: (i) the average volume of interest-bearing liabilities, and (ii) the average nominal interest rates paid during the three months ended September 30, 2017 and 2018:

	Increase (decrease) Third Quarter 2017/2018
	(in thousands of U.S. dollars)
Due to changes in average volume of interest - bearing liabilities	5,125
Due to changes in average nominal interest rates paid	9,568
Net change	14,693

The increase of U.S.\$771.4 million in average interest-bearing liabilities for the three months ended September 30, 2018, resulted in an increase of U.S.\$5.1 million in interest expense for the period, while the increase in the average rate paid on interest-bearing liabilities, from 2.66% to 2.97%, resulted in an increase of U.S.\$9.6 million in interest expense as compared to the same period in 2017.

Provision for Loan Losses

The following table presents the Bank's allowance for loan losses, net of charge-offs and recoveries included in the Bank's results of operations for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
	(in thousands of U.S. dollars, except for percentages)					
Balance at beginning of period	152,880	137,853	10.9%	144,832	128,917	12.3%
Changes due to implementation of IFRS 9	0	0	0.0%	413	0	100.0%
Provisions charged to expenses, net of recoveries	10,031	10,967	-8.5%	31,748	32,567	-2.5%
Recovery of charge-offs	6,351	5,962	6.5%	16,832	16,240	3.6%
Charge-offs	(15,550)	(13,846)	12.3%	(40,114)	(36,789)	9.0%
Balance at end of period	153,711	140,936	9.1%	153,711	140,936	9.1%
Provisions to average loans	0.08%	0.10%		0.27%	0.30%	
Charge-offs to average total loans ⁽¹⁾	0.53%	0.49%		0.46%	0.44%	
Allowance to total loans	1.30%	1.24%		1.30%	1.24%	

(1) Percentages for the three and nine months ended September 2017 and 2018 are annualized

The provision for loan losses of U.S.\$10.0 million, or 0.08% of loans, was slightly higher than the prior year as a result of a 3.9% growth in the loan portfolio and higher charge offs in credit card portfolio. The provision of U.S.\$10.0 million covered net charge-offs of U.S.\$9.2 million, allowing the reserve to grow by 0.54% in the quarter, increasing as a percentage of loans from 1.24% in the third quarter 2017 to 1.30% in the third quarter of 2018.

As of September 30, 2018, the Bank's allowance for loan losses amounted to U.S.\$153.7 million, representing a coverage of 138.05% of loans on non-accrual status, and a coverage of 100.25% 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 information as to the Bank's fees, commissions and other income, net for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
(in thousands of U.S. dollars, except for percentages)						
Fees and commission income, net	31,682	31,333	1.1%	93,143	88,989	4.7%
Insurance premiums, net	7,583	6,783	11.8%	21,821	19,694	10.8%
(Loss) gain on financial instruments, net	(1,026)	10,906	-109.4%	(9,172)	21,735	-142.2%
Other income, net	6,367	23,451	-72.8%	16,633	33,148	-49.8%
Total other income, net	44,606	72,474	-38.5%	122,425	163,566	-25.2%

Total Other Income, Net

The 38.5% decrease in total other income, net for the three months ended September 30, 2018, primarily reflects the following factors:

Fees and Commission Income, Net

The 1.1% increase in fees and commission income, net of commission expense for the three months ended September 30, 2018 was mainly due to: (i) an 8.7% increase in commission and fees related to credit and debit card operations, and (ii) an 8.1% increase in mutual fund and pension fund income. The increase in income was partially offset by a 9.1% increase in commission and other expenses, mainly attributable to a 10.3% increase in credit and debit card commissions.

Insurance Premiums, Net

Net insurance premiums, increased by 11.8%, in the three months ended September 30, 2018, as compared to the same period in 2017, primarily a result of higher premiums on life insurance coverage from the Bank's growing residential mortgage, credit cards, and personal loan portfolios, as compared to the same period in 2017.

(Loss) gain on Financial Instruments, Net

The loss on financial instruments, net, of U.S.\$1.0 million for the three months ended September 30, 2018, as compared to a gain of U.S.\$10.9 million in 2017, was principally due to the decrease in the market values of fixed income instruments as a result of the increase in U.S. interest rates.

Other Income, Net

Other income, net decreased by 72.8% or U.S.\$17.1 million in the three months ended September 30, 2018, as compared to the same period in 2017, because the third quarter of 2017 results benefited from a non-recurring gain of US \$ 18.4 million from property sales related to the transfer to the bank's new 32 thousand square meter Operations Center.



