

**BANCO GENERAL, S. A.
AND SUBSIDIARIES**
(Panama, Republic of Panama)

**Condensed Consolidated Interim
Financial Information**

September 30, 2019

"This document has been prepared with the knowledge that its contents shall be made available to the investing and general public"



BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

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BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Condensed Consolidated Statement of Financial Position

September 30, 2019, December 31, 2018 and September 30, 2018

(Expressed in Balboas)

<u>Assets</u>	<u>Note</u>	(Unaudited) September 2019	(Audited) December 2018	(Unaudited) September 2018
Cash	5	203,229,020	202,536,914	259,407,530
Deposits with banks:				
Demand deposits		315,226,081	324,944,239	221,121,165
Time deposits		161,218,354	166,721,311	167,721,680
Total deposits with banks	5	<u>476,444,435</u>	<u>491,665,550</u>	<u>388,842,845</u>
Total cash and deposits with banks		<u>679,673,455</u>	<u>694,202,464</u>	<u>648,250,375</u>
Investment securities and other financial assets at FVTPL		890,227,555	782,191,195	703,483,896
Investment securities and other financial assets at FVOCI		4,209,670,277	4,394,859,981	3,912,381,801
Investment securities and other financial assets at AC, net		0	10,948,692	56,196,628
Total investment securities and other financial assets, net		<u>5,099,897,832</u>	<u>5,187,999,868</u>	<u>4,672,062,325</u>
Loans	6	12,081,031,451	11,952,384,674	11,846,118,817
Less:				
Allowance for loan losses		159,402,150	158,531,274	153,711,245
Unearned commissions		42,877,461	41,104,450	40,382,562
Loans, net		<u>11,878,751,840</u>	<u>11,752,748,950</u>	<u>11,652,025,010</u>
Investments in associates		28,320,791	26,034,716	25,953,573
Property, furniture, equipment and improvements, net of accumulated depreciation and amortization	7	237,380,364	234,404,923	230,826,439
Right-of-use assets, net	8	20,328,134	0	0
Securities and other financial assets sold pending settlement		455,472,166	389,698,425	356,309,537
Accrued interest receivable		80,624,162	74,034,604	78,416,240
Deferred tax assets		38,248,028	38,107,649	36,787,686
Goodwill and other intangible assets, net	9	57,875,672	59,838,713	60,493,060
Other assets		356,322,756	247,086,198	281,305,736
Total assets		<u>18,932,895,200</u>	<u>18,704,156,510</u>	<u>18,042,429,981</u>

The condensed consolidated statement of financial position should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.

<u>Liabilities and Equity</u>	<u>Note</u>	(Unaudited) September 2019	(Audited) December 2018	(Unaudited) September 2018
Liabilities:				
Deposits:				
Demand		2,494,732,096	2,835,932,071	2,412,003,584
Savings		3,514,504,787	3,515,163,131	3,415,499,079
Time:				
Customers		6,226,348,394	5,746,753,443	5,704,533,947
Banks		158,802,991	130,458,385	88,218,439
Total deposits		<u>12,394,388,268</u>	<u>12,228,307,030</u>	<u>11,620,255,049</u>
Securities sold under repurchase agreements		241,358,000	0	0
Borrowings and debt securities issued, net	11	2,173,077,184	2,886,528,342	2,798,964,316
Perpetual bonds		217,680,000	217,680,000	217,680,000
Lease liabilities	12	20,843,067	0	0
Securities and other financial assets purchased pending settlement		772,699,268	561,836,021	502,439,743
Accrued interest payable		124,402,373	118,282,025	109,732,151
Liabilities from insurance operations	13	19,458,311	17,648,645	18,107,079
Deferred tax liabilities		3,341,135	3,469,408	3,485,492
Other liabilities	10	492,917,554	485,382,510	583,032,364
Total liabilities		<u>16,460,165,160</u>	<u>16,519,133,981</u>	<u>15,853,696,194</u>
Equity:				
Common shares	15	500,000,000	500,000,000	500,000,000
Legal reserves		183,700,587	182,098,343	181,037,489
Capital reserves		88,253,489	4,642,044	14,234,207
Retained earnings		1,700,775,964	1,498,282,142	1,493,462,091
Total equity		<u>2,472,730,040</u>	<u>2,185,022,529</u>	<u>2,188,733,787</u>
Total liabilities and equity		<u>18,932,895,200</u>	<u>18,704,156,510</u>	<u>18,042,429,981</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Condensed Consolidated Statement of Income

For the nine months ended September 30, 2019 and 2018

(Expressed in Balboas)

		(Unaudited) (3rd Quarter)		(Unaudited) (Accumulated)	
	Note	September 2019	September 2018	September 2019	September 2018
Interest and commission income:					
Interest:					
Loans		212,994,192	199,572,542	628,911,073	578,980,617
Deposits with banks		2,521,573	2,007,601	6,977,192	5,922,916
Securities and other financial assets		47,635,231	42,332,679	143,059,357	122,243,262
Commissions on loans		12,270,649	11,716,794	34,496,962	33,693,579
Total interest and commission income		275,421,645	255,629,616	813,444,584	740,840,374
Interest expenses:					
Deposits		67,687,080	58,674,958	194,269,353	169,200,607
Borrowings and debt securities issued		29,940,370	32,204,759	96,669,214	89,120,892
Total interest expenses		97,627,450	90,879,717	290,938,567	258,321,499
Net interest and commission income		177,794,195	164,749,899	522,506,017	482,518,875
Provision for loan losses, net	6	10,099,188	10,030,942	32,474,974	31,748,222
Provision (reversal) for impairment of securities, net		(406,907)	(492,711)	1,522,073	30,016
Provision for foreclosed assets, net		1,032,712	156,777	1,397,117	564,351
Net interest and commission income after provisions		167,069,202	155,054,891	487,111,853	450,176,286
Other income (expenses):					
Fees and other commissions		58,817,094	52,771,503	167,524,844	155,869,418
Insurance premiums, net		8,834,068	7,583,098	24,591,100	21,820,686
Gain (loss) on financial instruments, net		2,036,067	(1,026,347)	10,979,735	(9,172,446)
Other income, net		7,065,043	6,366,996	21,059,754	16,633,193
Commission expenses and other expenses	12	(23,608,271)	(21,089,443)	(70,241,901)	(62,726,220)
Total other income, net		53,144,001	44,605,807	153,913,532	122,424,631
General and administrative expenses:					
Salaries and other employee expenses	16	45,488,102	43,845,999	133,867,267	129,035,507
Depreciation and amortization	7 & 8	7,072,757	6,289,666	21,585,290	18,065,423
Premises and equipment expenses		5,236,106	6,044,555	16,459,967	19,252,196
Other expenses		19,507,072	17,963,429	55,778,409	52,878,669
Total general and administrative expenses		77,304,037	74,143,649	227,690,933	219,231,795
Operational net income		142,909,166	125,517,049	413,334,452	353,369,122
Equity participation in associates		2,501,982	2,509,826	8,213,479	7,263,068
Net income before income tax		145,411,148	128,026,875	421,547,931	360,632,190
Income tax, net	17	16,729,259	15,834,774	47,522,606	43,308,089
Net income		128,681,889	112,192,101	374,025,325	317,324,101

The condensed consolidated statement of income should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Condensed Consolidated Statement of Comprehensive Income

For the nine months ended September 30, 2019 and 2018

(Expressed in Balboas)

	(Unaudited)	
	September 2019	September 2018
Net income	<u>374,025,325</u>	<u>317,324,101</u>
Other comprehensive income (expense):		
Items that are or may be reclassified to profit or loss:		
Valuation of securities and other financial assets:		
Changes net in valuation of securities at FVOCI	84,015,725	(33,384,097)
Transfer to profit or loss for sales of securities at FVOCI	4,640,550	(6,166,231)
Credit risk valuation	1,523,381	26,644
Change in fair value of hedging instruments	<u>(6,568,211)</u>	<u>0</u>
Total other comprehensive income (expense), net	<u>83,611,445</u>	<u>(39,523,684)</u>
Total comprehensive income	<u><u>457,636,770</u></u>	<u><u>277,800,417</u></u>

The condensed consolidated statement of comprehensive income should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Condensed Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2019 and 2018

(Expressed in Balboas)

	Capital reserves					Total equity
	Common shares	Legal reserves	Insurance reserve	Valuation of securities and other financial assets	Valuation for hedging instruments	Retained earnings
Balance as of December 31, 2018 (Audited)	500,000,000	182,098,343	1,000,000	5,678,583	(2,036,539)	1,498,282,142
Net income	0	0	0	0	0	374,025,325
Other comprehensive income (expense)						
Items that are or may be reclassified to profit or loss:						
Valuation of securities and other financial assets:						
Changes net in valuation of securities at FVOCI	0	0	0	84,015,725	0	84,015,725
Transfer to profit or loss for sales of securities at FVOCI	0	0	0	4,640,550	0	4,640,550
Credit risk valuation	0	0	0	1,523,381	0	1,523,381
Changes in fair value of hedging instruments	0	0	0	0	(6,568,211)	0
Total other comprehensive income (expense), net	0	0	0	90,179,656	(6,568,211)	83,611,445
Total comprehensive income	0	0	0	90,179,656	(6,568,211)	83,611,445
Transactions with owner:						
Dividends paid on common shares	0	0	0	0	0	(165,876,480)
Dividends tax	0	0	0	0	0	(1,308,692)
Complementary tax	0	0	0	0	0	(2,744,087)
Transfer from retained earnings	0	1,602,244	0	0	0	(1,602,244)
Total transactions with owner	0	1,602,244	0	0	0	(171,531,503)
Balance as of September 30, 2019 (Unaudited)	500,000,000	183,700,587	1,000,000	95,858,239	(8,604,750)	1,700,775,964
Balance as of December 31, 2017 (Audited)	500,000,000	179,461,247	1,000,000	35,796,615	0	1,329,584,948
Changes due to adoption of IFRS 9	0	0	0	16,961,276	0	500,791
Balance as of January 1, 2018 (Audited)	500,000,000	179,461,247	1,000,000	52,757,891	0	1,330,085,739
Net income	0	0	0	0	0	317,324,101
Other comprehensive income (expense)						
Items that are or may be reclassified to profit or loss:						
Valuation of securities and other financial assets:						
Changes net in valuation of securities at FVOCI	0	0	0	(33,384,097)	0	(33,384,097)
Transfer to profit or loss for sales of securities at FVOCI	0	0	0	(6,166,231)	0	(6,166,231)
Credit risk valuation	0	0	0	26,644	0	26,644
Total other comprehensive expenses, net	0	0	0	(39,523,684)	0	(39,523,684)
Total comprehensive income	0	0	0	(39,523,684)	0	(39,523,684)
Transactions with owner:						
Dividends paid on common shares	0	0	0	0	0	(150,796,800)
Complementary tax	0	0	0	0	0	(1,574,707)
Transfer from retained earnings	0	1,576,242	0	0	0	(1,576,242)
Total transactions with owner	0	1,576,242	0	0	0	(153,947,749)
Balance as of September 30, 2018 (Unaudited)	500,000,000	181,037,489	1,000,000	13,234,207	0	1,493,462,091

The condensed consolidated statement of changes in equity should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Condensed Consolidated Statement of Cash Flows

For the nine months ended September 30, 2019 and 2018

(Expressed in Balboas)

		(Unaudited)	
	Note	September 2019	September 2018
Operating activities:			
Net income		374,025,325	317,324,101
Adjustments to reconcile net income to net cash provided from operation activities:			
Provision for loan losses, net	6	32,474,974	31,748,222
Provision for impairment of securities, net		1,522,073	30,016
Provision for impairment of foreclosed assets, net		1,397,117	564,351
Loss unrealized on securities and other financial assets		3,707,329	8,534,617
Gain unrealized on derivative instruments		(2,056,682)	(1,801,055)
Gain on sale of securities and other financial assets at FVTPL, net		(10,408,101)	(14,228)
(Gain) loss on sale of securities and other financial assets at FVOCI, net		(1,371,715)	5,532,935
(Gain) realized on derivative instruments		(850,566)	(3,079,823)
Foreign exchange fluctuations, net		228,590	1,690,354
Gain on sale of fixed assets, net		(107,494)	(304,989)
Deferred income tax, net		(245,124)	(2,413,329)
Depreciation and amortization	7 & 8	21,585,290	18,065,423
Amortization of intangible assets	9	1,963,041	1,963,040
Equity participation in associates		(8,213,479)	(7,263,068)
Interest income		(778,947,622)	(707,146,795)
Interest expense		290,938,567	258,321,499
Changes in operating assets and liabilities:			
Time deposits with banks		5,502,957	4,932,363
Securities and other financial assets at fair value through profit or loss		(96,386,706)	(97,497,002)
Loans		(160,250,875)	(363,339,895)
Unearned commissions		1,773,011	2,127,808
Tax credit from preferential interest loans		(34,274,184)	(30,135,053)
Other assets		(124,204,139)	(74,982,841)
Demand deposits		(341,199,975)	(82,381,444)
Savings accounts		(658,344)	16,944,160
Time deposits		507,939,557	227,265,247
Liabilities under insurance operations		1,809,666	1,107,787
Other liabilities		307,758,861	104,003,043
Cash provided by operating activities:			
Interest received		772,358,064	696,368,091
Interest paid		(284,818,219)	(257,322,185)
Dividends received		1,698,753	1,717,973
Total		108,664,625	(246,764,778)
Cash flows from operating activities		482,689,950	70,559,323
Investing activities:			
Purchases of securities and other financial assets at FVOCI		(3,172,490,764)	(3,722,623,006)
Sale and redemptions of securities and other financial assets at FVOCI		3,355,220,570	3,578,075,967
Purchases of securities to amortized cost		0	(56,200,000)
Redemptions of securities to amortized cost		10,950,000	0
Investments in associates		5,927,404	3,385,248
Sale of property, furniture, equipment and improvements		110,361	588,091
Purchases of property, furniture, equipment and improvements	7	(21,742,241)	(25,974,812)
Cash paid in business acquisition, net of cash received		0	(377,215)
Cash flows from (used) in investing activities		177,975,330	(223,125,727)
Financing activities:			
New borrowings and debt securities issued		12,591,686	553,495,765
Redemption of debt securities in issue and cancellation of borrowings		(751,405,335)	(394,948,692)
Securities sold under agreements to repurchase		241,358,000	(45,814,600)
Lease liability payments		(2,306,424)	0
Dividends paid on common shares		(165,876,480)	(150,796,800)
Complementary and dividends tax		(4,052,779)	(1,574,707)
Cash flows used in financing activities		(669,691,332)	(39,639,034)
Net decrease in cash and cash equivalents		(9,026,052)	(192,205,438)
Cash and cash equivalents at beginning of period		527,481,153	672,734,133
Cash and cash equivalents at end of period	5	518,455,101	480,528,695

The condensed consolidated statement of cash flows should be read along with the accompanying notes which are an integral part of the condensed consolidated interim financial information.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

September 30, 2019

(Expressed in Balboas)

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BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

(1) General Information

Banco General, S. A. was incorporated under the laws of the Republic of Panama in 1954 and started operations in 1955. The Bank operates under a general license granted by the Superintendence of Banks of Panama which allows it, to engage in the banking business both in Panama and abroad. Banco General, S. A. and its subsidiaries will be referred to collectively as “the Bank”.

