

Management Discussion

2018



General Information

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

The following discussion is based on information contained in the audited consolidated financial statements and supplementary financial information contained in this document. Certain amounts (including percentages) appearing here have been rounded.

The Bank prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Effective January 1, 2018, we adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments. Due to the application of IFRS 9 and our election not to restate prior period information, as permitted by the standard, the data of the financial statements are not comparable with previous years. Please refer to "Note 3 Summary of Significant Accounting Policies" of the audited consolidated financial statements as of 2018, for more information.

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

Recent Developments

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



ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total Assets

As of December 31, 2018, the Bank's loan portfolio increased 3.9%, from U.S.\$11,506.06 million in December 2017, to U.S.\$11,952.38 million. During this period, the residential mortgage portfolio expanded 7.08%, to U.S.\$4,340.42 million; the consumer loan portfolio grew 7.44%, to U.S.\$1,793.76 million; the corporate loan portfolio, comprised of both local and regional corporate clients, increased 0.83% to U.S.\$5,274.21 million, and other loans (comprised of pledge loans, overdrafts and financial leases) slightly decreased from U.S.\$552.3 million to U.S.\$544.0 million. The Bank's local corporate loan portfolio decreased 1.36% or U.S.\$58.12 million, to U.S.\$4,212.57 million, and the Bank's regional corporate loan portfolio increased 10.58%, or U.S.\$101.54 million, to U.S.\$1,061.64 million. The Bank's total investment portfolio, made up of the Bank's primary liquid assets (comprised of cash, bank deposits and investment-grade, liquid, fixed-income investments), and its local and regional corporate fixed-income portfolio, expanded by 17.52%, from U.S.\$4,436.86 million in December 2017, to U.S.\$5,214.03 million.

Total Liabilities

The Bank's, total client deposits grew by U.S.\$730.49 million, or 6.43%, to U.S.\$12,097.85 million. Client time deposits, the Bank's main source of funding, increased by U.S.\$272.34 million, to U.S.\$5,746.75 million, representing 47.50% of total client deposits, with an average remaining life of 15.9 months, and 68.7% having original maturities of more than one year. Savings accounts grew by U.S.\$116.61 million, to U.S.\$3,515.16 million or 29.06% of total client deposits, while demand deposits increased by U.S.\$341.55 million, amounting to U.S.\$2,835.93 million as of December 31, 2018.

In accordance with the Bank's financial policies, we have managed to develop and have access to multiple medium and long-term funding alternatives. As of December 31, 2018, the Bank's total medium and long-term borrowings and placements increased by U.S.\$179.35 million, or 6.13%, to U.S.\$3,104.21 million, compared to the same period of 2017.

During the last twelve months we have accessed various financing sources, including: (i) in June 2018, the Bank increased the 2017 Syndicate Loan Facility by U.S.\$300 million, with participating banks from the United States, Europe, Asia, the Middle East and Latin America, and (ii) in October 2018, the Bank obtained a 4-year term financing for U.S.\$ 200 million, with a variable 3-month LIBOR rate plus a margin, and principal at maturity. The facility was syndicated among commercial banks in the United States, Europe and Asia.

Equity

The Bank's equity grew by 6.80%, or U.S.\$139.18 million, from U.S.\$2,045.84 million in 2017 to U.S.\$2,185.02 million in 2018. This increase was driven by retained earnings of U.S.\$168.7 million, with the Bank retaining 39.71% of its net profits for the year. The Bank's solid capital base allowed it to absorb a 6.44% asset growth, while maintaining healthy capitalization levels, with an equity to total assets ratio of 11.68% as of December 31, 2018, compared with 11.64% as of December 31, 2017.

Liquidity and Funding Sources

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

The Bank's asset and liability management policy seeks to ensure sufficient liquidity is available to honor withdrawals of deposits, to make payments upon maturity of other liabilities, to extend loans or other forms of



credit, and to meet the working capital needs.

The treasury department is responsible for managing the Bank's liquidity and funding position, as well as executing the Bank's investment strategy. The Bank's current policy requires high absolute levels of liquidity composed of high quality liquid assets, a key pillar of the Bank's financial strategy.

Consistent with the Bank's conservative financial policies, we have historically maintained high levels of liquidity in investment-grade liquid investments, which are complemented by: (i) an adequate asset and liability maturity structure, (ii) a diversified and stable base of deposits, (iii) medium and long-term financing (representing 18.8% of total liabilities); and (iv) low levels of short-term institutional liabilities (0.8% of total liabilities), all of which gives us a very stable asset and liability structure in the Bank's balance sheet.

The Bank's primary liquidity ratio, measured in terms of liquid assets (comprised of cash, bank deposits and investment-grade, liquid, fixed-income investments) to total deposits and borrowings, was 28.16% as of December 31, 2018, equivalent to U.S.\$4,257.09 million in primary liquidity. This represents an increase of 15.08%, compared to U.S.\$3,699.38 million in 2017, with a liquidity ratio of 26.12%. The Bank's total primary liquidity has an average credit rating of AA-, of which 50.86% are AAA rated investments. As of December 31, 2018, these liquid assets represented 35.19% of total deposits, and 22.76% of total assets.