General and Administrative Expenses

The following table presents the Bank's principal general and administrative expenses for the three and nine months ended September 30, 2018 and 2017:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
(in thousands of U.S. dollars, except for percentages)						
Salaries and other employee expenses	43,846	42,088	4.2%	129,036	123,424	4.5%
Depreciation and amortization	6,290	6,861	-8.3%	18,065	16,009	12.8%
Premises and equipment expenses	6,045	5,986	1.0%	19,252	18,618	3.4%
Other expenses	17,963	17,854	0.6%	52,879	51,412	2.9%
Total	74,144	72,789	1.9%	219,232	209,463	4.7%

The 1.9% increase in general and administrative expenses primarily reflects the growth of the Bank's business, with an increase of 3.9% in the loan portfolio and 4.5% in deposits and financings, as well as the following:

Salaries and Other Employee Expenses

Salaries and other employee expenses represented 59.1% of total general and administrative expenses for the three months ended September 30, 2018 as compared to 57.8% for the same period in 2017. The 4.2% increase in salaries and other employee expenses was primarily attributable to the combination of a moderate annual increase in salaries which are typically in the range of 3% to 5%, and a 2.2% increase in the number of employees.

Depreciation and Amortization Expense

Total depreciation and amortization expense of U.S.\$6.3 million decreased by U.S.\$0.6 million, or 8.3% for the three months ended September 30, 2018, primarily due to a US\$1.1 million extraordinary charge for the termination of an IT initiative and moving expenses amounting to U.S.\$0.9 million, caused by the move of operations to our new operating center registered during the third quarter of 2017. The above decrease was offset by a U.S.\$1.4 million increase in depreciation and amortization associated with our Operating Center, which was inaugurated in 2017.

Premises and Equipment Expenses

Premises and equipment expenses for the three months ended September 30, 2018 are in line with the same period in 2017.

Other Expenses

Other expenses for the three months ended September 30, 2018 are in line with the same period in 2017.

Taxes

Income tax, net amounted to U.S.\$15.8 million in the three months ended September 30, 2018 as compared to U.S.\$14.6 million in the prior-year period, as a result of a similar taxable income level.

Operating Efficiency

The Bank's operating efficiency was 35.00% for the three months ended September 30, 2018, as compared to 32.21% in the same period in 2017, principally as a result of lower revenues in 2018 caused by a loss on financial instruments amounting to U.S.\$1.0 million compared to a gain of U.S.\$10.9 million in 2017, and the non-recurring gain of U.S.\$18.4 million on property sold in the same quarter of 2017. The Bank's general and



administrative expenses, as a percentage of average assets improved slightly to 1.64% in the quarter, as compared to 1.70% in the same period in 2017.



Annex 1

BANCO GENERAL, S. A. AND SUBSIDIARIES **Consolidated Income Statement** **For the Quarter Ended September 30, 2018**

	30-sep-18	30-jun-18	31-mar-18	31-dec-17	30-sep-17
	(in thousands of U.S. dollars)				
Total interest and commission income	255,630	247,445	237,765	233,699	227,397
Total interest expenses	(90,880)	(86,308)	(81,134)	(78,753)	(76,187)
Net interest and commission income	164,750	161,137	156,632	154,946	151,210
Total Provisions, net	(9,695)	(10,047)	(12,600)	(12,249)	(11,193)
Net interest and commission income after provisions	155,055	151,090	144,031	142,697	140,017
Other Income (expenses):					
Fees and other commissions	52,772	51,612	51,486	53,004	50,661
Insurance premiums, net	7,583	7,219	7,018	7,191	6,783
Gain (loss) on financial instruments, net	(1,026)	(5,531)	(2,615)	(5,258)	10,906
Other income, net ⁽¹⁾	6,367	5,273	4,993	5,938	23,451
Commissions expenses and other expenses	(21,089)	(20,809)	(20,828)	(20,289)	(19,328)
Total other income, net	44,606	37,763	40,055	40,586	72,474
General and administrative expenses	(74,144)	(72,979)	(72,109)	(70,936)	(72,789)
Equity participation in associates	2,510	2,453	2,300	2,291	2,274
Net income before income tax	128,027	118,327	114,278	114,638	141,976
Income tax, net	(15,835)	(14,321)	(13,152)	(14,267)	(14,618)
Net income	112,192	104,006	101,126	100,371	127,358

⁽¹⁾ Operating Results for the three months ended September 2017, benefited from a non-recurring gain of U.S.\$18.4 million from property sales



Annex 2

BANCO GENERAL, S.A. AND SUBSIDIARIES **Consolidated Balance Sheet** **For the Period Ended September 30, 2018**

