

**Banco Mercantil, C.A.
(Banco Universal) and
its Subsidiaries**

(A majority-owned subsidiary of
Mercantil Servicios Financieros, C.A.)

**Report of Independent Auditors and
Consolidated Financial Statements
December 31, 2006 and 2005**

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Report of Independent Auditors

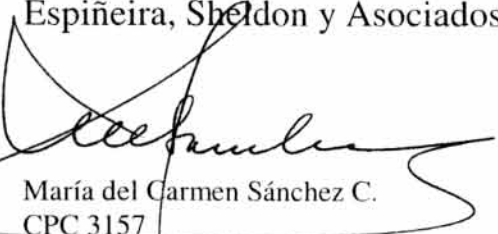
To the Shareholders and Board of Directors of
Banco Mercantil, C.A. (Banco Universal)

We have audited the consolidated balance sheets of Banco Mercantil, C.A. (Banco Universal) and its subsidiaries at December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, which have been prepared on the basis of accounting principles generally accepted in the United States of America (Notes 1 and 2). The preparation of these consolidated financial statements and their notes is the responsibility of the management of Banco Mercantil, C.A. (Banco Universal). Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of Banco Mercantil, C.A. (Banco Universal) and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Espiñeira, Sheldon y Asociados



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Caracas, Venezuela
July 4, 2007

Banco Mercantil, C.A. (Banco Universal) and its Subsidiaries
(A majority-owned subsidiary of Mercantil Servicios Financieros, C.A.)
Consolidated Balance Sheet
December 31, 2006 and 2005
(Thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ <u>3,600,723</u>	\$ <u>2,128,045</u>
Interest earning deposits with banks, with original maturities in excess of 90 days	—	1,226
Investment securities		
Available for sale	826,896	754,653
Held to maturity	<u>194,485</u>	<u>186,266</u>
Total investment securities	<u>1,021,381</u>	<u>940,919</u>
Loan portfolio, net of allowance for loan losses of US\$81,411 and US\$60,572, respectively	4,018,175	3,152,071
Fixed assets, net	122,338	109,903
Deferred income tax	117,054	85,567
Other assets, net	<u>226,106</u>	<u>184,756</u>
Total assets	\$ <u>9,105,777</u>	\$ <u>6,602,487</u>
Liabilities and Shareholders' equity		
Liabilities		
Deposits		
Non-interest bearing	\$ 1,944,485	\$ 1,130,909
Interest bearing	<u>4,778,226</u>	<u>3,094,640</u>
	6,722,711	4,225,549
Securities sold under agreement to repurchase	1,148,672	1,437,812
Short-term borrowings	81,700	46,708
Long-term debt	9,197	19,950
Other liabilities	<u>306,996</u>	<u>210,349</u>
Total liabilities	<u>8,269,276</u>	<u>5,940,368</u>
Commitments and contingencies (Note 19)		
Minority interest	—	746
Shareholders' Equity		
Common shares, Class "A" 731,486,166 shares issued and outstanding and Class "B" 609,636,696 shares issued and outstanding	298,587	298,587
Additional paid-in-capital	23,870	12,878
Shares of the Parent Company		
Held for investment purposes	—	(2,831)
Restricted for employee stock option plan	(14,263)	(16,425)
Legal reserve	221,297	221,297
Retained earnings	946,386	782,733
Accumulated other comprehensive loss	<u>(639,422)</u>	<u>(634,866)</u>
Total shareholders' equity	<u>836,455</u>	<u>661,373</u>
Total liabilities and shareholders' equity	\$ <u>9,105,777</u>	\$ <u>6,602,487</u>

The accompanying notes are an integral part of the consolidated financial statements

Banco Mercantil, C.A. (Banco Universal) and its Subsidiaries
Consolidated Statement of Income
Years ended December 31, 2006 and 2005
(Thousands of U.S. dollars, except number of shares and net income per share)