The Bank provides a wide variety of financial services, mainly, corporate, mortgage and consumer banking, investment, insurance, reinsurance, wealth management of investments, pensions, retirement and severance funds.

The Bank has representation offices in Colombia, Mexico, El Salvador, Guatemala and Peru.

Grupo Financiero BG, S. A., a 60.02% (December 31, 2018: 60.07%) owned subsidiary of Empresa General de Inversiones, S. A., owns 100% of the common shares issued and outstanding of Banco General, S. A.

Banco General, S. A. owns 100% of the following subsidiaries which form part of its consolidation:

- Finanzas Generales, S. A. and subsidiaries: financial leases and loans in Panama. Finanzas Generales, S. A. owns the following subsidiaries:
 - BG Trust, Inc.: trust management in Panama.
 - Vale General, S. A.: administration and marketing of pretax food and health related contributions in Panama.
- BG Investment Co., Inc.: securities brokerage, asset management and brokerage company in Panama.
- General de Seguros, S. A.: insurance and reinsurance in Panama.
- Overseas Capital Markets, Inc. and subsidiaries: holding company in the Cayman Islands. Overseas Capital Markets, Inc. owns the following subsidiaries:
 - Banco General (Overseas), Inc.: international banking business in the Cayman Islands.
 - Commercial Re. Overseas, Ltd.: international reinsurance in the British Virgin Islands.
- BG Valores, S. A.: securities brokerage, asset management and brokerage company in Panama.
- Banco General (Costa Rica), S. A.: banking business in Costa Rica.
- ProFuturo Administradora de Fondos de Pensiones y Cesantía, S. A.: management of pension and retirement, severance and investment funds in Panama.

On July 31, 2018, Finanzas Generales, S.A., through its subsidiary Vale General, S.A., acquired 100% of the shares of company Pases Alimenticios, S.A.. As of August 1, 2018, incomes and expenses are presented as part of the condensed consolidated statement of income.

As of September 30, 2018, Vale General, S.A. absorbed by merger the subsidiary Pases Alimenticios, S.A., all assets, liabilities and equity accounts of this company were incorporated into the statement of financial position of the subsidiary Vale General, S.A. as of that date.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

The Bank's main office is located at Banco General Tower, Urbanization Marbella, Aquilino de la Guardia Avenue, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

The condensed consolidated interim financial information have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

These condensed consolidated interim financial information were authorized by management for issue on October 25, 2019.

(b) Basis of Measurement

These condensed consolidated interim financial information have been prepared on a historical cost basis or amortized cost except for financial assets and liabilities at fair value, through other comprehensive income and derivative financial instruments, which are measured at fair value; and foreclosed assets, which are measured at the lower of their carrying value or estimated value of realization.

The Bank initially recognizes loans and account receivables and deposits on the date on which they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized on the trade date initially, which is the date on which the Bank compromises to buy or sell an instrument

(c) Functional and Presentation Currency

The condensed consolidated interim financial information are expressed in balboas (B/.), the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States dollar (US\$). The Republic of Panama does not issue its own paper currency and, in lieu, the dollar (\$) of the United States of America is used as legal tender and functional currency.

(3) Summary of Significant Accounting Policies

The accounting policies used by the Bank in this condensed consolidated interim financial information are the same as those applied by the Bank in its consolidated financial statements as of December 31, 2018, except, for the application of leasing policies based on the adoption of IFRS 16. The new policies are detailed as follows:

(a) Right-of-use assets

Accounting policies used as of January 1, 2019:

IFRS 16 changes the accounting by lessees, using a unique model to account for such transactions. This unique model determines that a lessee must recognize a right-of-use asset, representing its right-of-use the underlying assets, and a lease liability, representing its obligation to make future lease payments.

The Bank used the modified retrospective approach, which establishes the cumulative effect of the adoption of IFRS 16 as an adjustment to the initial balance of not retained earnings as of January 1, 2019, without presenting comparative information, so the information presented for the year 2018 will not be restated.

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Notes to the Condensed Consolidated Interim Financial Information

The Bank applied the exemption from the standard for lease contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 46, applying the following practical options for contracts in force as of that date:

- Exemption for not recognizing right-of-use assets and lease liabilities for contracts with a term of less than 12 months;
- Initial direct costs were excluded from the measurement of the right-of-use asset; and
- Reasoning was used in retrospective when determining the lease term, when the contract contained options to extend or terminate the lease.

Right-of-use assets and lease liabilities were recognized, both for B/.22,593,981, which did not show differences affecting the balance of retained earnings as of January 1, 2019.

The Bank measures its right-of-use asset at cost less accumulated depreciation and depreciates it according to the term of the lease.

The right-of-use asset includes:

- Lease payments made before or after the commencement date, less lease incentives received;
- Initial direct costs incurred; and
- An estimate of the costs to be incurred for dismantling and / or restoration.

Right-of-use assets will not be recognized in the following cases:

- Leases whose term is less than 12 months; and
- Leases in which the underlying asset is of low value. These exemptions to recognition and their respective payments will be recorded as rental expenses in the results of the period.

(b) Leases Liabilities

On the start date of a lease, the Bank recognizes a lease liability calculated at the present value of remaining cash flows of the lease.

The Bank discounted the future lease payments using the incremental rate as of January 1, 2019, which was calculated considering a rate equivalent to that which would be used in financing to acquire an asset with the same conditions, for a similar term to that agreed upon in the lease.

Lease payments are divided between debt reduction and interest, which is recognized in profit or loss.

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Notes to the Condensed Consolidated Interim Financial Information**(4) Balances and Transactions with Related Parties**

The condensed consolidated statement of financial position and the condensed consolidated statement of income include balances and transactions with related parties, which are summarized as follows:

	September 30, 2019			
	Directors and Management	Related Companies	Affiliated Companies	Total
<u>Assets:</u>				
Investment securities and other financial assets, net	<u>0</u>	<u>163,007,814</u>	<u>36,708,515</u>	<u>199,716,329</u>
Loans	<u>8,050,917</u>	<u>220,308,919</u>	<u>17,502,492</u>	<u>245,862,328</u>
Investments in associates	<u>0</u>	<u>28,320,791</u>	<u>0</u>	<u>28,320,791</u>
<u>Liabilities:</u>				
Deposits:				
Demand	<u>1,520,394</u>	<u>128,782,864</u>	<u>52,186,512</u>	<u>182,489,770</u>
Savings	<u>5,333,663</u>	<u>67,233,351</u>	<u>1,011,195</u>	<u>73,578,209</u>
Time	<u>2,049,891</u>	<u>365,214,406</u>	<u>123,538,462</u>	<u>490,802,759</u>
	<u>8,903,948</u>	<u>561,230,621</u>	<u>176,736,169</u>	<u>746,870,738</u>
Perpetual bonds	<u>0</u>	<u>0</u>	<u>90,000,000</u>	<u>90,000,000</u>
Commitments and contingencies	<u>0</u>	<u>58,307,222</u>	<u>30,428,587</u>	<u>88,735,809</u>
<u>Interest income:</u>				
Loans	<u>274,286</u>	<u>9,085,388</u>	<u>815,866</u>	<u>10,175,540</u>
Investment securities and other financial assets	<u>0</u>	<u>5,725,913</u>	<u>1,491,927</u>	<u>7,217,840</u>
<u>Interest expenses:</u>				
Deposits	<u>69,054</u>	<u>12,332,893</u>	<u>966,915</u>	<u>13,368,862</u>
Borrowings and debt in securities in issue	<u>0</u>	<u>0</u>	<u>4,387,500</u>	<u>4,387,500</u>
<u>Other income:</u>				
Equity participation in associates	<u>0</u>	<u>8,213,479</u>	<u>0</u>	<u>8,213,479</u>
Dividends	<u>0</u>	<u>568,805</u>	<u>0</u>	<u>568,805</u>
<u>General and administrative expenses:</u>				
Directors' fees	<u>257,220</u>	<u>0</u>	<u>0</u>	<u>257,220</u>
Benefits to key management personnel	<u>2,070,474</u>	<u>0</u>	<u>0</u>	<u>2,070,474</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(4) Balances and Transactions with Related Parties, continued**

	December 31, 2018			
	Directors and Management	Related Companies	Affiliated Companies	Total
<u>Assets:</u>				
Investment securities and other financial assets, net	<u>0</u>	<u>162,067,000</u>	<u>36,580,208</u>	<u>198,647,208</u>
Loans	<u>7,539,015</u>	<u>137,558,553</u>	<u>20,073,177</u>	<u>165,170,745</u>
Investments in associates	<u>0</u>	<u>26,034,716</u>	<u>0</u>	<u>26,034,716</u>
<u>Liabilities:</u>				
Deposits:				
Demand	999,893	368,223,635	76,101,535	445,325,063
Savings	5,415,638	147,513,188	468,719	153,397,545
Time	<u>1,893,345</u>	<u>418,242,277</u>	<u>101,769,231</u>	<u>521,904,853</u>
	<u>8,308,876</u>	<u>933,979,100</u>	<u>178,339,485</u>	<u>1,120,627,461</u>
Perpetual bonds	<u>0</u>	<u>0</u>	<u>90,000,000</u>	<u>90,000,000</u>
Commitments and contingencies	<u>0</u>	<u>63,730,393</u>	<u>32,552,608</u>	<u>96,283,001</u>
	September 30, 2018			
	Directors and Management	Related Companies	Affiliated Companies	Total
<u>Assets:</u>				
Investment securities and other financial assets, net	<u>0</u>	<u>257,320,480</u>	<u>36,642,094</u>	<u>293,962,574</u>
Loans	<u>7,713,713</u>	<u>133,237,868</u>	<u>20,929,412</u>	<u>161,880,993</u>
Investments in associates	<u>0</u>	<u>25,953,573</u>	<u>0</u>	<u>25,953,573</u>
<u>Liabilities:</u>				
Deposits:				
Demand	1,096,315	82,461,872	91,416,298	174,974,485
Savings	4,831,493	61,290,027	45,479	66,166,999
Time	<u>1,816,541</u>	<u>293,094,987</u>	<u>63,819,838</u>	<u>358,731,366</u>
	<u>7,744,349</u>	<u>436,846,886</u>	<u>155,281,615</u>	<u>599,872,850</u>
Perpetual bonds	<u>0</u>	<u>0</u>	<u>90,000,000</u>	<u>90,000,000</u>
Commitments and contingencies	<u>1,360,000</u>	<u>63,184,711</u>	<u>27,101,966</u>	<u>91,646,677</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(4) Balances and Transactions with Related Parties, continued**

	September 30, 2018			
	Directors and Management	Related Companies	Affiliated Companies	Total
<u>Interest income:</u>				
Loans	<u>271,889</u>	<u>6,460,602</u>	<u>884,888</u>	<u>7,617,379</u>
Investment securities and other financial assets	<u>0</u>	<u>9,431,809</u>	<u>1,740,187</u>	<u>11,171,996</u>
<u>Interest expenses:</u>				
Deposits	<u>59,607</u>	<u>8,681,228</u>	<u>793,151</u>	<u>9,533,986</u>
Borrowings and debt securities issued	<u>0</u>	<u>0</u>	<u>4,387,500</u>	<u>4,387,500</u>
<u>Other income:</u>				
Equity participation in associates	<u>0</u>	<u>7,263,068</u>	<u>0</u>	<u>7,263,068</u>
Dividends	<u>0</u>	<u>745,527</u>	<u>0</u>	<u>745,527</u>
<u>General and administrative expenses:</u>				
Directors' fees	<u>204,600</u>	<u>0</u>	<u>0</u>	<u>204,600</u>
Benefits to key management personnel	<u>1,824,552</u>	<u>0</u>	<u>0</u>	<u>1,824,552</u>

The conditions granted in transactions with related parties are substantially similar to those granted to third parties not related to the Bank.