In addition to its internal liquidity requirements, the Bank must comply with liquidity requirements established by the Superintendence of Banks of Panama (SBP), which require liquid assets of no less than 30% of selected deposits received, with maturities of less than 186 days, excluding subsidiaries and pledge deposits. For the calculation of this indicator, the SBP allows all loan installments and maturities classified as standard with a term of less than 186 days to be considered liquid assets, in addition to those used for the calculation of internal liquidity, for up to 30% of the total liquid assets used. As of December 31, 2018, the Bank maintained a regulatory liquidity of 42.65%, complying with the requirements established by law.

Loan Portfolio

The Bank's loan portfolio is well diversified across clients, products, industries and borrower segments. As of December 31, 2018, total loans amounted to U.S.\$11,952.38 million, of which 44.13% was comprised of corporate loans (35.24% local corporate loans and 8.88% foreign corporate loans), 51.32% of retail loans (36.31% residential mortgages and 15.01% consumer loans); and 4.55% of other loans (comprising of pledged loans, overdrafts, and financial leases).

In order to reduce the risk of credit losses, we emphasize the granting of loans secured by collateral, particularly single-family residences, properties and deposits, in addition to applying strict underwriting guidelines and "know your customer" policies. As of December 31, 2018, 79.1% of all loans were secured by properties or deposits in the Bank; 72.8% of all loans were secured by first lien mortgages on land and improvements (residential mortgages, commercial mortgages and interim construction loans), and 6.3% was backed by collateral at the Bank (secured loans and overdrafts). The combination of appropriate underwriting policies and high-quality guarantees has resulted in historically low levels of charge-offs, averaging 0.43% of total loans over last two years ending on December 31, 2018.

As of December 31, 2018, 88.23% of the Bank's loan portfolio was placed with local clients, who are borrowers (individuals and corporations) established in Panama, and 11.77% was placed with regional clients based in Costa Rica, Mexico, Colombia, Guatemala, El Salvador and Peru, and with our universal banking subsidiary in Costa Rica, Banco General (Costa Rica), S.A., which has 11 branches. As of December 31, 2018, 99.9% of the Bank's loans were denominated in U.S. dollars, which is legal tender in Panama. The Bank segments its portfolios according to type of loan, economic activity, and income group, among other variables. In addition, the Bank's credit policies provide for managing concentration within economic sectors, in the case of corporate loans, and provide various underwriting criteria, depending on the level of income, in the case of retail lending.



The following table summarizes the composition of the loan portfolio as of December 31, 2018, 2017, and 2016:

				% Change	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Local Loans					
Commercial	355,306	371,838	300,783	-4.45%	23.62%
Interim construction loans	700,899	807,678	780,855	-13.22%	3.44%
Lines of credit	1,235,506	1,301,407	1,233,583	-5.06%	5.50%
Residential mortgage loans	4,091,043	3,798,892	3,405,347	7.69%	11.56%
Commercial mortgage loans	1,920,858	1,789,765	1,644,394	7.32%	8.84%
Installment loans to individuals	1,776,981	1,652,578	1,513,916	7.53%	9.16%
Pledge loans and overdrafts	356,635	333,660	313,490	6.89%	6.43%
Leasing and factoring	108,302	120,391	124,878	-10.04%	-3.59%
Total Local Loans	10,545,529	10,176,209	9,317,246	3.63%	9.22%
Foreign Loans					
Commercial	447,699	382,626	518,113	17.01%	-26.15%
Interim construction loans	3,100	0	0	100.00%	0.00%
Lines of credit	351,265	317,635	307,604	10.59%	3.26%
Residential mortgage loans	249,376	254,472	251,639	-2.00%	1.13%
Commercial mortgage loans	259,581	259,842	276,622	-0.10%	-6.07%
Installment loans to individuals	16,779	17,034	15,367	-1.50%	10.84%
Pledge loans and overdrafts	79,055	98,242	82,419	-19.53%	19.20%
Total Foreign Loans	1,406,855	1,329,851	1,451,764	5.79%	-8.40%
Total loans	11,952,385	11,506,061	10,769,010	3.88%	6.84%
Allowance for loan losses	158,531	144,832	128,917	9.46%	12.35%
Unearned discount	41,104	38,255	35,511	7.45%	7.73%
Total loans, net	11,752,749	11,322,974	10,604,582	3.80%	6.77%

As of December 31, 2018, the Bank's loan portfolio maintained low levels of non-accrual and past due loans, with levels of 0.97% (2017: 0.78%) and 1.15% (2017: 1.03%), respectively, of the total loan portfolio. As of December 31, 2018, the Bank's loan loss reserve coverage of past due loans was 115.03% (2017: 122.64%), and the coverage of non-accrual loans was 137.14% (2017: 161.41%); charge-offs amounted to U.S.\$51.7 million, or 0.43%(2017: 0.43%) of total loans.

The Bank's charge-offs have remained stable as compared to the prior-year, which we attribute to the following factors: (i) the application of rigid and consistent granting policies over time; (ii) the Bank's preference to extend high-quality secured loans with collateral from residential and commercial properties, whose quality and value are carefully evaluated; and (iii) the diligent monitoring of the performance of the loans, allowing the adoption of appropriate measures to minimize losses.