	<u>2006</u>	<u>2005</u>
Interest income		
Loan portfolio	\$ 559,140	\$ 377,795
Deposits with Banco Central de Venezuela and other banks	132,925	117,624
Investment securities	<u>74,035</u>	<u>74,725</u>
	<u>766,100</u>	<u>570,144</u>
Interest expense		
Deposits	136,466	87,666
Time deposits	125,968	112,132
Borrowings	<u>7,210</u>	<u>10,744</u>
	<u>269,644</u>	<u>210,542</u>
Net interest income	496,456	359,602
Release of allowance for loan losses	<u>1,684</u>	<u>9,500</u>
Interest income after release of allowance for loan losses	<u>498,140</u>	<u>369,102</u>
Commissions and other income		
Commissions for services	114,008	74,271
Gain on sale of available for sale investments, net	33,725	113,306
Commissions for asset management	28,822	27,731
Foreign exchange gains	7,589	25,592
Equity in earnings of affiliates	7,313	2,407
Gain (loss) on derivatives	493	(19,016)
Other income	<u>36,910</u>	<u>30,787</u>
	<u>228,860</u>	<u>255,078</u>
Other expenses		
Salaries and employee benefits	222,542	158,598
IT and other services	44,724	35,914
Occupancy	39,357	27,639
Advertising and marketing	34,003	20,788
Fees paid to regulatory agencies	33,984	23,816
Communications	29,832	23,551
Depreciation and amortization	22,561	20,221
State and other taxes	13,050	12,522
Other expenses	<u>90,364</u>	<u>73,494</u>
	<u>530,417</u>	<u>396,543</u>
Income before income taxes	196,583	227,637
Income taxes	<u>287</u>	<u>11,017</u>
Net income	<u>\$ 196,296</u>	<u>\$ 216,620</u>
Net income per average common share		
Basic	\$ 0.15	\$ 0.25
Weighted average number of common shares outstanding	1,341,122,862	861,708,155

The accompanying notes are an integral part of the consolidated financial statements

Banco Mercantil, C.A. (Banco Universal) and its Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
Years ended December 31, 2006 and 2005
(Thousands of U.S. dollars except for number of shares)

	Shares issued and outstanding	Capital stock	Additional paid-in-capital (Note 13)	Shares of the Parent Company		Legal reserve	Retained earnings	Accumulated other comprehensive loss			Total shareholders' equity	Comprehensive income for the year
				Held for investment purposes	Restricted for employee stock option plan			Cumulative translation adjustment	Unrealized gain (loss) on valuation of investments in available for sale securities	Pension plan		
Balances at December 31, 2004	818,125,000	\$ 274,200	\$ 17,484	\$ (3,468)	\$ (20,318)	\$ 221,297	\$ 635,679	\$ (548,952)	\$ 55,887	\$ -	\$ 631,809	
Net income for the year	-	-	-	-	-	-	216,620	-	-	-	216,620	\$ 216,620
Capital contributions	522,997,862	24,387	-	-	-	-	-	-	-	-	24,387	-
Purchases and sales of shares of the Parent Company												
Held for investment purposes	-	-	912	637	-	-	-	-	-	-	1,549	-
Restricted for employee stock option plan	-	-	(5,518)	-	3,893	-	-	-	-	-	(1,625)	-
Cash dividends (US\$0.07 per share)	-	-	-	-	-	-	(56,879)	-	-	-	(56,879)	-
Deemed dividend paid to the Parent Company (Note 7)	-	-	-	-	-	-	(12,687)	-	-	-	(12,687)	-
Adjustment of investment available for sale securities	-	-	-	-	-	-	-	-	(47,819)	-	(47,819)	(47,819)
Translation adjustment	-	-	-	-	-	-	-	(93,982)	-	-	(93,982)	(93,982)
Comprehensive income												\$ 74,819
Balances at December 31, 2005	1,341,122,862	\$ 298,587	\$ 12,878	\$ (2,831)	\$ (16,425)	\$ 221,297	\$ 782,733	\$ (642,934)	\$ 8,068	\$ -	\$ 661,373	
Net income for the year	-	-	-	-	-	-	196,296	-	-	-	196,296	\$ 196,296
Purchases and sales of shares of the Parent Company												
Held for investment purposes	-	-	10,144	2,831	-	-	-	-	-	-	12,975	-
Restricted for employee stock option plan	-	-	(387)	-	2,162	-	-	-	-	-	1,775	-
Capital contribution (Notes 6 and 13)	-	-	1,235	-	-	-	-	-	-	-	1,235	-
Cash dividends (US\$0.02 per share)	-	-	-	-	-	-	(32,643)	-	-	-	(32,643)	-
Adjustment of investment available for sale securities	-	-	-	-	-	-	-	-	(8,746)	-	(8,746)	(8,746)
Adjustment to initially apply FAS 158, net of tax (Note 17)	-	-	-	-	-	-	-	-	-	(2,739)	(2,739)	-
Translation adjustment	-	-	-	-	-	-	-	6,929	-	-	6,929	6,929
Comprehensive income												\$ 194,479
Balances at December 31, 2006	<u>1,341,122,862</u>	<u>\$ 298,587</u>	<u>\$ 23,870</u>	<u>\$ -</u>	<u>\$ (14,263)</u>	<u>\$ 221,297</u>	<u>\$ 946,386</u>	<u>\$ (636,005)</u>	<u>\$ (678)</u>	<u>\$ (2,739)</u>	<u>\$ 836,455</u>	