(5) Cash and Cash Equivalents

Cash and cash equivalents are detailed as follows for purposes of reconciliation with the condensed consolidated statement of cash flows:

	September 30	
	<u>2019</u>	<u>2018</u>
Cash	203,229,020	259,407,530
Demand deposits with banks	315,226,081	221,121,165
Time deposits with banks	<u>161,218,354</u>	<u>167,721,680</u>
Total deposits with banks	<u>476,444,435</u>	<u>388,842,845</u>
Less: bank deposits with original maturities of more than three months	<u>161,218,354</u>	<u>167,721,680</u>
Cash and cash equivalents in the condensed consolidated statement of cash flows	<u>518,455,101</u>	<u>480,528,695</u>

Demand deposits with banks include cash collateral accounts in the amount of B/.33,242,615 (December 31, 2018: B/.27,475,591) that secure derivative operations, in addition to the next quarterly payments of principal, interest and expenses of certain obligations.

BANCO GENERAL, S. A. AND SUBSIDIARIES

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Notes to the Condensed Consolidated Interim Financial Information**(6) Loans**

The composition of the loan portfolio is summarized as follows:

	September 30 2019	December 31 2018	September 30 2018
Local loans:			
Residential mortgages	4,262,874,542	4,091,042,745	4,013,013,589
Personal, auto and credit cards	1,858,835,583	1,776,981,209	1,729,594,238
Commercial mortgages	2,005,150,433	1,920,857,554	1,859,114,364
Lines of credit and commercial loans	1,589,066,132	1,590,811,256	1,590,713,754
Interim financing	614,062,052	700,899,475	801,732,280
Financial leases, net of unearned interest	100,278,220	108,302,008	109,189,702
Other secured loans	227,273,720	203,744,331	200,365,221
Overdrafts	157,129,617	152,890,905	160,385,514
Total local loans	<u>10,814,670,299</u>	<u>10,545,529,483</u>	<u>10,464,108,662</u>
Foreign loans:			
Residential mortgages	227,470,068	249,375,750	251,807,063
Personal, auto and credit cards	16,310,924	16,779,215	17,160,419
Commercial mortgages	257,487,706	259,580,692	264,527,416
Lines of credit and commercial loans	696,864,239	798,964,318	757,279,193
Interim financing	0	3,099,755	3,099,850
Other secured loans	11,534,097	23,238,900	22,750,591
Overdrafts	56,694,118	55,816,561	65,385,623
Total foreign loans	<u>1,266,361,152</u>	<u>1,406,855,191</u>	<u>1,382,010,155</u>
Total	<u>12,081,031,451</u>	<u>11,952,384,674</u>	<u>11,846,118,817</u>

The movement of the allowance for loan losses is summarized as follows:

	September 30, 2019			
	12-month ECL	Lifetime ECL No credit- impaired	Lifetime ECL credit - impaired	Total
Balance at beginning of period	86,609,549	24,544,788	47,376,937	158,531,274
Transferred to 12-months ECL	11,225,117	(8,043,049)	(3,182,068)	0
Transferred to lifetime ECL not credit-impaired	(2,002,630)	3,238,553	(1,235,923)	0
Transferred to lifetime ECL credit-impaired	(1,388,971)	(3,367,526)	4,756,497	0
Net remeasurement of portfolio	(15,243,276)	12,352,704	44,027,981	41,137,409
New Loans	15,590,950	4,888,823	4,836,224	25,315,997
Loans paid down	(10,698,324)	(6,433,253)	(16,846,855)	(33,978,432)
Recovery of loans charged-off	0	0	19,878,465	19,878,465
Loans charged-off	0	0	(51,482,563)	(51,482,563)
Balance at the end of period	<u>84,092,415</u>	<u>27,181,040</u>	<u>48,128,695</u>	<u>159,402,150</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES
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Notes to the Condensed Consolidated Interim Financial Information

(6) Loans, continued

	December 31, 2018			
	12-month ECL	Lifetime ECL No credit- Impaired	Lifetime ECL credit - Impaired	Total
Balance at beginning of year IAS 39				144,832,305
Changes due to adoption of IFRS 9	<u>0</u>	<u>0</u>	<u>0</u>	<u>412,548</u>
Balance at beginning of year IFRS 9	79,103,845	25,839,115	40,301,893	145,244,853
Transferred to 12-months ECL	9,658,365	(7,503,785)	(2,154,580)	0
Transferred to lifetime ECL not credit-impaired	(1,702,386)	3,382,563	(1,680,177)	0
Transferred to lifetime ECL credit-impaired	(1,247,049)	(2,030,918)	3,277,967	0
Net remeasurement of portfolio	(5,909,866)	8,385,170	46,385,775	48,861,079
New Loans	19,810,458	3,110,543	6,128,641	29,049,642
Loans paid down	(13,103,818)	(6,637,900)	(16,185,556)	(35,927,274)
Recovery of loans charged-off	0	0	23,052,680	23,052,680
Loans charged-off	<u>0</u>	<u>0</u>	<u>(51,749,706)</u>	<u>(51,749,706)</u>
Balance at the end of year	<u>86,609,549</u>	<u>24,544,788</u>	<u>47,376,937</u>	<u>158,531,274</u>

	September 30, 2018			
	12-month ECL	Lifetime ECL No credit- Impaired	Lifetime ECL credit - Impaired	Total
Balance at beginning of period IAS 39				144,832,305
Changes due to adoption of IFRS 9	<u>0</u>	<u>0</u>	<u>0</u>	<u>412,548</u>
Balance at beginning of period IFRS 9	79,103,845	25,839,115	40,301,893	145,244,853
Transferred to 12-months ECL	8,321,052	(6,609,692)	(1,711,360)	0
Transferred to lifetime ECL not credit-impaired	(2,224,420)	4,004,802	(1,780,382)	0
Transferred to lifetime ECL credit-impaired	(1,736,456)	(2,422,999)	4,159,455	0
Net remeasurement of portfolio	(14,059,062)	11,086,811	41,843,396	38,871,145
New Loans	16,454,746	2,321,180	4,806,017	23,581,943
Loans paid down	(10,375,421)	(5,780,813)	(14,548,632)	(30,704,866)
Recovery of loans charged-off	0	0	16,831,869	16,831,869
Loans charged-off	<u>0</u>	<u>0</u>	<u>(40,113,699)</u>	<u>(40,113,699)</u>
Balance at the end of period	<u>75,484,284</u>	<u>28,438,404</u>	<u>49,788,557</u>	<u>153,711,245</u>

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Notes to the Condensed Consolidated Interim Financial Information**(7) Properties, Furniture, Equipment and Improvements**

Properties, furniture, equipment and improvements are summarized as follows:

September 30, 2019						
	Land	Buildings	Licenses and Internally developed projects	Furniture and Equipment	Improvements	Total
Cost:						
At beginning of period	32,147,489	135,326,696	113,226,231	104,173,822	38,745,088	423,619,326
Additions	205,000	820,000	10,102,718	9,170,704	1,443,819	21,742,241
Sales and disposals	0	0	1,202,848	1,304,430	172,230	2,679,508
At end of period	<u>32,352,489</u>	<u>136,146,696</u>	<u>122,126,101</u>	<u>112,040,096</u>	<u>40,016,677</u>	<u>442,682,059</u>
Accumulated depreciation and amortization:						
At beginning of period	0	30,095,005	64,938,017	65,975,853	28,205,528	189,214,403
Expense of the period	0	2,691,758	7,456,814	7,110,207	1,505,154	18,763,933
Sales and disposals	0	0	1,202,848	1,301,563	172,230	2,676,641
At end of period	<u>0</u>	<u>32,786,763</u>	<u>71,191,983</u>	<u>71,784,497</u>	<u>29,538,452</u>	<u>205,301,695</u>
Net balance	<u>32,352,489</u>	<u>103,359,933</u>	<u>50,934,118</u>	<u>40,255,599</u>	<u>10,478,225</u>	<u>237,380,364</u>

December 31, 2018						
	Land	Buildings	Licenses and Internally developed projects	Furniture and Equipment	Improvements	Total
Cost:						
At beginning of year	32,076,810	130,415,437	87,218,844	115,290,423	36,573,777	401,575,291
Additions	220,679	4,911,259	26,009,959	2,367,990	2,832,978	36,342,865
Sales and disposals	150,000	0	2,572	13,484,591	661,667	14,298,830
At end of year	<u>32,147,489</u>	<u>135,326,696</u>	<u>113,226,231</u>	<u>104,173,822</u>	<u>38,745,088</u>	<u>423,619,326</u>
Accumulated depreciation and amortization:						
At beginning of year	0	26,510,195	56,121,288	68,748,375	26,995,281	178,375,139
Expense of the year	0	3,584,810	8,819,301	10,707,753	1,871,914	24,983,778
Sales and disposals	0	0	2,572	13,480,275	661,667	14,144,514
At end of year	<u>0</u>	<u>30,095,005</u>	<u>64,938,017</u>	<u>65,975,853</u>	<u>28,205,528</u>	<u>189,214,403</u>
Net balance	<u>32,147,489</u>	<u>105,231,691</u>	<u>48,288,214</u>	<u>38,197,969</u>	<u>10,539,560</u>	<u>234,404,923</u>

September 30, 2018						
	Land	Buildings	Licenses and Internally developed projects	Furniture and Equipment	Improvements	Total
Cost:						
At beginning of period	32,076,810	130,415,437	87,218,844	115,290,423	36,573,777	401,575,291
Additions	220,679	4,911,259	15,663,966	3,357,889	1,821,019	25,974,812
Sales and disposals	150,000	0	2,572	2,830,313	661,667	3,644,552
At end of period	<u>32,147,489</u>	<u>135,326,696</u>	<u>102,880,238</u>	<u>115,817,999</u>	<u>37,733,129</u>	<u>423,905,551</u>
Accumulated depreciation and amortization:						
At beginning of period	0	26,510,195	56,121,288	68,748,375	26,995,281	178,375,139
Expense of the period	0	2,679,862	6,280,541	7,711,798	1,393,222	18,065,423
Sales and disposals	0	0	2,572	2,697,211	661,667	3,361,450
At end of period	<u>0</u>	<u>29,190,057</u>	<u>62,399,257</u>	<u>73,762,962</u>	<u>27,726,836</u>	<u>193,079,112</u>
Net balance	<u>32,147,489</u>	<u>106,136,639</u>	<u>40,480,981</u>	<u>42,055,037</u>	<u>10,006,293</u>	<u>230,826,439</u>

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Notes to the Condensed Consolidated Interim Financial Information**(8) Right-of-Use Assets**

The movement of right of use assets is detailed as follows:

	September 30 2019
Cost:	
At the beginning of period	22,593,981
New contracts	<u>555,510</u>
At the end of period	<u>23,149,491</u>
Accumulated depreciation:	
At the beginning of period	0
Expense of the period	<u>2,821,357</u>
At the end of period	<u>2,821,357</u>
Net balance	<u>20,328,134</u>

The expense depreciation of right-of-use assets is included in line of depreciation and amortization expense in the condensed consolidated statement of income.

(9) Goodwill and Intangible Assets, net

The following table summarizes the goodwill generated from the acquisition and/or participation acquired of the following entities:

<u>Company</u>	<u>Date of acquisition</u>	<u>Equity</u>	<u>% Acquisition</u>	<u>Balance</u>
Banco General, S. A.	March 2004	ProFuturo-Administradora de Fondos de Pensiones y Cesantías, S. A.	17%	679,018
Banco General, S. A.	March 2005	BankBoston, N.A. – Panama (banking operations)	100%	12,056,144
ProFuturo - Administradora de Fondos de Pensiones y Cesantías, S. A.	March 2005	Purchase of trust fund	100%	861,615
Banco General, S. A.	March 2007	Banco Continental de Panama, S. A. and subsidiaries (banking and fiduciary activities)	100%	27,494,722
Vale General, S.A.	July 2018	Pases Alimenticios, S. A. (administration and marketing of food vouchers)	100%	<u>730,742</u>
Total				<u>41,822,241</u>

On July 31, 2018, Finanzas Generales, S.A., through its subsidiary Vale General, S.A., acquired all shares of company Pases Alimenticios, S.A.

The fair value of the assets and liabilities acquired in this transaction are detailed as follows:

Cash and deposits in bank	372,785
Account receivable, net	132,810
Other assets	9,516
Other liabilities	<u>(495,853)</u>
Total net assets acquired	19,258
Consideration effectively transferred	<u>(750,000)</u>
Goodwill	<u>(730,742)</u>

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Notes to the Condensed Consolidated Interim Financial Information**(9) Goodwill and Intangible Assets, net, continued**

The movement of goodwill and intangible assets is summarized as follows:

<u>September 30, 2019</u>			
	<u>Goodwill</u>	<u>Intangible assets</u>	<u>Total</u>
Cost:			
Balance at the beginning and end of period	41,822,241	47,462,084	89,284,325
Accumulated amortization:			
Balance at beginning of period	0	29,445,612	29,445,612
Expense of the period	0	1,963,041	1,963,041
Balance at the end of period	0	31,408,653	31,408,653
Net balance at the end of period	<u>41,822,241</u>	<u>16,053,431</u>	<u>57,875,672</u>

<u>December 31, 2018</u>			
	<u>Goodwill</u>	<u>Intangible assets</u>	<u>Total</u>
Cost:			
Balance at the beginning and end of year	41,091,499	47,462,084	88,553,583
Addition by acquisition	730,742	0	730,742
Net balance at the end of year	41,822,241	47,462,084	89,284,325
Accumulated amortization:			
Balance at beginning of year	0	26,828,225	26,828,225
Expense of the year	0	2,617,387	2,617,387
Balance at the end of year	0	29,445,612	29,445,612
Net balance at the end of year	<u>41,822,241</u>	<u>18,016,472</u>	<u>59,838,713</u>

<u>September 30, 2018</u>			
	<u>Goodwill</u>	<u>Intangible assets</u>	<u>Total</u>
Cost:			
Balance at the beginning and end of period	41,091,499	47,462,084	88,553,583
Addition by acquisition	730,742	0	730,742
Net balance at the end of period	41,822,241	47,462,084	89,284,325
Accumulated amortization:			
Balance at beginning of period	0	26,828,225	26,828,225
Expense of the period	0	1,963,040	1,963,040
Balance at the end of period	0	28,791,265	28,791,265
Net balance at the end of period	<u>41,822,241</u>	<u>18,670,819</u>	<u>60,493,060</u>

It is the Bank's policy to conduct an impairment test on an annual basis or when there is evidence of impairment. As of September 30, 2019, no evaluation was necessary.