	30-sep-18	30-jun-18	31-mar-18	31-dec-18	30-sep-17
	(in thousands of U.S. dollars, unless otherwise indicated)				
Assets					
Cash and deposits with banks	648,250	770,284	728,451	845,388	782,119
Securities and other financial assets	4,672,062	4,700,895	4,517,009	4,414,784	4,239,165
Loans	11,846,119	11,792,722	11,612,336	11,506,061	11,405,634
Allowance for possible loan losses	(153,711)	(152,880)	(149,297)	(144,832)	(140,936)
Unearned commissions	(40,383)	(39,589)	(38,752)	(38,255)	(38,089)
Investments in associates	25,954	24,702	23,158	22,076	21,834
Other assets	1,044,139	1,079,202	984,006	966,700	982,082
Total assets	18,042,430	18,175,336	17,676,911	17,571,922	17,251,809
Liabilities and shareholder's equity					
Local deposits	11,190,632	11,113,262	11,125,907	11,044,313	10,912,741
Foreign deposits	429,623	419,744	413,678	414,115	418,413
Total Deposits	11,620,255	11,533,005	11,539,586	11,458,427	11,331,154
Securities sold under repurchase agreements	-	199,063	156,271	45,815	147,484
Medium and long term borrowings and placements	2,798,964	2,792,188	2,584,681	2,661,365	2,323,100
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,216,797	1,301,331	1,096,878	1,142,792	1,178,461
Shareholder's equity	2,188,734	2,132,069	2,081,816	2,045,843	2,053,930
Total liabilities and shareholder's equity	18,042,430	18,175,336	17,676,911	17,571,922	17,251,809
Operational data (in units):					
Number of customers ⁽¹⁾	936,944	924,448	915,835	906,534	900,227
Number of employees ⁽²⁾	4,693	4,647	4,649	4,649	4,594
Number of branches	86	85	85	84	84
Number of ATMs	645	647	646	640	628
Assets under management ⁽³⁾	10,965,562	11,098,135	10,726,613	10,219,936	9,735,681

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

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

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



Annex 3

BANCO GENERAL, S.A. AND SUBSIDIARIES **Financial Ratios** **For the Quarter Ended September 30, 2018**

	30-sep-18	30-jun-18	31-mar-18	31-dec-18	30-sep-17
	(in percentages)				
Profitability and efficiency:					
Net interest margin ^{(1) (2)}	3.98%	3.93%	3.88%	3.88%	3.86%
Return on average assets ^{(1) (3)}	2.49%	2.32%	2.30%	2.30%	2.98%
Return on average equity ^{(1) (3)}	20.64%	19.63%	19.41%	19.35%	25.13%
Efficiency ⁽⁴⁾	35.00%	36.24%	36.24%	35.86%	32.21%
Operating expenses / average total assets ^{(1) (3)}	1.64%	1.63%	1.64%	1.63%	1.70%
Other income / operating income ⁽⁵⁾	22.34%	20.00%	21.76%	22.14%	34.11%
Liquidity:					
Primary Liquidity ⁽⁶⁾ / total deposits and obligations	26.13%	26.61%	25.62%	26.12%	25.90%
Regulatory liquidity ⁽⁷⁾ / total deposits	38.55%	40.71%	38.91%	38.81%	37.87%
Loans, net / total client deposits	101.04%	101.31%	100.10%	99.61%	100.62%
Capital:					
Total capital ratio ⁽⁸⁾	19.83%	19.53%	19.36%	19.11%	19.31%
Tier 1 common equity ratio	17.99%	17.67%	17.47%	17.22%	17.41%
Total Tier 1 capital ratio ⁽⁹⁾	19.83%	19.53%	19.36%	19.11%	19.31%
Equity / assets	12.13%	11.73%	11.78%	11.64%	11.91%
Earning retention ratio ⁽¹⁰⁾	55.20%	51.67%	50.29%	4.29%	67.56%
Asset quality:					
Past due loans ⁽¹¹⁾ / total loans	1.29%	1.21%	1.09%	1.03%	1.08%
Non accrual loans ⁽¹²⁾ / total loans	0.94%	0.95%	0.84%	0.78%	0.88%
Allowance for possible loan losses / total loans	1.30%	1.30%	1.29%	1.26%	1.24%
Allowance for possible loan losses / past due loans	100.25%	106.80%	117.44%	122.64%	114.58%
Allowance for possible loan losses / non accrual loans	138.05%	136.92%	152.66%	161.41%	140.74%
Charge-offs / total loans ⁽¹⁾	0.53%	0.42%	0.42%	0.46%	0.49%

⁽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 has 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, 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 1-2015 by the SBP

⁽⁸⁾ Total capital as a percentage of risk weighted assets, in accordance with the requirements of the SBP

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

⁽¹⁰⁾ Earning retention ratio: net income from the period minus paid dividends from the period

⁽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