The accompanying notes are an integral part of the consolidated financial statements

Banco Mercantil, C.A. (Banco Universal) and its Subsidiaries
Consolidated Statement of Cash Flows
Years ended December 31, 2006 and 2005
(Thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net income	\$ 196,296	\$ 216,620
Adjustments to reconcile net income to net cash provided by operating activities		
Release of allowance for loan losses	(1,684)	(9,500)
Depreciation and amortization	22,561	20,221
Provision for contingencies, net of reversals	8,730	24,742
Deferred income taxes	(30,076)	(5,865)
Foreign exchange gains	(7,589)	(25,592)
Equity in earnings of affiliates	(7,313)	(2,407)
Gain on sale of available for sale investments, net	(33,725)	(113,306)
Loss (gain) on sale of fixed assets	4,634	(66)
Net change in operating assets and liabilities		
Other assets and deferred income tax	(42,288)	(44,396)
Other liabilities	<u>87,216</u>	<u>40,090</u>
Net cash provided by operating activities	<u>196,762</u>	<u>100,541</u>
Cash flows from investing activities		
Net (increase) decrease in interest earning deposits with banks with original maturities in excess of 90 days	1,226	(134)
Purchases of investments		
Available for sale	(11,416,887)	(2,340,846)
Held to maturity	(103,028)	(24,947)
Shares of Parent Company	-	(3,385)
Sales and maturities of investments		
Available for sale	11,381,667	2,185,614
Held to maturity	94,809	171,210
Shares of Parent Company	12,975	4,934
Net change in loan portfolio	(861,840)	(1,455,718)
Net change in securities lending	700	(3,451)
Purchases of fixed assets	(47,128)	(31,479)
Sales of fixed assets	<u>10,794</u>	<u>278</u>
Net cash used in investing activities	<u>(926,712)</u>	<u>(1,497,924)</u>
Cash flows from financing activities		
Net change in deposits	2,497,162	1,104,417
Net change in securities sold under agreement to repurchase	(289,140)	1,079,577
Proceeds from issuance of short-term borrowings	152,251	85,729
Repayment of short-term borrowings	(123,097)	(76,536)
Proceeds from issuance of long-term debt	20,035	17,316
Repayment of long-term debt	(30,788)	(62,030)
Net change in securities borrowing	5,838	1,166
Cash dividends	(32,643)	(56,879)
Purchases and sales of shares of the Parent Company restricted for employee stock option plan	1,775	(1,625)
Deemed dividend paid to the Parent Company	-	(12,687)
Additional paid-in-capital (Notes 6 and 13)	1,235	-
Capital contribution	<u>-</u>	<u>24,387</u>
Net cash provided by financing activities	<u>2,202,628</u>	<u>2,102,835</u>
Effect of exchange rate changes on cash and cash equivalents	<u>-</u>	<u>(179,266)</u>
Net increase in cash and cash equivalents	1,472,678	526,186
Cash and cash equivalents at the beginning of the year	<u>2,128,045</u>	<u>1,601,859</u>
Cash and cash equivalents at the end of the year	<u>\$ 3,600,723</u>	<u>\$ 2,128,045</u>
Supplemental information		
Taxes paid	<u>\$ 9,557</u>	<u>\$ 116</u>
Interest paid	<u>\$ 275,175</u>	<u>\$ 205,866</u>
Non cash transactions		
Exchange of National Public Debt Bonds	<u>\$ -</u>	<u>\$ 33,061</u>
Foreclosed assets in exchange for loans	<u>\$ 2,580</u>	<u>\$ (3,370)</u>