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Notes to the Condensed Consolidated Interim Financial Information

(10) Other Financial Liabilities at Fair Value

The Bank holds, within the other liabilities caption, financial liabilities of debt instruments at fair value arising from short sales, which are summarized as follows:

	<u>Level</u>	<u>September 30</u> <u>2019</u>	<u>December 31</u> <u>2018</u>	<u>September 30</u> <u>2018</u>
"Mortgage Backed Securities" (MBS)	2	<u>33,826,227</u>	<u>127,004,276</u>	<u>81,086,764</u>
Total		<u>33,826,227</u>	<u>127,004,276</u>	<u>81,086,764</u>

See the description of the Levels in Note 20.

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Notes to the Condensed Consolidated Interim Financial Information

(11) Borrowings and Debt Securities Issued, net

The Bank issued bonds payable and other borrowings, as follows:

	September 30 <u>2019</u>	December 31 <u>2018</u>	September 30 <u>2018</u>
Corporate bonds with maturities in 2019, at an annual interest rate of 2.75%	0	25,000,000	25,000,000
Corporate bonds with maturities in 2021, at an interest rate of 3 month Libor plus a margin	75,000	75,000	75,000
Corporate bonds with maturities in 2026, at an interest rate of 3 month Libor plus a margin	2,680,000	2,680,000	2,680,000
Corporate bonds with maturities in 2027, at an annual interest rate of 4.125%	550,000,000	550,000,000	550,000,000
Borrowings with maturity in 2018, at interest rates of 3 and 6 month Libor plus a margin	0	0	111,500,000
Borrowings with maturity in 2019, at interest rates of 3 and 6 month Libor plus a margin	9,734,375	217,015,548	254,780,452
Borrowings with maturity in 2020, at interest rates of 3 and 6 month Libor plus a margin	959,697,952	1,406,725,729	1,391,475,729
Borrowings with maturity in 2021, at interest rates of 6 month Libor plus a margin	78,703,125	75,703,125	60,703,125
Borrowings with maturity in 2022, at interest rates of 3 and 6 month Libor plus a margin	250,000,000	290,384,615	90,384,615
Borrowings with maturity in 2023, at interest rates of 3 month Libor plus a margin	25,411,185	47,368,422	50,000,000
Borrowings under USAID (guarantor) program with maturity in 2025, at a fixed annual interest rate of 7.65%	3,190,405	3,603,252	3,603,252
Notes with maturities in 2024, at a fixed interest rate	200,000,000	200,000,000	200,000,000
Notes with maturities in 2027, at a fixed interest rate	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>
Subtotal of borrowings and debt securities issued	2,154,492,042	2,893,305,691	2,815,202,173
Revaluations coverage	<u>18,585,142</u>	<u>(6,777,349)</u>	<u>(16,237,857)</u>
Total borrowings and debt securities issued, net	<u>2,173,077,184</u>	<u>2,886,528,342</u>	<u>2,798,964,316</u>

The Bank had no default events and is in compliance as to principal, interest or other contractual clauses relating to its borrowings and debt securities issued.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(11) Borrowing and Debt Securities Issued, continued**

The movement of the borrowings and debt securities issued, net is detailed below for the reconciliation with the condensed consolidated statement of cash flows:

	September 30	
	<u>2019</u>	<u>2018</u>
Balance at beginning of period	2,886,528,342	2,661,365,208
News borrowings and debt securities issued	12,591,686	553,495,765
Redemption of debt securities issued and cancellation of borrowings	(751,405,335)	(394,948,692)
Product of currency exchange fluctuations	0	(4,710,108)
Revaluations coverage	<u>25,362,491</u>	<u>(16,237,857)</u>
Balance at end of period	<u>2,173,077,184</u>	<u>2,798,964,316</u>

(12) Lease Liabilities

The movement of lease liabilities is detailed as follows:

	September 30
	<u>2019</u>
Balance at the beginning of period	22,593,981
New contracts	555,510
Payments	<u>(2,306,424)</u>
Balance at the end of period	<u>20,843,067</u>

Interest expense on lease liabilities for B/.730,148 is included in the line of other income (expenses) line as of commission expenses and other expenses in the condensed consolidated statement of income.

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Notes to the Condensed Consolidated Interim Financial Information**(13) Liabilities from Insurance Operations**

Liabilities from insurance operations amounted to B/.19,458,311 (December 31, 2018: B/.17,648,645) and (September 30, 2018 B/. 18,107,079) and are comprised of unearned premiums and estimated insurance claims incurred. The movement of the reserves for insurance operations is summarized as follows:

	September 30 2019	December 31 2018	September 30 2018
Unearned Premiums			
Balance at beginning of period	19,652,339	19,043,645	19,043,645
Issued premiums	31,055,858	37,731,101	28,338,474
Earned premiums	<u>(29,623,614)</u>	<u>(37,122,407)</u>	<u>(27,946,932)</u>
Balance at end of period	21,084,583	19,652,339	19,435,187
Reinsurers participation	<u>(4,229,144)</u>	<u>(4,473,403)</u>	<u>(3,968,063)</u>
Unearned premiums, net	<u>16,855,439</u>	<u>15,178,936</u>	<u>15,467,124</u>
Insurance Claims Incurred, Estimated			
Balance at beginning of period	3,156,224	2,530,640	2,530,640
Incurred claims	6,189,542	6,883,588	5,514,655
Paid claims	<u>(6,282,053)</u>	<u>(6,258,004)</u>	<u>(4,695,055)</u>
Balance at end of period	3,063,713	3,156,224	3,350,240
Reinsurer participation	<u>(460,841)</u>	<u>(686,515)</u>	<u>(710,285)</u>
Insurance claims incurred, net estimated	<u>2,602,872</u>	<u>2,469,709</u>	<u>2,639,955</u>
Total liabilities from insurance operations	<u>19,458,311</u>	<u>17,648,645</u>	<u>18,107,079</u>

(14) Segment Information

The Bank maintains three business segments for its financial analysis, which offer different products and services and are managed separately, consistent with the way in which management receives data, budgets and assesses their performance.

Segments**Operations****Banking and Financial Activities**

Various financial services, mainly corporate, mortgage and consumer banking, financial leases, administration of trusts, administration and marketing of pretax food and health related contributions and securities brokerage

Insurance and Reinsurance

Insurance and reinsurance of policies of general lines, collective life and various risks

Pension and Retirement Fund Management

Administration of pension and retirement, severance and investment funds

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Notes to the Condensed Consolidated Interim Financial Information

(14) Segment Information, continued

The Bank's management prepared the following segment information based on the bank's businesses for its financial analysis:

	September 30, 2019				
	Banking and financial activities	Insurance and reinsurance	Pension and retirement fund management	Eliminations	Total
Interest and commission income	810,422,407	5,336,586	906,691	3,221,100	813,444,584
Interest and provision expenses	329,553,769	62	0	3,221,100	326,332,731
Other income, net	123,715,415	20,025,521	10,179,917	7,321	153,913,532
General and administrative expenses	200,041,753	2,004,804	4,066,407	7,321	206,105,643
Depreciation and amortization expense	21,164,606	172,755	247,929	0	21,585,290
Equity participation in associates	8,213,479	0	0	0	8,213,479
Net income before income tax	391,591,173	23,184,486	6,772,272	0	421,547,931
Net Income tax	42,184,750	3,799,872	1,537,984	0	47,522,606
Net income	<u>349,406,423</u>	<u>19,384,614</u>	<u>5,234,288</u>	<u>0</u>	<u>374,025,325</u>
Total assets	<u>18,803,487,964</u>	<u>279,709,476</u>	<u>39,947,252</u>	<u>190,249,492</u>	<u>18,932,895,200</u>
Total liabilities	<u>16,559,990,632</u>	<u>66,428,242</u>	<u>4,589,716</u>	<u>170,843,430</u>	<u>16,460,165,160</u>

	September 30, 2018				
	Banking and financial activities	Insurance and reinsurance	Pension and retirement fund management	Eliminations	Total
Interest and commission income	738,197,506	4,261,835	712,947	2,331,914	740,840,374
Interest and provision expenses	292,998,397	(2,395)	0	2,331,914	290,664,088
Other income, net	95,150,319	17,849,117	9,433,379	8,184	122,424,631
General and administrative expenses	195,167,031	2,079,606	3,927,919	8,184	201,166,372
Depreciation and amortization expense	17,702,167	171,006	192,250	0	18,065,423
Equity participation in associates	7,263,068	0	0	0	7,263,068
Net income before income tax	334,743,298	19,862,735	6,026,157	0	360,632,190
Net Income tax	38,772,983	3,181,631	1,353,475	0	43,308,089
Net income	<u>295,970,315</u>	<u>16,681,104</u>	<u>4,672,682</u>	<u>0</u>	<u>317,324,101</u>
Total assets	<u>17,910,282,496</u>	<u>251,213,425</u>	<u>33,384,759</u>	<u>152,450,699</u>	<u>18,042,429,981</u>
Total liabilities	<u>15,926,649,826</u>	<u>57,530,158</u>	<u>2,560,847</u>	<u>133,044,637</u>	<u>15,853,696,194</u>

The composition of the secondary segment based on geographical distribution is as follows:

	September 30, 2019			
	Panama	Latin America and the Caribbean	United States of America and Others	Total
Total income, net	<u>790,634,778</u>	<u>95,197,458</u>	<u>89,739,359</u>	<u>975,571,595</u>
Non financial assets	<u>290,908,524</u>	<u>4,347,512</u>	<u>0</u>	<u>295,256,036</u>

	September 30, 2018			
	Panama	Latin America and the Caribbean	United States of America and Others	Total
Total income, net	<u>724,538,341</u>	<u>85,335,652</u>	<u>60,654,080</u>	<u>870,528,073</u>
Non financial assets	<u>286,235,933</u>	<u>5,083,566</u>	<u>0</u>	<u>291,319,499</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(15) Equity**

The authorized share capital of Banco General, S. A. is represented by 10,000,000 common shares without par value (December 31, 2018: 10,000,000 common shares); of which there are 9,787,108 common shares issued and outstanding (December 31, 2018: 9,787,108 common shares).

The legal reserves are established pursuant to regulations of the Superintendence of Banks of Panama, the Superintendence of Insurance and Reinsurance of Panama and the General Superintendence of Financial Entities of Costa Rica.

The detail of the legal reserves and its transfer from retained earnings is summarized as follows:

September 30, 2019					
Reserves					
	Dynamic	Foreclosed Assets	Legal	Insurance	Total
Banco General, S. A.	133,877,476	813,612	0	0	134,691,088
Finanzas Generales, S. A.	2,810,061	0	0	0	2,810,061
General de Seguros, S. A.	0	0	0	30,681,584	30,681,584
Banco General (Overseas), Inc.	9,480,047	0	0	0	9,480,047
Banco General (Costa Rica), S. A.	<u>4,951,850</u>	<u>0</u>	<u>1,085,957</u>	<u>0</u>	<u>6,037,807</u>
Total	<u>151,119,434</u>	<u>813,612</u>	<u>1,085,957</u>	<u>30,681,584</u>	<u>183,700,587</u>

December 31, 2018					
Reserves					
	Dynamic	Foreclosed Assets	Legal	Insurance	Total
Banco General, S. A.	133,877,476	757,386	0	0	134,634,862
Finanzas Generales, S. A.	2,810,061	0	0	0	2,810,061
General de Seguros, S. A.	0	0	0	29,135,566	29,135,566
Banco General (Overseas), Inc.	9,480,047	0	0	0	9,480,047
Banco General (Costa Rica), S. A.	<u>4,951,850</u>	<u>0</u>	<u>1,085,957</u>	<u>0</u>	<u>6,037,807</u>
Total	<u>151,119,434</u>	<u>757,386</u>	<u>1,085,957</u>	<u>29,135,566</u>	<u>182,098,343</u>

Transfer from retained earnings of period	<u>0</u>	<u>56,226</u>	<u>0</u>	<u>1,546,018</u>	<u>1,602,244</u>
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The Bank, through its subsidiary General de Seguros, S. A., maintains legal reserves and reserves for statistical deviations and catastrophic risks as established by the Superintendence of Insurance and Reinsurance of Panama. The use and restitution of these reserves shall be regulated by the Superintendence of Insurance and Reinsurance of the Republic of Panama.

The complementary tax of the companies established in the Republic of Panama corresponds to the advance of the dividend tax that is applied to net income of the previous year and that the taxpayer must retain and pay to the tax authorities within the stipulated periods. The tax is attributable to the shareholder and is applied as a tax credit at the time dividends are distributed.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

(16) Personnel Benefits

Contributions made by the Bank corresponding to personnel benefits are recognized as expenses in the consolidated statement of income, in the line of salaries and other personnel expenses.

Share-Based Compensation Plan

The total expense relating to options granted to the participants for the purchase of shares of Grupo Financiero BG, S. A, based on their fair value, amounted to B/.1,514,488 (2018: B/.1,001,362). This plan will be in effect up to the year 2026.

Restricted Share Plan

The Bank did not grant restricted shares in the period ended September 30, 2019 and 2018.