Non-accrual Loans

The SBP requires the classification of a loan on non-accrual status if any of the following conditions exist: (i) principal and interest payments past due level has reached the limits established by the SBP (91 or more days of principal and/or interest payments past due for all loans, except for mortgages which cease accruing interest after 120 days past due); or (ii) the debtor's financial condition, whether individual or corporate, has suffered material adverse effects (payment capacity deterioration, collateral weakness, and other factors known to us, such as fraud, death of the debtor, or personal or corporate bankruptcy) that puts our ability to collect the loan at risk.



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

	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)		
Non accrual loans			
Commercial	8,931	395	5,608
Interim construction loans	2,424	7,238	6,170
Lines of credit	15,157	6,525	4,389
Residential mortgage loans	56,704	41,875	33,628
Commercial mortgage loans	8,580	11,106	9,427
Installment loans to individuals	22,499	20,811	19,147
Pledge loans and overdrafts	399	587	641
Leasing and factoring	906	1,193	935
Total Non accrual loans	115,601	89,729	79,947
Total Loans	11,952,385	11,506,061	10,769,010
Allowance for loans losses	158,531	144,832	128,917
Non accrual loans as a percentage of total loans	0.97%	0.78%	0.74%
Allowance for loans losses as a percentage of non accrual loans	137.14%	161.41%	161.25%

Past Due Loans

The Bank classifies its loan portfolio according to: (i) the status of principal and interest payments (current, overdue within 31-90 days, and past due more than 90 days), and (ii) the principal payment status of a loan at final maturity as: (a) current, or (b) past due, if not paid after 30 days of the final maturity of the loan.

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

	2018	2017	2016
	(in thousands of U.S. dollars, except for percentages)		
Past due loans			
Commercial	8,931	385	5,608
Interim construction loans	2,424	7,238	6,170
Lines of credit	14,426	6,486	4,489
Residential mortgage loans	78,966	69,565	56,322
Commercial mortgage loans	8,618	11,173	9,347
Installment loans to individuals	22,413	20,711	19,110
Pledge loans and overdrafts	1,131	1,344	1,074
Leasing and factoring	906	1,193	444
Total past due loans	137,815	118,096	102,564
Total Loans	11,952,385	11,506,061	10,769,010
Allowance for loan losses	158,531	144,832	128,917
Past due loans to total loans	1.15%	1.03%	0.95%
Allowance for loans losses as a percentage of past due loans	115.03%	122.64%	125.70%

Allowance for Loan Losses

We have adopted IFRS 9, Financial Instruments with effect as of January 1, 2018. IFRS 9 replaced the "incurred loss" model of IAS 39 with an "expected credit loss" (ECL) model. Please refer to "Note 3 Summary of Significant Accounting Policies" of the audited consolidated financial statements, as of December 31, 2018 for more information on the adoption of IFRS 9.



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

The Bank's reserve levels have historically provided adequate coverage of non-accrual loans, amounting to 137.14% as of December 31, 2018. Additionally, the Bank's allowance for loan losses exceeds the requirements established by the SBP. As of December 31, 2018, the Bank's loan loss provision amounted to 1.33% of total loans.

The following table presents the breakdown of provisions and loan charge-offs as of December 31, 2018, 2017 and 2016:

				% Change	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Allowance at the beginning of period	144,832	128,917	112,275	12.35%	14.82%
Change due to implementation of IFRS 9	413	0	0	100.00%	0.00%
Provision charged to expenses, net of recoveries	41,983	44,485	45,532	-5.62%	-2.30%
Charge-offs:				0.00%	0.00%
Commercial	249	220	832	13.26%	-73.57%
Interim construction loans	207	261	0	-20.79%	0.00%
Lines of credit	607	1,462	1,909	-58.49%	-23.41%
Residential mortgage loans	885	712	354	24.37%	101.13%
Commercial mortgage loans	397	4	1,842	10042.05%	-99.79%
Installment loans to individuals	48,787	46,663	41,815	4.55%	11.59%
Auto Loans	1,869	1,543	1,128	21.08%	36.80%
Personal Loans	31,147	32,525	30,942	-4.24%	5.11%
Credit Cards	15,771	12,595	9,745	25.22%	29.24%
Pledge loans and overdrafts	484	349	336	38.76%	3.95%
Leasing and factoring	133	267	0	-50.23%	0.00%
Total charge-offs	51,750	49,938	47,088	3.63%	6.05%
Recoveries	23,053	21,368	18,198	7.88%	17.42%
Allowance at the end of period	158,531	144,832	128,917	9.46%	12.35%
Total Loans	11,952,385	11,506,061	10,769,010		
Allowance for loans losses as a percentage of total loans	1.33%	1.26%	1.20%		
Net charge-offs to total loans	0.24%	0.25%	0.27%		
Charge-offs to total loans	0.43%	0.43%	0.44%		

Capital Resources

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

As of December 31, 2018, our total regulatory capital amounted to U.S.\$2,344.14 million, or 243.10% of the total minimum capital required (Tier I and Tier II capital). The ratio of total capital to risk-weighted assets was 19.45%, comprised entirely of Tier I capital. Our shareholders equity to total assets ratio was 11.68%; with a dividend payout ratio averaging 56.90% of our net income over the last five years ended December 31, 2018. Based on the Bank's total risk-weighted assets of U.S.\$12,053.46 million as of December 31, 2018, in accordance with local regulatory requirements, we must maintain a total capital of 8%, or U.S.\$964.28 million.