The accompanying notes are an integral part of the consolidated financial statements

Banco Mercantil, C.A. (Banco Universal) and its Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005
(In thousands of U.S. dollars)

1. Bank Operations

Banco Mercantil C.A. (Banco Universal) (the Bank) is a commercial bank founded in Venezuela in 1925, whose activities consist of providing general banking services to corporate, middle market, retail customers and third-party asset management services through its main office in Caracas, agencies throughout the country, an agency in the United States of America (Coral Gables, FL), and a branch in Curacao. The NY agency ceased operations as of July 2006 and a business office was opened. The Bank is a majority owned subsidiary of Banco Mercantil, C.A. (MSF) (the Parent Company).

Below is a summary of the operation and main regulations that govern the Bank and its agency and Branch:

The activities of the Bank are regulated by the Venezuelan General Law of Banks and Other Financial Institutions (General Bank Law) and by the Superintendency of Banks and Other Financial Institutions (Superintendency of Banks), therefore, must present its legal and statutory financial statements in bolivars in accordance with the rules for the preparation of financial statements of entities regulated by the Superintendency of Banks. Such financial statements, which differ from generally accepted accounting principles in the United States of America (U.S. GAAP) in measurements and disclosures, are the basis for dividends payments (Notes 2 and 13).

The General Bank Law requires, among other things, the Bank to earmark at least 31.5% of its gross loan portfolio at December 31, 2006 and 2005 to finance loans for agricultural purposes, small businesses, the mortgage sector and the tourist industry. In February 2007, Banco Central de Venezuela (BCV) set this minimum to 37% of its gross loan portfolio, effective December 31, 2007.

Deposit and lending rates are governed by the BCV. BCV set maximum and minimum rates for deposit and lending operations based on its rates references. As a result, the annual interest rate for lending operations, including credit cards, may not exceed 28%. Financial institutions may only charge an additional 3% on amounts overdue from clients. Annual interest rates for savings deposits may not fall below 6.5%. Annual interest rates on time deposits for 28 or more days may not fall below 10%. The BCV also sets certain limits in respect of commissions and fees for certain financial services.

The agency in Coral Gables FL (United States of America) is subject to banking regulations of the state where it operates. In addition, it is supervised and regulated by the U.S. Federal Reserve System and the Superintendency of Banks in Venezuela.

The Curacao Branch is supervised and controlled by the Central Bank of the Netherlands Antilles and the Superintendency of Banks in Venezuela.

2. Significant Accounting Policies

The accompanying consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with U.S. GAAP. Financial information included in these financial statements including, but not limited to, shareholders' equity and net income, differs from that included in the statutory accounting records and statutory financial statements as result of differences in classification, presentation and measurement methods in comparison with U.S. GAAP.

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(In thousands of U.S. dollars)

Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements, and the amounts of income and expenses for the periods covered by those financial statements. Actual results may differ from those estimates.