Retirement Plan

The Bank maintains a closed retirement plan, which was amended and approved by the Board of Directors in 1998; this plan is under independent administration by a fiduciary agent.

The contributions to the retirement plan were B/.75,000 (2018: B/.100,926) and the disbursements to former employees who are covered under the retirement plan amounted to B/.130,956 (2018: B/.133,517).

(17) Income Tax

Income tax returns of companies incorporated in the Republic of Panama, are subject to examination by local tax authorities for the last three years.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on the following: profits derived from foreign operations, interest earned on deposits with local banks, securities issued by the Government of Panama, securities listed with the Superintendence of the Securities Markets and the Panama stock exchange and, lastly, securities and loans to the Panamanian government and its autonomous and semi-autonomous institutions.

Companies incorporated in the following jurisdictions are subject to income tax rates imposed by the respective local tax authorities:

<u>Country</u>	<u>Tax rate</u>
Panama	25%
Costa Rica	30%

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

The estimated income tax for the year is calculated based on the effective rate of the previous fiscal year. Based on Management's assessment, historically, this rate has not differed significantly from the current year's effective rate.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(17) Income Tax, continued**

Income tax, net is detailed as follows:

	<u>3rd Quarter</u> <u>September 30</u>		<u>Accumulated</u> <u>September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Estimated income tax	17,613,048	16,098,907	47,430,970	45,475,915
Prior year income tax adjustments	5,522	105,043	336,760	245,503
Deferred income tax	<u>(889,311)</u>	<u>(369,176)</u>	<u>(245,124)</u>	<u>(2,413,329)</u>
	<u>16,729,259</u>	<u>15,834,774</u>	<u>47,522,606</u>	<u>43,308,089</u>

(18) Derivative Financial Instruments

Summary of derivative contracts is as follow:

	<u>Total</u>		<u>Exchange-Traded</u>		<u>Over the Counter (OTC)</u>			
	<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>	<u>Liquidated in a securities exchange</u>		<u>Other bilateral counterparts</u>	
					<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>
<u>September 2019</u>								
Derivative assets	706,475,445	21,588,540	102,700,000	0	422,502,692	20,123,125	181,272,753	1,465,415
Derivative liabilities	1,162,209,662	24,086,205	227,799,140	0	498,220,790	22,243,596	436,189,732	1,842,609
<u>December 2018</u>								
Derivative assets	559,903,150	4,664,866	144,575,494	0	202,375,840	3,347,904	212,951,816	1,316,962
Derivative liabilities	1,429,091,296	17,142,352	56,400,000	0	758,432,473	13,207,837	614,258,823	3,934,515
<u>September 2018</u>								
Derivative assets	698,168,000	8,253,539	191,014,397	0	233,143,720	6,170,553	274,009,883	2,082,986
Derivative liabilities	1,096,621,696	21,653,447	66,300,000	0	425,630,876	17,935,903	604,690,820	3,717,544

The Bank held cash and cash equivalents as collateral in institutions that maintain risk ratings between AA- and BBB +, which support derivative operations in the amount of B/.18.5MM (December 31, 2018: B/.21.4 MM) and (September 30, 2018: B/.27.6 MM).

BANCO GENERAL, S. A. AND SUBSIDIARIES

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Notes to the Condensed Consolidated Interim Financial Information**(18) Derivative Financial Instruments, continued**

The following table presents derivatives by type of derivative instrument:

Other Derivatives classified by Risk:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Others derivatives:						
Credit	1,135,732	2,124,266	914,521	3,031,648	1,714,646	2,095,762
Interest rate	892,436	4,653,810	2,361,220	2,777,732	3,189,445	1,291,417
Foreign exchange	1,175,129	699,189	482,971	816,641	987,095	1,819,379
Others	0	0	0	0	0	9,133
Total	<u>3,203,297</u>	<u>7,477,265</u>	<u>3,758,712</u>	<u>6,626,021</u>	<u>5,891,186</u>	<u>5,215,691</u>

Hedge Derivatives at Fair Value:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Hedge derivatives for risk management:						
Interest rate	<u>18,385,243</u>	<u>16,608,940</u>	<u>906,154</u>	<u>10,516,331</u>	<u>2,362,353</u>	<u>16,437,756</u>
Total	<u>18,385,243</u>	<u>16,608,940</u>	<u>906,154</u>	<u>10,516,331</u>	<u>2,362,353</u>	<u>16,437,756</u>

The Bank held the following interest rate derivatives as fair value hedges for risk management.

	<u>September 30, 2019</u>				
<u>Risk Category</u>	<u>Maturity</u>				
	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
Interest rate risk					
Hedging of Bonds					
Notional Value	0	0	0	62,250,000	20,000,000
Average interest rate				3.03%	6.00%
Hedging of Bonds and Notes					
Notional Value	0	0	0	0	350,000,000
Average interest rate					3.68%

	<u>December 31, 2018</u>				
<u>Risk Category</u>	<u>Maturity</u>				
	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
Interest rate risk					
Hedging of Bonds					
Notional Value	0	0	0	62,250,000	20,000,000
Average interest rate				3.03%	6.00%
Hedging of Bonds and Notes					
Notional Value	0	0	0	0	350,000,000
Average interest rate					4.08%

BANCO GENERAL, S. A. AND SUBSIDIARIES
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Notes to the Condensed Consolidated Interim Financial Information

(18) Derivative Financial Instruments, continued

<u>Risk Category</u>	<u>September 30, 2018</u>				
	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>Maturity From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
Interest rate risk					
Hedging of Bonds					
Notional Value	0	0	0	7,250,000	55,000,000
Average interest rate				7.60%	2.43%
Hedging of Bonds and Borrowings					
Notional Value	0	0	0	0	350,000,000
Average interest rate					3.82%

The effects of hedge accounting on the financial situation are detailed as follows:

	<u>Notional Value</u>	<u>Book Value</u>		<u>September 30, 2019</u> Item in the condensed Consolidated statement of financial position that include hedge instruments	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>			
Interest rate risk:						
Derivatives of interest rate – Bonds Hedge	82,250,000	0	7,798,183	Other assets (liabilities)	0	0
Derivatives of interest rate – Bonds and notes Hedge	<u>350,000,000</u>	<u>18,385,243</u>	<u>0</u>	Other assets (liabilities)	0	0
Total interest rate risk	<u>432,250,000</u>	<u>18,385,243</u>	<u>7,798,183</u>			

	<u>Notional Value</u>	<u>Book Value</u>		<u>December 31, 2018</u> Item in the condensed Consolidated statement of financial position that include hedge instruments	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>			
Interest rate risk:						
Derivatives of interest rate – Bonds Hedge	82,250,000	733,434	1,502,543	Other assets (liabilities)	0	0
Derivatives of interest rate – Bonds and notes Hedge	<u>350,000,000</u>	<u>0</u>	<u>6,977,248</u>	Other liabilities	0	0
Total interest rate risk	<u>432,250,000</u>	<u>733,434</u>	<u>8,479,791</u>			

	<u>Notional Value</u>	<u>Book Value</u>		<u>September 30, 2018</u> Item in the condensed Consolidated statement of financial position that include hedge instruments	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>			
Interest rate risk:						
Derivatives of interest rate – Bonds Hedge	62,250,000	2,012,131	0	Other assets	0	0
Derivatives of interest rate – Bonds and notes Hedge	<u>350,000,000</u>	<u>0</u>	<u>16,437,756</u>	Other liabilities	0	0
Total interest rate risk	<u>412,250,000</u>	<u>2,012,131</u>	<u>16,437,756</u>			

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Notes to the Condensed Consolidated Interim Financial Information

(18) Derivative Financial Instruments, continued

The amounts relating to items designated as hedged items were as follows:

<u>September 30, 2019</u>							
	<u>Book Value</u>		<u>Accumulated amount of fair value hedge item included in the carrying amount of the hedge item</u>		<u>Item in the statement of financial position in which the hedge item is included</u>	<u>Change in the value used for calculating hedge ineffectiveness</u>	<u>Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedge items that have ceased to be adjusted for hedging gains and losses</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>			
Bonds	91,662,090		7,695,590	0	Investment securities FVOCI	0	0
Bonds and notes		<u>350,000,000</u>	<u>0</u>	<u>18,585,142</u>	Borrowing and debt securities issued	<u>0</u>	<u>0</u>
<u>December 31, 2018</u>							
	<u>Book Value</u>		<u>Accumulated amount of fair value hedge item included in the carrying amount of the hedge item</u>		<u>Item in the statement of financial position in which the hedge item is included</u>	<u>Change in the value used for calculating hedge ineffectiveness</u>	<u>Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedge items that have ceased to be adjusted for hedging gains and losses</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>			
Bonds	85,831,655		1,502,543	836,027	Investment securities FVOCI	0	0
Bonds and notes		<u>350,000,000</u>	<u>6,777,350</u>	<u>0</u>	Borrowing and debt securities issued	<u>0</u>	<u>0</u>
<u>September 30, 2018</u>							
	<u>Book Value</u>		<u>Accumulated amount of fair value hedge item included in the carrying amount of the hedge item</u>		<u>Item in the statement of financial position in which the hedge item is included</u>	<u>Change in the value used for calculating hedge ineffectiveness</u>	<u>Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedge items that have ceased to be adjusted for hedging gains and losses</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>			
Bonds	66,918,918		0	2,114,723	Investment securities FVOCI	0	0
Bonds and notes		<u>350,000,000</u>	<u>16,237,857</u>	<u>0</u>	Borrowing and debt securities issued	<u>0</u>	<u>0</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

(18) Derivative Financial Instruments, continued

The Bank held the following interest rate derivatives as fair value hedges for risk management.

<u>Risk Category</u>	<u>September 30, 2019</u>				
	<u>Maturity</u>				
	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
Interest rate risk					
Hedging of Borrowings					
Notional Value	0	0	0	250,000,000	0
Average interest rate				2.86%	

<u>Risk Category</u>	<u>December 31, 2018</u>				
	<u>Maturity</u>				
	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
Interest rate risk					
Hedging of Borrowings					
Notional Value	0	0	0	250,000,000	0
Average interest rate				2.78%	

The effects of hedge accounting on the financial situation are detailed as follows:

	<u>September 30, 2019</u>				
	<u>Book Value</u>		<u>Item in the condensed Consolidated statement of financial position that include hedge instruments</u>	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
	<u>Notional Value</u>	<u>Assets</u>	<u>Liabilities</u>		
Interest rate risk:					
Derivatives of interest rate – Borrowings Hedge	250,000,000	0	8,604,750	Other liabilities	0

	<u>December 31, 2018</u>				
	<u>Book Value</u>		<u>Item in the condensed Consolidated statement of financial position that include hedge instruments</u>	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
	<u>Notional Value</u>	<u>Assets</u>	<u>Liabilities</u>		
Interest rate risk:					
Derivatives of interest rate – Borrowings Hedge	250,000,000	0	2,036,539	Other liabilities	0

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Notes to the Condensed Consolidated Interim Financial Information**(18) Derivative Financial Instruments, continued**

The three levels of fair value that were categorized for derivatives are as follows:

		September 30, 2019			
		Level 1	Level 2	Level 3	Total
<u>Assets</u>					
Other derivatives:					
Credit	0	1,135,732	0	1,135,732	
Interest rate	0	892,436	0	892,436	
Foreign exchange	0	1,175,129	0	1,175,129	
Total	0	3,203,297	0	3,203,297	
Hedge Derivatives for risk management:					
Interest rate	0	18,385,243	0	18,385,243	
Total	0	18,385,243	0	18,385,243	
Total Derivatives assets	0	21,588,540	0	21,588,540	
<u>Liabilities</u>					
Other derivatives:					
Credit	0	2,124,266	0	2,124,266	
Interest rate	73,766	4,580,044	0	4,653,810	
Foreign exchange	0	699,189	0	699,189	
Total	73,766	7,403,499	0	7,477,265	
Hedge Derivates for risk management:					
Interest rate	0	16,608,940	0	16,608,940	
Total	0	16,608,940	0	16,608,940	
Total Derivates liabilities	73,766	24,012,439	0	24,086,205	
		December 31, 2018			
		Level 1	Level 2	Level 3	Total
<u>Assets</u>					
Other derivatives:					
Credit	0	914,521	0	914,521	
Interest rate	0	2,361,220	0	2,361,220	
Foreign exchange	0	482,971	0	482,971	
Total	0	3,758,712	0	3,758,712	
Hedge Derivatives for risk management:					
Interest rate	0	906,154	0	906,154	
Total	0	906,154	0	906,154	
Total Derivatives assets	0	4,664,866	0	4,664,866	
<u>Liabilities</u>					
Other derivatives:					
Credit	0	3,031,648	0	3,031,648	
Interest rate	27,547	2,750,185	0	2,777,732	
Foreign exchange	0	816,641	0	816,641	
Total	27,547	6,598,474	0	6,626,021	
Hedge Derivates for risk management:					
Interest rate	0	10,516,331	0	10,516,331	
Total	0	10,516,331	0	10,516,331	
Total Derivates liabilities	27,547	17,114,805	0	17,142,352	

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

(18) Derivative Financial Instruments, continued

		September 30, 2018		
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Other derivatives:				
Credit	0	1,714,646	0	1,714,646
Interest rate	3,125	3,186,320	0	3,189,445
Foreign exchange	0	987,095	0	987,095
Total	<u>3,125</u>	<u>5,888,061</u>	<u>0</u>	<u>5,891,186</u>
Hedge Derivatives for risk management:				
Interest rate	0	2,362,353	0	2,362,353
Total	<u>0</u>	<u>2,362,353</u>	<u>0</u>	<u>2,362,353</u>
Total Derivatives Assets	<u>3,125</u>	<u>8,250,414</u>	<u>0</u>	<u>8,253,539</u>
<u>Liabilities</u>				
Other derivatives:				
Credit	0	2,095,762	0	2,095,762
Interest rate	0	1,291,417	0	1,291,417
Foreign exchange	0	1,819,379	0	1,819,379
Other	0	9,133	0	9,133
Total	<u>0</u>	<u>5,215,691</u>	<u>0</u>	<u>5,215,691</u>
Hedge Derivates for risk management:				
Interest rate	0	16,437,756	0	16,437,756
Total	<u>0</u>	<u>16,437,756</u>	<u>0</u>	<u>16,437,756</u>
Total Derivates Liabilities	<u>0</u>	<u>21,653,447</u>	<u>0</u>	<u>21,653,447</u>

(19) Fair Value of Financial Instruments

The Bank has in place a documented procedure to determine fair value and the responsibilities of the areas involved in this process. This process has been approved by the Assets and Liabilities Committee, the Risk Committee of the Board of Directors, and the Bank's Board of Directors.