Additionally, SBP Agreement 4-2013, which entered into force in fiscal year 2014, requires banks to establish a Dynamic Reserve, defined as a general reserve to cover future unexpected losses in the loan portfolio classified as standard (the "Dynamic Reserve"), and also establishes that the Dynamic Reserve cannot be lower than



1.25%, nor higher than 2.50% of the risk-weighted loan portfolio classified as standard.

The Dynamic Reserve is presented within legal reserves in the equity section of the Bank's financial statements. The Dynamic Reserve balance is considered part of the regulatory capital if the Bank's regulatory capital exceeds the minimum of 8% of risk-weighted assets to capital. As of December 31, 2018, the Dynamic Reserve balance was U.S.\$151.1 million.

The Bank's securities brokerage, insurance and pension fund management subsidiaries are also subject to minimum capital requirements stipulated under Panamanian law. As of December 31, 2018, all subsidiaries are in compliance with all of the minimum capital requirements applicable under the regulations.

The following table presents information regarding the Bank's capital levels as of December 31, 2018, 2017 and 2016:

				Change (%)	
	2018	2017	2016	2018-2017	2017-2016
	(in thousands of U.S. dollars, except for percentages)				
Regulatory Primary Capital (Tier I)					
Common Shares	500,000	500,000	500,000	0.00%	0.00%
Legal reserve	182,341	180,080	178,381	1.26%	0.95%
Other items comprehensive income	3,642	35,797	32,287	-89.83%	10.87%
Retained earnings	1,498,282	1,329,585	1,121,180	12.69%	18.59%
Less: Regulatory adjustments	57,802	61,725	64,343	-6.36%	-4.07%
Total Regulatory Primary Capital (Tier I)	2,126,463	1,983,736	1,767,505	7.19%	12.23%
Additional Primary Capital (Tier I)					
Subordinated debt - perpetual bonds	217,680	217,680	217,680	0.00%	0.00%
Total Additional Primary Capital	217,680	217,680	217,680	0.00%	0.00%
Total Primary Capital	2,344,143	2,201,416	1,985,185	7.19%	10.89%
Secondary Capital (Tier II)					
Subordinated debt - perpetual bonds	0	0	0	0.00%	0.00%
Total Secondary Capital	0	0	0	0.00%	0.00%
Total Capital (Tier I + Tier II)	2,344,143	2,201,416	1,985,185	6.48%	10.89%
Risk-weighted assets	12,053,460	11,521,593	10,684,527	4.62%	7.83%
Capital ratios					
Total primary capital (Tier I)	19.45%	19.11%	18.58%		
Total capital (Tier I + Tier II)	19.45%	19.11%	18.58%		

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



Results of Operations for the years ended December 31st, 2018, 2017 and 2016

The following table presents the Bank's consolidated results of operations for the years ending December 31, 2018, 2017 and 2016.

				Change (%)	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Net interest and commission income	650,934	598,390	554,571	8.78%	7.90%
Total Provisions, net	(45,804)	(45,025)	(46,321)	1.73%	-2.80%
Other Income (expenses):					
Fees and other commissions	212,897	199,462	179,744	6.74%	10.97%
Insurance premiums, net	29,998	26,885	22,498	11.58%	19.50%
Loss (gain) on financial instruments, net	(11,538)	16,477	4,639	-170.02%	255.22%
Other income, net	25,649	39,086	18,080	-34.38%	116.19%
Commissions expenses and other expenses	(85,278)	(77,758)	(72,253)	9.67%	7.62%
Total other income, net	171,727	204,152	152,708	-15.88%	33.69%
General and administrative expenses	293,967	280,399	254,896	4.84%	10.01%
Equity participation in associates	9,934	8,570	8,040	15.93%	6.59%
Net income before income tax	492,825	485,688	414,102	1.47%	17.29%
Income tax, net	(58,616)	(55,941)	(48,714)	4.78%	14.84%
Net income	434,208	429,747	365,388	1.04%	17.61%

The Bank's net income as of December 31, 2018 was U.S.\$434.21 million, which represents an increase of U.S.\$4.46 million, or 1.0% over the net profit of U.S.\$429.75 million in 2017. Operating results for 2017 benefited from a non-recurring gain of US \$ 18.4 million from property sales. ROAE was 20.21% compared to 21.69% in 2017, and the ROAA was 2.41%, compared to 2.53% for the same period in 2017. These results in net income, ROAE and ROAA were mainly product of the following factors:

Net Interest and Commission Income

The following table presents the Bank's net interest and commission income and related average rate and margin information for the years ended December 31, 2018, 2017 and 2016, respectively:

				Change (%)	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Total interest and commission income	1,003,566	891,651	808,397	12.55%	10.30%
Total interest expenses	352,632	293,261	253,826	20.25%	15.54%
Net interest and commission income	650,934	598,390	554,571	8.78%	7.90%
Average interest-earning assets	16,482,080	15,565,485	14,422,676	5.89%	7.92%
Average interest-bearing liabilities	12,179,112	11,360,764	10,422,351	7.20%	9.00%
Net interest margin ⁽¹⁾	3.95%	3.84%	3.85%		
Average interest rate earned ⁽²⁾	6.09%	5.73%	5.61%		
Average interest rate paid ⁽³⁾	2.90%	2.58%	2.44%		

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

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

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

The 8.78% increase in net interest and commission income for 2018, as compared to 2017, was primarily a result of: (i) a 5.89% increase in average interest-earning assets, which in turn was mainly due to an 8.37% increase in securities and other financial assets and a 5.38% increase in the average net loan portfolio, and (ii) a 2.73%



increase in the Bank's net interest margin from 3.84% in 2017 to 3.95% in 2018.