Consolidation

The consolidated financial statements include the accounts of the Bank and its more than 50% owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The accounting year end of the Bank and its subsidiaries is December 31, except for certain non-banking subsidiaries, whose accounting year-end is November 30. These subsidiaries financial statements as of and for the year ended November 30, are consolidated with the December 31 financial statements of the Bank. There are no significant matters arising from differences in year ends which, in the opinion of management, could have a significant impact on the financial position or results of operations of the Bank.

Variable interest entities for which the Bank is deemed to be the primary beneficiary are consolidated. The Bank is the primary beneficiary when it will absorb a majority of the variable interest entity's expected loss, receive a majority of the entity's expected returns, or both.

Foreign currency translation

Assets, liabilities and operations of the Bank and its subsidiaries are recorded based on the functional currency of each entity and are translated, for consolidation purposes, at current exchange rates from the functional currency (the bolivar, for the Bank and its subsidiaries allocated in Venezuela), to the reporting currency, the U.S. dollar. Equity accounts are translated at the historical exchange rates and income statement accounts at average exchange rates for the period. The resulting translation gains or losses are reported as a component of Accumulated other comprehensive loss, on an after-tax basis.

Since February 2003, an exchange control regime has been in place in Venezuela. The exchange rates, for permitted sales and purchases of currency, are as follows:

December 31,	<u>Bs /US\$ Exchange rate</u>		
	Purchase	Sale	Average for the year
2004	1,915.20	1,920.00	1,884.93
2005	2,144.60	2,150.00	2,106.37
2006	2,144.60	2,150.00	2,144.60

Investment securities

Investments are classified upon acquisition based on their nature and intended use, and accounted for as follows:

Trading securities

These investments are recorded at fair value and include investments in debt and equity securities acquired for short-term trading purposes. Unrealized gains or losses resulting from differences in fair values are included in the results for the year.

Banco Mercantil, C.A. (Banco Universal) and its Subsidiaries
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(In thousands of U.S. dollars)

Held to maturity securities

Held to maturity securities are investments in debt securities for which the Bank has the intent and ability to hold until maturity. They are recorded at amortized cost and adjusted for amortization of any premiums or discounts.

Available for sale securities

Investments in debt and equity securities that are not classified as trading or held to maturity securities are classified as available for sale securities, and carried at fair value. Unrealized gains and losses resulting from differences in fair value are included in shareholders' equity under Accumulated other comprehensive loss, on a net-of-tax basis. Gains and losses are realized and recorded in the income for the period in which securities are disposed, using the specific identification method.

Estimated market value is mainly determined based on quoted prices or, if these are unavailable, on discounted future cash flows, using market rates consistent with the investment's creditworthiness and maturity.

Nonmarketable equity securities are stated at cost.

Impairment evaluation of investment securities

A decrease in the estimated market value of held to maturity or available for sale securities is charged to results for the year when management considers that this decrease is other than temporary. The financial condition of the issuer, as well as the period during which the fair value of the security remains at a level substantially below the Bank's cost are taken into consideration to determine if an impairment of an investment security has occurred.

Nonmarketable equity securities are written down to fair value with the resulting losses charged to operations when, in opinion of management, a decline in estimated fair value below the cost of such securities is other than temporary.

Loan portfolio

The loan portfolio is presented net of the allowance for losses, unearned interest income collected in advance, and commissions and direct costs arising from new loans. Commissions received and incremental direct costs incurred related to loans are deferred and amortized over the term of the loans using the effective interest method.

Allowance for loan losses

The Bank considers loans to be impaired when it is probable that all amounts of principal and interest will not be collected according to the contractual terms of the loan agreement. The allowance for significant impaired loans are assessed based on the present value of estimated discounted future cash flows discounted at the current effective loan rate or the fair value of the collateral in the case where the loan is considered collateral-dependent. An allowance for impaired loans is provided when discounted future cash flows or collateral fair value is lower than book value.

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In addition, if necessary, a specific allowance for loan losses is established for individual loans, based on regular reviews of individual loans, recent loss experience, credit scores, the risk characteristics of the various classifications of loans and other factors directly influencing the potential collectibility and affecting the quality of the loan portfolio.