The Bank uses price vendors for most of the prices of assets and liabilities at fair value which are processed by the department of Operations and validated by the area of Management and Control of the Treasury and Risk department.

The Bank uses internal valuation methodologies for certain assets and liabilities at fair value classified in Level 3 of the fair value hierarchy. The calculation of fair values using internal methodologies is performed by the area of Management and Control of the Treasury department and validated by the Risk department.

The Bank measures fair value using the fair value hierarchy, which categorizes the variables used in valuation techniques to measure fair value into three levels. The hierarchy is based on the transparency of the inputs used in measuring the fair value of financial assets and financial liabilities at their valuation date. The three levels are defined as follows:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets accessible to the Bank, for identical instruments.

BANCO GENERAL, S. A. AND SUBSIDIARIES

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Notes to the Condensed Consolidated Interim Financial Information**(19) Fair Value of Financial Instruments, continued**

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant input are directly or indirectly observable from market data.

Level 3: Unobservable inputs for assets or liabilities. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The classification of the valuation of fair value is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The relevance of a variable should be evaluated with respect to the entire fair value measurement.

Fair Value Measurement of Securities and Other Financial Assets at FVTPL

	September 30			
	2019	Level 1	Level 2	Level 3
Local Commercial Paper	150,270	0	0	150,270
Local Corporate Bonds and Fixed Income Funds	57,037,329	0	0	57,037,329
Bonds issued by the Republic of Panama	1,886,617	0	1,886,617	0
Local Corporate Shares	48,827,432	4,008	0	48,823,424
Foreign Treasury Bills	250,310	250,310	0	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	369,009,512	0	369,009,512	0
Asset Backed Securities (ABS)	8,716,214	0	8,716,214	0
Foreign Corporate Bonds and Fixed Income Funds	404,276,614	0	296,181,170	108,095,444
Foreign Corporate Shares and Variable Income Mutual Funds	73,257	0	3,615	69,642
Total	890,227,555	254,318	675,797,128	214,176,109
	December 31			
	2018	Level 1	Level 2	Level 3
Local Commercial Paper	250,000	0	0	250,000
Local Corporate Bonds and Fixed Income Funds	53,285,932	0	0	53,285,932
Bonds issued by the Republic of Panama	2,361,471	0	2,361,471	0
Local Corporate Shares	54,240,959	3,477	0	54,237,482
Foreign Treasury Bills	249,682	249,682	0	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	324,156,608	0	324,156,608	0
Asset Backed Securities (ABS)	7,489,044	0	7,489,044	0
Foreign Fixed Income Funds	340,074,338	0	241,801,861	98,272,477
Foreign Corporate Shares and Variable Income Mutual Funds	83,161	0	13,519	69,642
Total	782,191,195	253,159	575,822,503	206,115,533

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Notes to the Condensed Consolidated Interim Financial Information

(19) Fair Value of Financial Instruments, continued

Fair Value Measurement of Securities and Other Financial Assets at FVTPL

	September 30			
	2018	Level 1	Level 2	Level 3
Local Corporate Bonds and Fixed Income Funds	54,352,747	0	0	54,352,747
Bonds issued by the Republic of Panama	2,351,979	0	2,351,979	0
Local Corporate Shares	51,371,656	4,205	0	51,367,451
Foreign Treasury Bills	249,752	249,752	0	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	244,980,912	0	244,980,912	0
Asset Backed Securities (ABS)	8,196,943	0	8,196,943	0
Foreign Fixed Income Funds	341,894,825	0	244,313,584	97,581,241
Foreign Corporate Shares and Variable Income Mutual Funds	85,082	0	14,897	70,185
Total	703,483,896	253,957	499,858,315	203,371,624

Fair Value Measurement of Securities and Other Financial Assets FVOCI

	September 30			
	2019	Level 1	Level 2	Level 3
Local Commercial Paper and Treasury Bills	28,256,452	0	0	28,256,452
Local Corporate Bonds	996,475,037	0	174,628,499	821,846,538
Bonds issued by the Republic of Panama	286,670,756	0	286,670,756	0
Bonds issued by US Government	31,575,969	31,575,969	0	0
Foreign Bank Acceptances, Commercial Paper and Treasury Bills	327,480,252	65,233,420	257,574,986	4,671,846
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	1,372,767,990	0	1,372,031,082	736,908
Asset Backed Securities (ABS)	103,833,757	0	103,833,757	0
Foreign Corporate Bonds	1,017,295,487	0	1,017,295,487	0
Bonds issued by Other Governments	45,314,577	4,021,200	41,293,377	0
Total	4,209,670,277	100,830,589	3,253,327,944	855,511,744

	December 31			
	2018	Level 1	Level 2	Level 3
Local Commercial Paper and Treasury Bills	9,149,074	0	0	9,149,074
Local Corporate Bonds	1,013,248,627	0	153,437,011	859,811,616
Bonds issued by the Republic of Panama	197,174,372	0	197,174,372	0
Bonds issued by US Government	56,748,859	56,748,859	0	0
Foreign Commercial Paper and Treasury Bills	610,837,417	241,052,103	369,785,314	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	1,378,068,871	0	1,377,302,241	766,630
Asset Backed Securities (ABS)	86,020,812	0	86,020,812	0
Foreign Corporate Bonds	969,737,294	0	969,737,294	0
Bonds issued by Other Governments	73,874,655	11,585,500	62,289,155	0
Total	4,394,859,981	309,386,462	3,215,746,199	869,727,320

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Notes to the Condensed Consolidated Interim Financial Information

(19) Fair Value of Financial Instruments, continued

Fair Value Measurement of Securities and Other Financial Assets FVOCI

	September 30 2018	Level 1	Level 2	Level 3
Local Commercial Paper and Treasury Bills	9,213,288	0	0	9,213,288
Local Corporate Bonds	1,016,146,493	0	126,028,614	890,117,879
Bonds issued by the Republic of Panama	192,646,393	0	192,646,393	0
Bonds issued by US Government	32,076,341	32,076,341	0	0
Foreign Bank Acceptances, Commercial Paper and Treasury Bills	342,232,566	28,089,128	314,143,438	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	1,341,258,111	0	1,340,489,012	769,099
Asset Backed Securities (ABS)	89,844,044	0	89,844,044	0
Foreign Corporate Bonds	813,841,731	0	813,841,731	0
Bonds issued by Other Governments	75,122,834	13,603,782	61,519,052	0
Total	3,912,381,801	73,769,251	2,938,512,284	900,100,266

Changes in the Fair Value Measurement of the Level 3 hierarchy
Investment Securities and
Other Financial Assets

	Fair Value TPL	Fair Value OCI	Total
December 31, 2018	206,115,533	869,727,320	1,075,842,853
Loss recognized in income	(3,700,917)	(174,896)	(3,875,813)
Gain recognized in equity	0	10,194,730	10,194,730
Reclassifications	3,431,598	(3,431,598)	0
Purchases	34,995,228	130,947,359	165,942,587
Amortization, sales and redemptions	(26,665,333)	(151,751,171)	(178,416,504)
September 30, 2019	214,176,109	855,511,744	1,069,687,853
Total gains (loss) related to instruments held at September 30, 2019	(5,187,644)	10,940,348	5,752,704
December 31, 2017	193,746,653	947,373,425	1,141,120,078
Changes due to adoption of IFRS 9	518,820	16,303,767	16,822,587
January 1, 2018	194,265,473	963,677,192	1,157,942,665
Gain recognized in income	636,551	34,092	670,643
Loss recognized in equity	0	(10,696,936)	(10,696,936)
Transfer from level 3	0	(13,629,063)	(13,629,063)
Purchases	59,790,867	163,475,966	223,266,833
Amortization, sales and redemptions	(48,577,358)	(233,133,931)	(281,711,289)
December 31, 2018	206,115,533	869,727,320	1,075,842,853
Total (loss) gains related to instruments held at December 31, 2018	724,086	(10,472,103)	(9,748,017)
December 31, 2017	193,746,653	947,373,425	1,141,120,078
Changes due to adoption of IFRS 9	518,820	16,303,767	16,822,587
January 1, 2018	194,265,473	963,677,192	1,157,942,665
Gain recognized in income	176,303	34,092	210,395
Gain recognized in equity	0	(594,717)	(594,717)
Transfer from level 3	0	(13,629,063)	(13,629,063)
Purchases	54,128,712	163,475,208	217,603,920
Amortization, sales and redemptions	(45,198,864)	(212,862,446)	(258,061,310)
September 30, 2018	203,371,624	900,100,266	1,103,471,890
Total gains (loss) related to instruments held at September 30, 2018	642,841	(273,463)	369,378

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Notes to the Condensed Consolidated Interim Financial Information

(19) Fair Value of Financial Instruments, continued

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting year in which the change has occurred.

During 2018, because of changes in the source of fair value prices of bonds for other Governments insignificant transfers were made from the Level 3 to the category Level 1 in FVOCI.

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

Type of financial instruments	Valuation technique	Significant unobservable input	Range of estimates for unobservable input			Fair value measurement sensitivity to unobservable inputs
			September 30 2019	December 31 2018	September 30 2018	
Corporate Shares	Dividend discount model and	Equity risk premium	Min 5.80% Max 11.16%	Min 5.80% Max 11.16%	Min 5.51% Max 9.86%	If equity risk premiums increase the price decreases and vice versa
	Dividend model free cash flow model (DCF)	Growth rate of assets, liabilities, equity, profits and dividends	Min (36.95%) Max 16.51%	Min (36.95%) Max 16.51%	Min (20.50%) Max 29.32%	If the growth rate increases the price increases and vice versa
Fixed Income	Discounted cash flows model	Credit spreads	Min 0.57% Max 7.19% Ave 1.85%	Min 0.55% Max 8.31% Ave 2.92%	Min 0.46% Max 4.40% Ave 2.08%	If the credit spreads increase the price decreases and vice versa

The main valuation techniques, assumptions and inputs used to measure the fair value of financial instruments are as follows:

Instrument	Valuation technique	Inputs	Level
Local Fixed Income	Quoted prices in active markets	Observable quoted prices	2-3
	Discounted cash flows model	Benchmark interest rate Liquidity risk premiums Credit spreads	
Local Shares	Quoted prices in active markets	Quoted prices in active markets	1-3
	Dividend discount model Discount free cash flows model, which are compared with the stock prices	Benchmark interest rate Equity risk premium Growth rate of assets, liabilities, equity, profits and dividends	
	Carrying amount model	Equity Common shares issued and outstanding	
Foreign Fixed Income	Quoted prices in active markets	Quoted prices in active markets	1-2
	Quoted prices in active markets for similar instruments	Observable quoted prices	
	Bid and ask prices from market participants	Prices from a broker	
	Discounted cash flows model	Credit spreads Benchmark interest rate Liquidity risk premiums	

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Notes to the Condensed Consolidated Interim Financial Information

(19) Fair Value of Financial Instruments, continued

<u>Instrument</u>	<u>Valuation technique</u>	<u>Inputs</u>	<u>Level</u>
Agency MBS / CMOs	Discounted cash flows model	Features of collateral TBA's price Treasury yield Yield curves Prepayment speed Market analysis	2 - 3
Private MBS / CMOs and ABS	Discounted cash flows model	Features of collateral Treasury yield Yield curves Expected cash flow and losses Market assumptions related to discount rates, prepayments, losses and recoveries	2
Foreign Shares	Carrying amount model	Carrying amount of the shares of the company	3
Investment vehicles	Net asset value	Net asset value	2 - 3

The Bank considers that its methodologies for valuation of investment securities classified as Level 3 are appropriate; however, the use of different estimates of the unobservable variable could lead to different measurements of fair value. For investment securities classified in Level 3, adjustments in the credit spread (in the case of fixed income) and to the equity risk premium (in the case of the corporate shares) of +50bp and -50bp would result in favorable and unfavorable impacts in the Bank's condensed consolidated statement of income and in the consolidated equity, as describe below:

	<u>September 30, 2019</u>			
	<u>Fair Value</u>		<u>FVOCI</u>	
	<u>Effect on profit or loss</u>		<u>Effect in equity</u>	
	<u>Favorable</u>	<u>(Unfavorable)</u>	<u>Favorable</u>	<u>(Unfavorable)</u>
Fixed Income	88,137	(85,395)	15,010,848	(14,609,750)
Corporate Shares	<u>4,296,726</u>	<u>(3,613,506)</u>	<u>0</u>	<u>0</u>
Total	<u>4,384,863</u>	<u>(3,698,901)</u>	<u>15,010,848</u>	<u>(14,609,750)</u>

	<u>December 31, 2018</u>			
	<u>Fair Value</u>		<u>FVOCI</u>	
	<u>Effect on profit or loss</u>		<u>Effect in equity</u>	
	<u>Favorable</u>	<u>(Unfavorable)</u>	<u>Favorable</u>	<u>(Unfavorable)</u>
Fixed Income	1	(2)	7,448,774	(10,623,861)
Corporate Shares	<u>4,709,374</u>	<u>(3,952,971)</u>	<u>0</u>	<u>0</u>
Total	<u>4,709,375</u>	<u>(3,952,973)</u>	<u>7,448,774</u>	<u>(10,623,861)</u>

	<u>September 30, 2018</u>			
	<u>Fair Value</u>		<u>FVOCI</u>	
	<u>Effect of profit or loss</u>		<u>Effect in equity</u>	
	<u>Favorable</u>	<u>(Unfavorable)</u>	<u>Favorable</u>	<u>(Unfavorable)</u>
Fixed Income	2	(2)	8,373,981	(9,738,359)
Corporate Shares	<u>4,550,121</u>	<u>(3,799,189)</u>	<u>0</u>	<u>0</u>
Total	<u>4,550,123</u>	<u>(3,799,191)</u>	<u>8,373,981</u>	<u>(9,738,359)</u>

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Notes to the Condensed Consolidated Interim Financial Information**(19) Fair Value of Financial Instruments, continued**

The following assumptions, where practical, have been made by Management to estimate the fair value of financial assets and liabilities not measured at fair value:

(a) Securities and other financial assets

For securities and other financial assets, the fair value measurement is determined using quoted prices in active markets, prices from third party pricing vendors, brokers, custodians, investment management companies and banks. In addition, in some cases the fair value measurement is determined using valuation techniques mainly by discounting cash flows at the appropriate discount rate for that instrument.