The increase in the Bank's net interest margin in 2018, as compared to the same period in 2017, was primarily as a result of an increase in the average interest rate earned on interest-earning assets of 36 basis points, from 5.73% in 2017 to 6.09% in 2018, which was driven by: (i) an increase in the rate earned on our loan portfolio which increased 30 basis points from 6.85% in 2017 to 7.15% in 2018, and (ii) an increase in the interest rate earned in securities and other financial assets, which increased from 3.09% to 3.61%. This increase was offset by a 32 basis point increase in the average interest rate paid on average interest bearing liabilities, from 2.58% to 2.90%, which in turn was driven by: (i) a 71 basis point increase in the average rate paid on medium- and long-term borrowings and placements which increased from 3.34% in 2017 to 4.05% in 2018, as a result of the increase in LIBOR rates, and (ii) an increase in the cost of time deposits, which increased from 3.44% to 3.66%.

Total Interest and Commission Income

The following table presents information as to the Bank's total interest and commission income for the years ended December 31, 2018, 2017, and 2016:

				Change (%)	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Total interest and commission income	1,003,566	891,651	808,397	12.55%	10.30%
Average interest - earning assets:					
Deposits with banks	241,387	275,779	287,260	-12.47%	-4.00%
Loans, net	11,566,997	10,976,984	10,092,139	5.38%	8.77%
Securities and other financial assets	4,673,696	4,312,723	4,043,276	8.37%	6.66%
Total	16,482,080	15,565,485	14,422,676	5.89%	7.92%
Average nominal rates earned:					
Deposits with banks	3.29%	2.25%	1.79%		
Loans, net	7.15%	6.85%	6.73%		
Securities and other financial assets	3.61%	3.09%	3.08%		
Total	6.09%	5.73%	5.61%		

The Bank's interest and commission income is derived principally from a diversified loan portfolio, which represented 70.18% of the Bank's total average interest earning assets, generating 82.39% of total interest and commissions income for the period, which increased to U.S.\$1,003.57 million, from U.S.\$891.65 million in 2017.

The 12.55% increase in total interest and commission income for 2018, as compared to the previous year, resulted from: (i) a 5.89% increase in average interest earning assets, as compared to the same period in 2017, and (ii) a 36 basis points increase in the average rate earned, which increased from 5.73% in 2017 to 6.09% in 2018.

The growth in average interest earning assets was primarily driven by an 8.37% increase in average securities and other financial assets and a 5.38% increase in average loans, net, which, in turn was mainly due to: (i) a 7.44% increase in consumer loans (credit cards increased 14.32%, and personal loans 8.04%), and (ii) sustained growth in the residential mortgage portfolio (with a growth of 7.08%).

The increase in the average rate earned on interest earning assets was primarily due to: (i) higher rates on loans, net, which increased from 6.85% in 2017 to 7.15% in 2018, and (ii) an increase in the interest rate earned on securities and other financial assets, which increased from 3.09% in 2017 to 3.61% in 2018.



The following table presents the effect of changes in the Bank's interest and commission income as a result in changes in: (i) the average volume of interest earning assets, and (ii) the average nominal interest rate earned during the years ended 2018, 2017 and 2016:

	Change (%)		
	2017/2018	2016/2017	2015/2016
	(in thousands of U.S. dollars)		
Due to changes in average volume of interest - earning assets	52,506	64,055	90,458
Due to changes in average nominal interest rates earned	59,409	19,199	(7,870)
Net change	111,915	83,254	82,588

The increase of U.S.\$916.6 million in average interest earning assets for the year ended December 31, 2018, resulted in an increase of U.S.\$52.5 million in interest and commission income for the period, while the increase in the average rate earned on interest-earning assets, from 5.73% to 6.09%, resulted in an increase of U.S.\$59.4 million in interest and commission income as compared to the same period in 2017.

Total Interest Expenses

The following table presents information as to the Bank's total interest expenses for the years ended December 31, 2018, 2017 and 2016:

	Change (%)				
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Total interest expense	352,632	293,261	253,826	20.25%	15.54%
Average interest - bearing liabilities:					
Savings deposits	3,400,839	3,320,687	3,170,436	2.41%	4.74%
Time deposits - clients	5,634,614	5,339,354	4,893,509	5.53%	9.11%
Time deposits - interbank	97,922	151,329	136,328	-35.29%	11.00%
Borrowings and placements	3,045,737	2,549,394	2,222,079	19.47%	14.73%
Total	12,179,112	11,360,764	10,422,351	7.20%	9.00%
Average nominal rates paid:					
Savings deposits	0.65%	0.71%	0.70%		
Time deposits - clients	3.66%	3.44%	3.40%		
Time deposits - interbank	1.10%	0.78%	0.46%		
Borrowings and placements	4.05%	3.34%	2.90%		
Total	2.90%	2.58%	2.44%		

The Bank's total interest expense is mainly attributable to interest paid on customer deposits, which represented 64.74% of the total interest expense, compared to 70.60% for the same period in 2017.