To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical losses. Loss estimates are analyzed by loan type and thus for homogeneous groups of clients. Such historical ratios are updated to incorporate the most recent data reflecting current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information that may affect the estimation of the allowance for loan losses.

Credit losses relating to loans, which may be for all or part of a particular loan are deducted from the allowance. The related loan balance is charged off in the year in which the loans are deemed uncollectible. Recoveries of loans and trade receivables previously charged off are credited to the allowance when received.

Provision for off-balance sheet items

The Bank maintains an allowance for credit losses on off-balance sheet credit instruments, including commitments to extend credit, guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability in other liabilities (Note 12). The Bank follows the same methodology described for allowance for loans and losses, but including an estimated probability of drawdown by the borrower.

Recognition of income and expense from banking activities

Interest income and expense are recognized in the statement of income using the effective interest method. Interest rates are determined through negotiations with clients, taking into account maximum and minimum interest rates established by the Venezuelan government (Note 1).

Premiums or discounts on the acquisition of held to maturity and available for sale securities are deferred and amortized over the term of the security using the effective interest method and are recorded as interest income. The Bank suspends the accrual of interest when the collectibility of the interest is in doubt.

Accrual of interest is discontinued on a loan when principal or interest is delinquent, or when management believes that the borrower's financial condition is such that collection of interest is unlikely, unless the loan is adequately secured and in process of collection. When a loan is placed on non-accrual status, any accrued interest is reversed against interest income. Interest while the loan is on non-accrual status is generally recognized as income on a cash basis unless collection of principal is doubtful, in which case, cash collections are applied against unpaid principal balance.

Fixed assets

Fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Gains or losses on sales are included in the statement of income.

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Maintenance, repairs and minor improvements are charged to operations as incurred. The Bank capitalizes interest incurred in specific projects to costs of fixed assets when construction takes considerable time or incurs significant costs.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets at the lowest level with independent and identifiable cash flows. Recoverability of an asset or group of assets to be held and used is measured by comparing the carrying amount with future undiscounted net cash flows expected to be generated by the asset or group of assets. If an asset is considered impaired, the impairment recognized is generally measured by the amount by which the carrying amount of the asset or group of assets exceeds its fair value. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less estimated cost to sell.

Foreclosed assets

Personal and real property received as payment or settlement on a loan is recorded at the lower of its carrying amount or fair value less cost to sell. Gains or losses from the realization of foreclosed assets are included in the statement of income. Assets received in lieu of payment that are not expected to be sold within a year are recorded as fixed assets.

Equity method investments - Associated companies

Investments in 20% to 50%-owned affiliates and other companies in which the Bank has significant influence are recorded under the equity method.

Goodwill

Goodwill is not amortized but is reviewed for potential impairment at the reporting unit level on an annual basis, or on an interim basis if events or circumstances indicate a potential impairment. The impairment test is performed in two phases. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its residual fair value. At December 31, 2006 and 2005, no impairment charges were recorded.

Intangibles other than goodwill

Identified definite-lived intangibles are amortized on a straight-line basis over the estimated benefit period and are subject to impairment evaluations when events and circumstances indicate that the carrying value may not be recoverable. An impairment loss will be recognized if the carrying amount of the intangible asset is not fully recoverable and exceeds fair value. At December 31, 2006 and 2005, intangible assets include core deposits which are amortized on straight-line basis over 10 years.

Banco Mercantil, C.A. (Banco Universal) and its Subsidiaries
Notes to the Consolidated Financial Statements
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(In thousands of U.S. dollars)

Securities sold under agreement to repurchase, securities lending and securities borrowing

Securities sold under agreements to repurchase, securities lending and securities borrowing transactions are accounted for as sales of securities with related off-balance-sheet forward repurchase commitments or purchases of securities with related off-balance sheet forward resale commitments, if they meet the relevant conditions for the surrender of control. If the conditions are not met, the transaction is treated as secured financing or lending.