(b) Loans

The fair value of the loan portfolio was determined by discounting the future cash flows at an interest rate that represents: (i) current market rates, and (ii) the future expected interest rates, for a term that takes into account the expected anticipated prepayments in the loan portfolio.

(c) Demand deposits from customers/savings deposits from customers/securities sold under agreements to repurchase

For these financial instruments, the carrying value approximates their fair value due to their short-term nature.

(d) Time deposits from customers and banks/borrowings and debt securities issued/perpetual bonds

The fair value of these financial instruments was determined by discounting the future cash flows at an interest rate that reflects: (i) current market rates, and (ii) the future expected interest rates, for a term that shows the remaining life of these instruments.

Fair value estimates are made at a specific date based on relevant market estimates and information about the financial instruments. These estimates do not reflect any premium or discount that could result from the offer to sell a specific financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and significant judgment; therefore, these estimates cannot be determined with precision. Changes in the assumptions or criteria could significantly affect the estimates.

The following table summarizes the carrying value and fair value of those financial assets and liabilities not measured at fair value in the Bank's condensed consolidated statement of financial position:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>		<u>September 30, 2018</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Assets:						
Time deposits	161,218,354	161,728,138	166,721,311	166,404,593	167,721,680	167,304,498
Securities at amortized cost, net	0	0	10,948,692	10,950,000	56,196,628	56,200,000
Loans, net	<u>11,878,751,840</u>	<u>11,819,992,499</u>	<u>11,752,748,950</u>	<u>11,711,853,419</u>	<u>11,652,025,010</u>	<u>11,612,068,887</u>
	<u>12,039,970,194</u>	<u>11,981,720,637</u>	<u>11,930,418,953</u>	<u>11,889,208,012</u>	<u>11,875,943,318</u>	<u>11,835,573,385</u>
Liabilities:						
Deposits	12,394,388,268	12,421,963,499	12,228,307,030	12,210,533,516	11,620,255,049	11,610,453,901
Securities sold under repurchase agreements, borrowings and debt securities in issued and perpetual bonds	<u>2,632,115,184</u>	<u>2,625,884,741</u>	<u>3,104,208,342</u>	<u>3,062,526,236</u>	<u>3,016,644,316</u>	<u>2,965,587,424</u>
	<u>15,026,503,452</u>	<u>15,047,848,240</u>	<u>15,332,515,372</u>	<u>15,273,059,752</u>	<u>14,636,899,365</u>	<u>14,576,041,325</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

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Notes to the Condensed Consolidated Interim Financial Information**(19) Fair Value of Financial Instruments, continued**

The table below summarizes the fair value hierarchy of financial instruments which are not measured at fair value in the Bank's condensed consolidated statement of financial position:

	September 30 2019	Level 1	Level 2	Level 3
<u>Assets:</u>				
Time deposits	161,728,138	0	0	161,728,138
Loans, net	<u>11,819,992,499</u>	<u>0</u>	<u>0</u>	<u>11,819,992,499</u>
	<u>11,981,720,637</u>	<u>0</u>	<u>0</u>	<u>11,981,720,637</u>
<u>Liabilities:</u>				
Deposits	12,421,963,499	0	0	12,421,963,499
Securities sold under repurchase agreements, Borrowings, debt securities in issued and perpetual bonds	<u>2,625,884,741</u>	<u>0</u>	<u>0</u>	<u>2,625,884,741</u>
	<u>15,047,848,240</u>	<u>0</u>	<u>0</u>	<u>15,047,848,240</u>
	December 31 2018	Level 1	Level 2	Level 3
<u>Assets:</u>				
Time deposits	166,404,593	0	0	166,404,593
Securities at amortized cost, net	10,950,000	0	10,950,000	0
Loans, net	<u>11,711,853,419</u>	<u>0</u>	<u>0</u>	<u>11,711,853,419</u>
	<u>11,889,208,012</u>	<u>0</u>	<u>10,950,000</u>	<u>11,878,258,012</u>
<u>Liabilities:</u>				
Deposits	12,210,533,516	0	0	12,210,533,516
Borrowings, debt securities in issued and perpetual bonds	<u>3,062,526,236</u>	<u>0</u>	<u>0</u>	<u>3,062,526,236</u>
	<u>15,273,059,752</u>	<u>0</u>	<u>0</u>	<u>15,273,059,752</u>
	September 30 2018	Level 1	Level 2	Level 3
<u>Assets:</u>				
Time deposits	167,304,498	0	0	167,304,498
Securities at amortized cost, net	56,200,000	0	56,200,000	0
Loans, net	<u>11,612,068,887</u>	<u>0</u>	<u>0</u>	<u>11,612,068,887</u>
	<u>11,835,573,385</u>	<u>0</u>	<u>56,200,000</u>	<u>11,779,373,385</u>
<u>Liabilities:</u>				
Deposits	11,610,453,901	0	0	11,610,453,901
Securities sold under repurchase agreements, Borrowings, debt securities in issued and perpetual bonds	<u>2,965,587,424</u>	<u>0</u>	<u>0</u>	<u>2,965,587,424</u>
	<u>14,576,041,325</u>	<u>0</u>	<u>0</u>	<u>14,576,041,325</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

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Notes to the Condensed Consolidated Interim Financial Information

(20) Financial Instruments Risk Management

A financial instrument is any contract that originates a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. The Bank's condensed consolidated statement of financial position is primarily composed of financial instruments.

Financial instruments expose the Bank to various types of risk. The Bank's Board of Directors has approved a Risk Management Policy to identify each significant risk the Bank is exposed to. In order to manage and monitor the several risks faced by the Bank, the Board of Directors has created the Credit Risk Committee of the Board of Directors, to oversee the liquidity, market, interest rate, exchange rate and counterparty risks. Likewise, the Board of Directors has established executive Committees, which are composed of key executives that monitor several risks faced by the Bank. These committees have established policies and limits in order to monitor, control and manage these risks. There is also an Audit Committee, composed of members of the Bank's Board of Directors that oversees the establishment of appropriate internal controls for reporting the Bank's financial information.

The main risks identified by the Bank are credit, counter-party, market, liquidity and financing, operational and capital management risks which are described as follows:

(a) *Credit Risk*

Is the risk that the debtor or issuer of a financial asset owned by the Bank does not fully and timely comply with any required payment, in conformity with terms and conditions agreed upon when the respective financial asset was acquired or originated by the Bank.

To mitigate credit risk, risk management policies establish limits by country, industry, and debtor. The Credit Committee appointed by the Board of Directors, periodically watches over the financial condition of debtors and issuers of financial instruments in the condensed consolidated statement of financial position of the Bank.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(20) Financial Instruments Risk Management, continued**Credit Quality Analysis

The table below sets out information about the credit quality of the loan portfolio and the allowance for expected credit losses (ECL) held by the Bank against those assets:

	<u>September 30, 2019</u> (in thousand)			
	<u>12-month ECL</u>	<u>Lifetime ECL Not credit – Impaired</u>	<u>Lifetime ECL credit- Impaired</u>	<u>Total</u>
<u>Loans at amortized cost</u>				
Grade 1: Standard	11,149,109	50,525	0	11,199,634
Grade 2: Special mention	33,253	454,984	10,053	498,290
Grade 3: Sub-standard	8,359	21,334	140,054	169,747
Grade 4: Doubtful	5,840	5,015	45,556	56,411
Grade 5: Loss	2,438	869	53,364	56,671
Gross amount	11,198,999	532,727	249,027	11,980,753
Allowance for impairment	(83,885)	(27,141)	(48,116)	(159,142)
Net carrying amount	<u>11,115,114</u>	<u>505,586</u>	<u>200,911</u>	<u>11,821,611</u>
<u>Financial leases</u>				
Grade 1: Standard	96,611	595	7	97,213
Grade 2: Special mention	393	1,842	0	2,235
Grade 3: Sub-standard	187	545	21	753
Grade 5: Loss	0	20	57	77
Gross amount	97,191	3,002	85	100,278
Allowance for impairment	(207)	(40)	(13)	(260)
Net carrying amount	<u>96,984</u>	<u>2,962</u>	<u>72</u>	<u>100,018</u>
Total loans	<u>11,296,190</u>	<u>535,729</u>	<u>249,112</u>	<u>12,081,031</u>
Allowance for impairment	(84,092)	(27,181)	(48,129)	(159,402)
Net carrying amount	<u>11,212,098</u>	<u>508,548</u>	<u>200,983</u>	<u>11,921,629</u>
<u>Renegotiated loans</u>				
Gross amount	3,459	116,460	97,712	217,631
Allowance for impairment	(115)	(2,158)	(20,380)	(22,653)
Net carrying amount	<u>3,344</u>	<u>114,302</u>	<u>77,332</u>	<u>194,978</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

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Notes to the Condensed Consolidated Interim Financial Information**(20) Financial Instruments Risk Management, continued**

	December 31, 2018 (in thousand)			
	12-month ECL	Lifetime ECL Not credit – Impaired	Lifetime ECL credit- Impaired	Total
<u>Loans at amortized cost</u>				
Grade 1: Standard	11,167,496	46,963	0	11,214,459
Grade 2: Special mention	22,961	355,905	8,880	387,746
Grade 3: Sub-standard	9,210	18,555	103,890	131,655
Grade 4: Doubtful	5,763	3,974	58,353	68,090
Grade 5: Loss	1,844	1,076	39,213	42,133
Gross amount	11,207,274	426,473	210,336	11,844,083
Allowance for impairment	(86,391)	(24,483)	(47,248)	(158,122)
Net carrying amount	11,120,883	401,990	163,088	11,685,961
<u>Financial leases</u>				
Grade 1: Standard	103,337	3,063	16	106,416
Grade 2: Special mention	0	980	0	980
Grade 3: Sub-standard	0	6	151	157
Grade 4: Doubtful	0	0	29	29
Grade 5: Loss	0	0	720	720
Gross amount	103,337	4,049	916	108,302
Allowance for impairment	(218)	(62)	(129)	(409)
Net carrying amount	103,119	3,987	787	107,893
Total loans	11,310,611	430,522	211,252	11,952,385
Allowance for impairment	(86,609)	(24,545)	(47,377)	(158,531)
Net carrying amount	11,224,002	405,977	163,875	11,793,854
<u>Renegotiated loans</u>				
Gross amount	4,801	43,880	99,626	148,307
Allowance for impairment	(143)	(2,334)	(22,809)	(25,286)
Net carrying amount	4,658	41,546	76,817	123,021

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(20) Financial Instruments Risk Management, continued**

	<u>September 30, 2018</u> (in thousand)			
	<u>12-month ECL</u>	<u>Lifetime ECL No credit – Impaired</u>	<u>Lifetime ECL credit- Impaired</u>	<u>Total</u>
<u>Loans at amortized cost</u>				
Grade 1: Standard	11,038,293	57,299	0	11,095,592
Grade 2: Special mention	25,288	336,197	7,953	369,438
Grade 3: Sub-standard	11,733	31,392	101,385	144,510
Grade 4: Doubtful	6,379	5,235	67,622	79,236
Grade 5: Loss	2,071	567	45,516	48,154
Gross amount	11,083,764	430,690	222,476	11,736,930
Allowance for impairment	(75,278)	(28,366)	(49,656)	(153,300)
Net carrying amount	<u>11,008,486</u>	<u>402,324</u>	<u>172,820</u>	<u>11,583,630</u>
<u>Financial leases</u>				
Grade 1: Standard	104,028	2,846	7	106,881
Grade 2: Special mention	0	1,380	0	1,380
Grade 3: Sub-standard	0	0	167	167
Grade 4: Doubtful	0	0	81	81
Grade 5: Loss	0	0	680	680
Gross amount	104,028	4,226	935	109,189
Allowance for impairment	(206)	(72)	(133)	(411)
Net carrying amount	<u>103,822</u>	<u>4,154</u>	<u>802</u>	<u>108,778</u>
Total loans	<u>11,187,792</u>	<u>434,916</u>	<u>223,411</u>	<u>11,846,119</u>
Allowance for impairment	(75,484)	(28,438)	(49,789)	(153,711)
Net carrying amount	<u>11,112,308</u>	<u>406,478</u>	<u>173,622</u>	<u>11,692,408</u>
<u>Renegotiated loans</u>				
Gross amount	4,411	52,875	92,255	149,541
Allowance for impairment	(255)	(1,453)	(21,034)	(22,742)
Total, net	<u>4,156</u>	<u>51,422</u>	<u>71,221</u>	<u>126,799</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