The 20.25% increase in total interest expenses for 2018, as compared to the previous year, was mainly a result of: (i) a 7.20% increase in average interest-bearing liabilities, compared to the same period in 2017, and (ii) a 32 basis points, or 12.17% increase in the average rate paid on interest bearing liabilities, which grew from 2.58% in 2017 to 2.90% in 2018.

The growth in average interest-bearing liabilities was mainly due to: (i) a 19.47% increase in average medium- and long-term borrowings and placements to complement deposit growth and fund loan growth; (ii) a 5.53% increase in average client time deposits, the Bank's principal source of funding; and (iii) an increase of 2.41% in average savings deposits.



The increase in the average rate of interest paid on interest-bearing liabilities was mainly due to: (i) the increase in the cost of borrowings and placements, of 71 basis points, from 3.34% in 2017 to 4.05% in 2018, as a result in LIBOR rates, and (ii) an increase in the cost of client time deposits, which increased from 3.44% in 2017 to 3.66% in 2018.

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

	Change (%)		
	2018/2017	2016/2017	2015/2016
	(in thousands of U.S. dollars)		
Due to changes in average volume of interest - bearing liabilities	21,124	22,854	29,981
Due to changes in average nominal interest rates paid	38,247	16,580	4,619
Net change	59,371	39,435	34,599

The increase of U.S.\$818.3 million in average interest-bearing liabilities for 2018 resulted in an increase of U.S.\$21.1 million in interest expense for the period, while the increase in the average rates paid on interest-bearing liabilities, from 2.58% to 2.90%, resulted in an increase of U.S.\$38.2 million in interest expense as compared to the same period in 2017.

Provision for Loan Losses

The following table presents the Bank's allowance for loan losses, net of charge-offs and recoveries included in the Bank's results of operations for the years ended December 31, 2018, 2017 and 2016:

				Change (%)	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Balance at beginning of period	144,832	128,917	112,275	12.35%	14.82%
Changes due to implementation of IFRS 9	413	0	0	100.00%	0.00%
Provisions charged to expenses, net of recoveries	41,983	44,485	45,532	-5.62%	-2.30%
Recovery of charge-offs	23,053	21,368	18,198	7.88%	17.42%
Charge-offs	(51,750)	(49,938)	(47,088)	3.63%	6.05%
Balance at end of period	158,531	144,832	128,917	9.46%	12.35%
Provisions to average loans	0.36%	0.40%	0.44%		
Charge-offs to average total loans	0.44%	0.45%	0.46%		
Allowance to total loans	1.33%	1.26%	1.20%		

The provision, net of recoveries for loan losses of U.S.\$41.98 million, or 0.36% of loans, was slightly lower than the prior year as a result of stable charge-offs and credit quality and a 3.88% growth in the loan portfolio. The provision of U.S.\$41.98 million covered net charge-offs of U.S.\$28.70 million, allowing the reserve to grow by 9.46% and, as a percentage of loans, to increase from 1.26% to 1.33% in 2018.

As of December 31, 2018, the Bank's allowance for loan losses amounted to U.S.\$158.53 million, representing a coverage of 137.14% of the loans in non-accrual status, and a coverage of 115.03% of past due loans. We believe the allowance for loan losses adequately covers credit risk in the Bank's portfolio.



Fees, Commissions, and Other Income, Net

The following table presents the information as to the Bank's fees, commission and other income, net for the years ended December 31, 2018, 2017 and 2016:

				Change (%)	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Fees and commission income, net	127,619	121,704	107,491	4.86%	13.22%
Insurance premiums, net	29,998	26,885	22,498	11.58%	19.50%
(Loss) gain on financial instruments, net	(11,538)	16,477	4,639	-170.02%	255.22%
Other income, net	25,649	39,086	18,080	-34.38%	116.19%
Total other income, net	171,727	204,152	152,708	-15.88%	33.69%

Total Other Income, net

The 15.88% decrease in total other income, net for the period ended December 31, 2018 primarily reflects the following factors:

Fees and Commission Income, net

The 4.86% increase in fees and commissions income, net of commission expenses as of December 31, 2018, was mainly due to: (i) a 9.70% increase in commissions and fees for credit and debit card operations, (ii) a 4.34% increase in banking services; and (iii) an 8.87% increase in mutual and pension funds income. The increase in income was partially offset by a 9.67% increase in commission and other expenses, mainly attributable to a 11.18% increase in credit and debit card commissions and ATM charges.

Insurance Premiums, net

Net insurance premiums, increased by 11.58% in 2018, mainly due to (i) the growth in life insurance premiums in the Bank's growing portfolio of auto loans, personal loans, credit cards and residential mortgages, and (ii) slightly lower levels of claims for 2018.

(Loss) gain on Financial Instruments, net

The loss on financial instruments, net of U.S.\$11.54 for 2018, as compared to a gain of U.S.\$16.48 million in 2017, was principally due to the decrease in the market value of fixed income instruments as a result of the increase in U.S. interest rates.