Accrual for employee termination benefits

The Bank and its Venezuelan subsidiaries accrue for liabilities relating to employee termination benefits, which are a vested right of employees pursuant to the provisions of the Venezuelan Labor Law. The amount accrued each month is deposited in a trust fund on behalf of each employee. Under certain circumstances, the Law provides for an additional indemnity in the event of layoffs. Based on historical experiences, the Bank and its Venezuelan subsidiaries establish additional provisions through the service period of the employee, to cover this estimated liability. This provision amounted to US\$0.4 million in 2006 (US\$0.7 million in 2005).

Profit-sharing bonus and vacation leave

As established in its Collective Labor Agreement, the Bank grants profit-sharing bonuses and vacation leave to its employees that match or exceed minimum requirements set out by law, and accrues the related liabilities as incurred.

Pension plan and other retirement benefits

The Bank has a long-term defined-benefit pension plan covering all eligible employees. This plan also provides certain additional post-retirement benefits. The related costs and liability are calculated using actuarial methods and charged to results from operation. The net period cost of the pension plan is based on actuarial assumptions that are evaluated annually and updated as necessary. Net periodic pension expense includes cost of services for the period, interest expense and return on plan assets, as well as deferral and amortization of certain components, such as actuarial gain or loss. A funding policy is in place to contribute to the plan when resources are needed. In years where funding requirements are met by the existing plan assets, Bank contributions are not made.

The unfunded amount of the post-retirement benefits is recorded in "Accumulated other comprehensive loss", on a net of tax basis.

Supplementary Savings Plan

During 2006 the Bank implemented a new defined contribution plan called the "Plan de Ahorro Previsional Complementario Mercantil" (Supplementary Savings Plan) to replace the defined benefit Pension Plan. Contributions to the plan are recorded in the results for the year. This plan also grants employees certain post-retirement benefits, mainly medical insurance.

Long-term stock option plan

The Bank has a long-term stock option plan for certain key officers, to acquire shares of its Parent Company Mercantil Servicios Financieros, C.A. (MSF) (Note 18). The Bank determines the fair value of options granted and amortizes that expense over the vesting period with a credit to Additional paid-in-capital. The market value is determined at the option grant date using the Black-Scholes-Merton

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method. The fair value of options does not consider cash dividends that will not be received by the participants.

Deferred income taxes

Deferred income taxes result from changes in deferred tax assets and liabilities between periods. Deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences which are differences in the basis of assets and liabilities as measured by tax laws and their basis as reported in the financial statements. Deferred tax assets have also been recognized for net operating loss carry forwards. Valuation allowances are recorded to reduce deferred tax assets to the amounts management concludes are more likely than not to be realized.

Comprehensive income

Comprehensive income comprises net income and changes in shareholders' equity arising from the after tax effect of unrealized gains or losses on available for sale investments, as well as the translation effect of the Bank and its subsidiaries whose functional currency is different than the U.S. dollar.

Net income per share

Basic and diluted net income per share is determined by dividing net income for the year by the weighted average of outstanding shares (Note 16). At December 31, 2006 and 2005, the Bank did not have any potentially dilutive instruments outstanding, and therefore for the purposes of calculating net income per share, the Bank had a simple capital structure.

Shares of the Parent Company

Shares of the Parent Company held for investment purposes by the Bank or for the employee stock option plan (Note 18) are recorded at cost, which approximates market prices at the date of purchase and are presented as a charge to the Bank' shareholders equity. Realized gains or losses on sales of Parent Company's stocks are recorded in Additional paid-in-capital (Note 13-d).

Cash equivalents

Cash equivalents represent those highly liquid instruments purchased with an original maturity of three months or less, and include cash and due from banks, deposits with BCV and other banks.

Derivative instruments

Derivative instruments are recognized on the balance sheet at their fair value. Changes in fair value of each period are recorded in current earnings unless the derivative qualifies for hedge accounting.

For derivatives qualifying and designated as cash flow hedges, the effective portion of the fair value change is recorded in Accumulated other comprehensive loss and subsequently reversed into earnings as the hedged item impacts earnings.