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Notes to the Condensed Consolidated Interim Financial Information**(20) Financial Instruments Risk Management, continued**

The aging of the loan portfolio delinquency is presented as follows:

	<u>September 30, 2019</u>		
	<u>Banco General, S. A.</u>	<u>Subsidiaries</u>	<u>Total</u>
Current	10,671,161,092	931,772,273	11,602,933,365
From 31 to 90 days	323,380,284	7,076,418	330,456,702
More than 90 days (principal or interest)	133,390,329	4,821,357	138,211,686
More than 30 days past due (principal)	<u>9,428,255</u>	<u>1,443</u>	<u>9,429,698</u>
Total	<u>11,137,359,960</u>	<u>943,671,491</u>	<u>12,081,031,451</u>

	<u>December 31, 2018</u>		
	<u>Banco General, S. A.</u>	<u>Subsidiaries</u>	<u>Total</u>
Current	10,530,215,731	1,012,872,019	11,543,087,750
From 31 to 90 days	265,588,078	5,893,552	271,481,630
More than 90 days (principal or interest)	115,856,913	4,908,482	120,765,395
More than 30 days past due (principal)	<u>17,049,899</u>	<u>0</u>	<u>17,049,899</u>
Total	<u>10,928,710,621</u>	<u>1,023,674,053</u>	<u>11,952,384,674</u>

	<u>September 30, 2018</u>		
	<u>Banco General, S. A.</u>	<u>Subsidiaries</u>	<u>Total</u>
Current	10,352,836,807	1,021,765,040	11,374,601,847
From 31 to 90 days	307,782,878	10,404,792	318,187,670
More than 90 days (principal or interest)	132,102,990	4,590,982	136,693,972
More than 30 days past due (principal)	<u>16,635,328</u>	<u>0</u>	<u>16,635,328</u>
Total	<u>10,809,358,003</u>	<u>1,036,760,814</u>	<u>11,846,118,817</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(20) Financial Instruments Risk Management, continued**

The following table analyzes the credit quality of investments and other financial assets and impairment reserves held by the Bank, excluding corporate shares and mutual funds amounting to B/.48,900,689 (December 31, 2018: B/.54,324,120) and (September 30, 2018 B/.51,456,738) which are not subject to credit risk:

		September 30, 2019			
	<u>12-month ECL</u>	<u>Lifetime ECL Not credit – Impaired</u>	<u>Lifetime ECL credit- Impaired</u>	<u>Purchased credit- Impaired</u>	<u>Total</u>
<u>At Fair Value OCI</u>					
<i>Local:</i>					
AA+ to BBB-	826,175,969	0	0	0	826,175,969
Lower than BBB-	459,050,284	11,692,992	14,483,000	0	485,226,276
Local carrying amount	1,285,226,253	11,692,992	14,483,000	0	1,311,402,245
Valuation of credit risk	(1,538,799)	(642,188)	(4,981,538)	0	(7,162,525)
<i>Foreign:</i>					
AAA	1,632,284,831	0	0	0	1,632,284,831
AA+ to BBB-	1,075,099,391	0	0	0	1,075,099,391
Lower than BBB-	184,392,761	5,980,017	0	511,032	190,883,810
Foreign carrying amount	2,891,776,983	5,980,017	0	511,032	2,898,268,032
Valuation of credit risk	(4,076,684)	(10,260)	0	0	(4,086,944)
Total carrying amount	4,177,003,236	17,673,009	14,483,000	511,032	4,209,670,277
<u>A Fair Value through profit or loss</u>					
<i>Local:</i>					
AA+ to BBB-	1,886,789				
Lower than BBB-	57,187,427				
Local carrying amount	59,074,216				
<i>Foreign:</i>					
AAA	359,866,372				
AA+ to BBB-	350,614,423				
Lower than BBB-	71,583,435				
NR	188,420				
Foreign carrying amount	782,252,650				
Total carrying amount	841,326,866				

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

(20) Financial Instruments Risk Management, continued

		December 31, 2018			
	<u>12-month ECL</u>	<u>Lifetime ECL Not credit – Impaired</u>	<u>Lifetime ECL credit- Impaired</u>	<u>Purchased credit- Impaired</u>	<u>Total</u>
At Amortized Cost					
<i>Foreign:</i>					
AAA	10,950,000	0	0	0	10,950,000
Accumulated allowance	(1,308)	0	0	0	(1,308)
Net carrying amount	<u>10,948,692</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,948,692</u>
At Fair Value OCI					
<i>Local:</i>					
AA+ to BBB-	688,640,137	0	0	0	688,640,137
Lower than BBB-	505,607,540	11,270,755	14,053,641	0	530,931,936
Local carrying amount	<u>1,194,247,677</u>	<u>11,270,755</u>	<u>14,053,641</u>	<u>0</u>	<u>1,219,572,073</u>
Valuation of credit risk	(1,787,390)	(686,244)	(2,050,346)	0	(4,523,980)
<i>Foreign:</i>					
AAA	1,746,979,979	0	0	0	1,746,979,979
AA+ to BBB-	1,222,335,575	0	0	0	1,222,335,575
Lower than BBB-	199,252,974	5,947,361	164,471	607,548	205,972,354
Foreign carrying amount	<u>3,168,568,528</u>	<u>5,947,361</u>	<u>164,471</u>	<u>607,548</u>	<u>3,175,287,908</u>
Valuation of credit risk	(5,082,110)	(107,721)	0	(12,277)	(5,202,108)
Total carrying amount	<u>4,362,816,205</u>	<u>17,218,116</u>	<u>14,218,112</u>	<u>607,548</u>	<u>4,394,859,981</u>
A Fair Value through profit or loss					
<i>Local:</i>					
AA+ to BBB-	2,562,700				
Lower than BBB-	53,334,703				
Local carrying amount	<u>55,897,403</u>				
<i>Foreign:</i>					
AAA	314,820,918				
AA+ to BBB-	249,070,161				
Lower than BBB-	107,868,665				
NR	209,928				
Foreign carrying amount	<u>671,969,672</u>				
Total carrying amount	<u>727,867,075</u>				

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information**(20) Financial Instruments Risk Management, continued**

	September 30, 2018				
	<u>12-month ECL</u>	<u>Lifetime ECL Not credit – Impaired</u>	<u>Lifetime ECL credit- Impaired</u>	<u>Purchased credit- Impaired</u>	<u>Total</u>
<u>At amortized cost</u>					
<i>Foreign:</i>					
AAA	56,200,000	0	0	0	56,200,000
Accumulated allowance	(3,372)	0	0	0	(3,372)
Net carrying amount	56,196,628	0	0	0	56,196,628
<u>At Fair Value OCI</u>					
<i>Local:</i>					
AA+ to BBB-	668,434,370	0	0	0	668,434,370
Lower than BBB-	520,507,014	29,064,790	0	0	549,571,804
Local carrying amount	1,188,941,384	29,064,790	0	0	1,218,006,174
Valuation of credit risk	(2,011,358)	(1,438,944)	0	0	(3,450,302)
<i>Foreign:</i>					
AAA	1,468,992,817	0	0	0	1,468,992,817
AA+ to BBB-	1,048,675,441	0	0	0	1,048,675,441
Lower than BBB-	169,629,330	6,429,997	0	648,042	176,707,369
Foreign carrying amount	2,687,297,588	6,429,997	0	648,042	2,694,375,627
Valuation of credit risk	(4,138,675)	(221,270)	0	(5,984)	(4,365,929)
Total carrying amount	3,876,238,972	35,494,787	0	648,042	3,912,381,801
<u>A Fair Value through profit or loss</u>					
<i>Local:</i>					
AA+ to BBB-	2,352,317				
Lower than BBB-	54,352,409				
Local carrying amount	56,704,726				
<i>Foreign:</i>					
AAA	235,846,825				
AA+ to BBB-	254,214,176				
Lower than BBB-	105,134,106				
NR	127,325				
Foreign carrying amount	595,322,432				
Total carrying amount	652,027,158				

The analysis has been based on the highest ratings assigned amongst Fitch Ratings Inc., Moody's and Standard and Poor's. In the case of local investments that do not have an international rating, the Bank assigns an internal rating, which is consistent with international risk ratings.

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Notes to the Condensed Consolidated Interim Financial Information**(20) Financial Instruments Risk Management, continued**

The following table shows the reconciliation between the initial balance and the end of the value correction for expected credit losses (ECL) by the type of reserve model:

	<u>September 30, 2019</u>				
	<u>12-month ECL</u>	<u>Lifetime ECL No credit- Impaired</u>	<u>Lifetime ECL credit - Impaired</u>	<u>Purchased credit - Impaired</u>	<u>Total</u>
Balance at beginning of period	6,869,500	793,965	2,050,346	12,277	9,726,088
Transferred to 12-months ECL	0	0	0	0	0
Transferred to lifetime ECL not credit-impaired	0	0	0	0	0
Transferred to lifetime ECL credit-impaired	0	0	0	0	0
Net remeasurement of portfolio	(1,320,740)	(138,079)	2,931,192	(12,093)	1,460,280
New investment securities purchased	2,026,937	0	0	0	2,026,937
Investment securities that have been derecognized	<u>(1,960,214)</u>	<u>(3,438)</u>	<u>0</u>	<u>(184)</u>	<u>(1,963,836)</u>
Balance at the end of period	<u>5,615,483</u>	<u>652,448</u>	<u>4,981,538</u>	<u>0</u>	<u>11,249,469</u>

	<u>December 31, 2018</u>				
	<u>12-month ECL</u>	<u>Lifetime ECL No credit- Impaired</u>	<u>Lifetime ECL credit - Impaired</u>	<u>Purchased credit - Impaired</u>	<u>Total</u>
Balance January 1, 2018	5,887,002	1,902,585	0	0	7,789,587
Transferred to 12-months ECL	13,705	(13,705)	0	0	0
Transferred to lifetime ECL not credit-impaired	(326,873)	326,873	0	0	0
Transferred to lifetime ECL credit-impaired	(13,091)	121,307	(108,216)	0	0
Net remeasurement of portfolio	35,260	(1,561,651)	2,158,857	12,416	644,882
New investment securities purchased	2,788,329	70,253	0	0	2,858,582
Investment securities that have been derecognized	<u>(1,514,832)</u>	<u>(51,697)</u>	<u>(295)</u>	<u>(139)</u>	<u>(1,566,963)</u>
Balance at the end of year	<u>6,869,500</u>	<u>793,965</u>	<u>2,050,346</u>	<u>12,277</u>	<u>9,726,088</u>

	<u>September 30, 2018</u>				
	<u>12-month ECL</u>	<u>Lifetime ECL No credit- Impaired</u>	<u>Lifetime ECL credit - Impaired</u>	<u>Purchased credit - Impaired</u>	<u>Total</u>
Balance at beginning of period	5,887,002	1,902,585	0	0	7,789,587
Transferred to 12-months ECL	13,705	(13,705)	0	0	0
Transferred to lifetime ECL not credit-impaired	(326,874)	326,874	0	0	0
Transferred to lifetime ECL credit-impaired	(13,091)	0	13,091	0	0
Net remeasurement of portfolio	22,228	(508,511)	(12,796)	6,014	(565,065)
New investment securities purchased	1,809,773	70,253	0	0	1,880,026
Investment securities that have been derecognized	<u>(1,242,710)</u>	<u>(45,282)</u>	<u>(295)</u>	<u>(30)</u>	<u>(1,288,317)</u>
Balance at the end of period	<u>6,150,033</u>	<u>1,660,214</u>	<u>0</u>	<u>5,984</u>	<u>7,816,231</u>

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Information

(21) Main Applicable Laws and Regulations

As of September 30, 2019, there were no significant changes with respect to the applicable regulatory framework disclosed in the audited consolidated financial statements as of December 31, 2018.

The following are the main regulations affecting the bank:

Regulatory Allowances

The accounting treatment for the recognition of losses on loans, investment securities and other real estate owned in conformity with prudential standards enacted by the Superintendence of Banks of Panama, differs in some aspects from the accounting treatment established by International Financial Reporting Standards, specifically IFRS 9 (until December 31, 2017 IAS 39) and IFRS 5. The Superintendence of Banks of Panama mandates that general license banks apply these prudential standards.

Dynamic Provision

Agreement No.4-2013 indicates that the dynamic provision is a reserve provided to face possible future needs for specific provisions. They are governed by prudential criteria in the banking regulation. Dynamic reserves are established on a quarterly basis, on loans classified as Standard.

The dynamic reserve is an equity account presented as a legal reserves in the condensed consolidated statement of changes in equity and appropriated from retained earnings. The balance of the dynamic reserve is part of regulatory capital, but cannot be used in satisfying current or future capital adequacy requirements established by this Superintendence.

The balance of the Bank's dynamic reserve is detailed as follows:

	September 30 <u>2019</u>	December 31 <u>2018</u>	September 30 <u>2018</u>
Banco General, S. A.	133,877,476	133,877,476	133,877,476
Finanzas Generales, S. A.	2,810,061	2,810,061	2,810,061
Banco General (Overseas), Inc.	9,480,047	9,480,047	9,480,047
Banco General (Costa Rica), S. A.	<u>4,951,850</u>	<u>4,951,850</u>	<u>4,580,865</u>
Total	<u>151,119,434</u>	<u>151,119,434</u>	<u>150,748,449</u>

The current Agreement establishes that the dynamic reserve will not be lower than 1.25%, nor greater than 2.50% of risk-weighted assets applied to loan facilities classified as standard.