Other income, net

Other income, net, decreased by U.S.\$13.44 million or 34.38%, to U.S.\$25.65 million versus 2017, because the 2017 results benefited from a non-recurring gain of U.S.\$18.4 million from property sales related to the transfer to the bank's new 31,200 thousand square meter Operating Center.



General and Administrative Expenses

The following table presents the Bank's principal general and administrative expenses for the years ended December 31, 2018, 2017 and 2016:

				Change (%)	
	2018	2017	2016	2017/2018	2016/2017
	(in thousands of U.S. dollars, except for percentages)				
Salaries and other employee expenses	173,009	165,675	157,091	4.43%	5.46%
Depreciation and amortization	24,984	22,214	18,961	12.47%	17.16%
Premises and equipment expenses	25,306	23,925	18,744	5.77%	27.65%
Other expenses	70,668	68,584	60,100	3.04%	14.12%
Total	293,967	280,399	254,896	4.84%	10.01%

The 4.84% increase in general and administrative expenses primarily reflects the growth of the Bank's business, with an increase of 3.88% in the loan portfolio and a 6.70% increase in deposits and borrowings, as well as the following:

Salaries and Other Personnel Expenses

Salaries and other personnel expenses represented 58.85% of total general and administrative expenses in 2018 (59.09% in 2017). The 4.43% increase in salaries and other expenses was primarily attributable to: (i) salary increases during the year, and (ii) a 2.75% increase in the average number of employees, from 4,545 in 2017 to 4,670 in 2018.

Depreciation and Amortization Expenses

Total depreciation and amortization expenses of U.S.\$24.98 million increased by U.S.\$2.77 million, or 12.47%, primarily due to: (i) an increase in the acquisition of technological equipment, and (ii) depreciation of buildings and premises including our new Operation Center.

Premises and Equipment Expenses

Premises and equipment expenses, showed an increase of U.S.\$1.38 million, or 5.77%, moving from U.S.\$23.93 million to U.S.\$25.31 million between the periods ended December 31, 2017 and 2018; the increase was due to a U.S.\$1.40 million expense in technological maintenance for an improvement in platforms and licenses.

Other Expenses

The 3.04% or U.S.\$2.08 million increase in other expenses, as of December 31, 2018, compared to the same period in 2017, was mainly due to: (i) a 7.35% or U.S.\$1.66 million increase, in legal and professional services, and (ii) an increase of U.S.\$0.54 million in advertising. The increase in other expenses was partially offset by a decrease in U.S.\$0.42 million in office and paperwork expenses.

Taxes

Income tax, net amounted to U.S.\$58.62 million for the year ended December 31, 2018, as compared to U.S.\$55.94 million in 2017, as a result of a similar taxable income level.

Operational Efficiency

The Bank's operational efficiency was 35.31% in 2018, as compared to 34.57% in 2017, principally as a result of lower revenues in 2018 caused by a loss on financial instruments amounting to U.S.\$11.54 compared to a gain



of U.S.\$16.48 million in 2017, and the non-recurring gain of U.S.\$18.4 million on property sold in 2017. The Bank's general and administrative expenses as a percentage of average assets improved slightly to 1.63% in 2018, as compared to 1.65% in 2017.



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

	2018	2017	2016	2015	2014
	(in thousands of U.S. dollars)				
Total interest and commission income	1,003,566	891,651	808,397	725,809	661,834
Total interest expenses	(352,632)	(293,261)	(253,826)	(219,227)	(196,840)
Net interest and commission income	650,934	598,390	554,571	506,582	464,994
Total Provisions, net	(45,804)	(45,025)	(46,321)	(29,578)	(28,476)
Net interest and commission income after provisions	605,130	553,365	508,250	477,004	436,518
Other Income (expenses):					
Fees and other commissions	212,897	199,462	179,744	161,873	152,210
Insurance premiums, net	29,998	26,885	22,498	17,688	14,275
Gain (loss) on financial instruments, net	(11,538)	16,477	4,639	(4,081)	683
Other income, net	25,649	39,086	18,080	21,581	24,398
Commissions expenses and other expenses	(85,278)	(77,758)	(72,253)	(65,943)	(62,373)
Total other income, net	171,727	204,152	152,708	131,118	129,194
General and administrative expenses	(293,967)	(280,399)	(254,896)	(240,457)	(222,778)
Equity participation in associates	9,934	8,570	8,040	5,569	6,983
Net income before income tax	492,825	485,688	414,102	373,234	349,917
Income tax, net	(58,616)	(55,941)	(48,714)	(44,567)	(37,084)
Net income	434,208	429,747	365,388	328,666	312,833



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

	2018	2017	2016	2015	2014
	(in thousands of U.S. dollars)				
Assets					
Cash and deposits with banks	694,202	845,388	818,703	703,689	807,372
Securities and other financial assets	5,188,000	4,414,784	4,063,953	3,735,300	3,226,237
Loans	11,952,385	11,506,061	10,769,010	9,752,225	8,755,430
Allowance for possible loan losses	(158,531)	(144,832)	(128,917)	(112,275)	(106,035)
Unearned commissions	(41,104)	(38,255)	(35,511)	(32,091)	(29,616)
Investments in associates	26,035	22,076	18,591	17,394	16,416
Other assets	1,043,171	966,700	909,995	745,127	563,127
Total assets	18,704,157	17,571,922	16,415,824	14,809,367	13,232,931
Liabilities and shareholder's equity					
Local deposits	11,668,832	11,044,313	10,668,732	9,908,590	9,162,866
Foreign deposits	559,475	414,115	403,954	411,934	463,572
Total Deposits	12,228,307	11,458,427	11,072,686	10,320,524	9,626,438
Securities sold under repurchase agreements		45,815	273,300	238,006	175,561
Medium and long term borrowings and placements	2,886,528	2,661,365	1,950,624	1,595,932	1,029,552
Perpetual bonds	217,680	217,680	217,680	217,680	217,680
Other liabilities	1,186,619	1,142,792	1,069,348	816,157	649,203
Shareholder's equity	2,185,023	2,045,843	1,832,186	1,621,068	1,534,497
Total liabilities and shareholder's equity	18,704,157	17,571,922	16,415,824	14,809,367	13,232,931
Operational data (in units):					
Number of customers ⁽¹⁾	951,034	906,534	886,436		
Number of employees ⁽²⁾	4,685	4,649	4,457		
Number of branches ⁽³⁾	86	84	82		
Number of ATMs ⁽³⁾	650	640	606		
Assets under management ⁽⁴⁾	10,885,827	10,219,936	8,946,365		

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

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

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

⁽⁴⁾ Total Number of BG and BGCR



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

	2018	2017	2016	2015	2014
Profitability and efficiency:					
Net interest margin ⁽¹⁾	3.95%	3.84%	3.85%	3.95%	4.07%
Return on average assets ⁽²⁾	2.41%	2.53%	2.33%	2.35%	2.51%
Return on average equity ⁽²⁾	20.21%	21.69%	20.57%	20.16%	20.72%
Efficiency ⁽³⁾	35.31%	34.57%	35.63%	37.38%	37.06%
Operating expenses / average total assets ⁽²⁾	1.63%	1.65%	1.63%	1.72%	1.79%
Other income / operating income ⁽⁴⁾	22.11%	26.95%	23.10%	21.56%	22.84%
Liquidity:					
Primary Liquidity ⁽⁵⁾ / total deposits and obligations	28.16%	26.12%	26.00%	25.38%	26.06%
Regulatory liquidity ⁽⁶⁾ / total deposits	42.65%	38.81%	38.90%	37.86%	35.45%
Loans, net / total client deposits	97.15%	99.61%	96.62%	94.13%	91.30%
Capital:					
Total capital ratio ⁽⁷⁾	19.45%	19.11%	18.58%	17.21%	17.66%
Tier 1 common equity ratio	17.64%	17.22%	16.54%	16.92%	18.72%
Total Tier 1 capital ratio ⁽⁸⁾	19.45%	19.11%	18.58%	15.13%	15.35%
Equity / assets	11.68%	11.64%	11.16%	10.95%	11.60%
Earning retention ratio ⁽⁹⁾	39.71%	48.81%	42.26%	39.15%	45.57%
Asset quality:					
Past due loans ⁽¹⁰⁾ / total loans	1.15%	1.03%	0.95%	0.85%	0.84%
Non accrual loans ⁽¹¹⁾ / total loans	0.97%	0.78%	0.74%	0.72%	0.72%
Allowance for possible loan losses / total loans	1.33%	1.26%	1.20%	1.15%	1.21%
Allowance for possible loan losses / past due loans	115.03%	122.64%	125.70%	135.17%	144.11%
Allowance for possible loan losses / non accrual loans	137.14%	161.41%	161.25%	159.73%	168.13%
Charge-offs / total loans	0.43%	0.43%	0.44%	0.37%	0.38%

⁽¹⁾ Net interest margin refers to net interest and commission income divided by average interest-earning assets. Average interest-earning assets are determined on average monthly balances

⁽²⁾ Percentages has been calculated using monthly averages

⁽³⁾ Efficiency is defined as general and administrative expenses divided by the sum of net interest and commission income and other income and equity participation in associates

⁽⁴⁾ Operating income is defined as the sum of net interest, commission income, and other income

⁽⁵⁾ Primary liquidity is comprised of: (a) cash and due from banks, (b) interest bearing deposits with banks, and (c) high quality (investment grade) fixed income securities including repos, fixed income mutual funds, treasury bills, negotiable CDs, commercial paper, corporate and sovereign bonds, MBS, CMOs and ABS

⁽⁶⁾ As defined in Accord 4-2018 by the SBP

⁽⁷⁾ Total capital as a percentage of risk weighted assets, in accordance with the requirements of the SBP

⁽⁸⁾ Tier 1 capital as a percentage of assets based on risk weighted assets. In accordance with the requirements of the SBP

⁽⁹⁾ Earning retention ratio: net income from the period minus paid dividends from the period divided by net income

⁽¹⁰⁾ Past due loans: all loans past due 90+ days on interest and/or principal payments and all loans past due 30 days post maturity

⁽¹¹⁾ Non accrual loans: all loans past due 90+ days on interest and/or principal payments, and residential mortgages past due 120+ days in accordance with SBP requirements