In addition, embedded derivatives are separated from the host contract and carried at fair value if the economic characteristics of the derivative are not clearly and closely related to the economic characteristics of the host contract (Note 4).

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Guarantees granted

The Bank provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, agreements to guarantee lines of credits, indirect guarantees of the indebtedness of others and credit protections. It is the Bank's dominant business practice to receive a guarantee commission at the inception of the guarantee, which approximates market value of the guarantee at the date on which the Bank issues the guarantee, and is initially recorded as a liability, which is recognized as guarantee commission income ratably over the guarantee period.

Commissions income for services

Commissions income is recognized in the consolidated statement of income as follow: a) commissions from use of the banking accounts and other banking services are generally recognized as revenue when the related services are performed; and b) annual commissions related to credit card business and standby letter of credits are recorded on a straight-line basis over the life of the product.

New accounting pronouncements

Accounting for Income Taxes FIN 48

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), an interpretation of FASB Statement No. 109 "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 shall be effective for fiscal years beginning after December 15, 2006. The Bank is evaluating the impact that this statement may have on its consolidated financial position or results of operations.

Accounting for Certain Hybrid Instruments SFAS 155

On February 16, 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Instruments" (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS 133. The statement is effective as of January 1, 2007, with earlier adoption permitted. The adoption of SFAS 155 will not have a material impact on the Bank's results of operations and financial condition.

Accounting for Servicing of Financial Assets SFAS 156

In March 2006, the FASB issued SFAS No. 156 "Accounting for Servicing of Financial Assets" (SFAS 156). This statement amends SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 provides for alternative accounting treatments of mortgage servicing rights for transactions entered into after the adoption of the pronouncement and shall be effective for an entity's first fiscal year that begins after September 15, 2006. This statement is not expected to impact the Bank's consolidated financial operations in future periods.

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Fair Value Measurements SFAS 157

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements” (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice. A single definition of fair value, together with a framework for measuring fair value, should result in increased consistency and comparability in fair value measurements. The expanded disclosures about the use of fair value to measure assets and liabilities should provide users of financial statements with better information about the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings for the period. This statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. This statement is not expected to impact the Bank’s consolidated financial operations in future periods.

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements SAB 108

In September 2006, the SEC issued Staff Accounting Bulletin 108 (SAB 108) “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 provides guidance on evaluating a misstatement and determining its materiality using the iron curtain (balance sheet analysis) and rollover (income statement analysis) approaches, as well as correcting errors under the approaches and transition guidance. SAB 108 is effective for fiscal years ending on or after November 15, 2006. There was no effect to the Bank’s consolidated financial statements resulting from the adoption of SAB 108.

Fair Value Option for Financial Assets and Financial Liabilities SFAS 159

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115” (SFAS 159), which provides a fair value option to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS 159 is effective for the Company beginning in the 2008 first quarter. This statement is not expected to impact the Bank’s consolidated financial operations in future periods.

Reclassifications

Certain reclassifications have been made to the December 31, 2005 consolidated financial statements to conform to current year presentation.

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3. Cash and Cash Equivalents

Cash equivalents at December 31 comprise the following:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Non-interest bearing		
Pending cash items	\$ 215,981	\$ 129,425
Cash due from banks	156,835	126,478
Deposits with correspondent banks	<u>67,896</u>	<u>56,157</u>
	440,712	312,060
Interest bearing		
Overnight deposits and placements in BCV	<u>1,802,581</u>	<u>1,235,162</u>
Legal reserve deposited with BCV	<u>1,357,430</u>	<u>580,823</u>
	<u>\$ 3,600,723</u>	<u>\$ 2,128,045</u>

Pending cash items relate to checks received and in process of collection from other financial institutions.

Placements in BCV for US\$941 million (US\$971 million in 2005) were sold under agreements to repurchase (Note 9).

The Bank is required to maintain a minimum reserve deposit with BCV, equivalent to 15% of the Bank's borrowing and lending operations, with the exception of liabilities with BCV, Deposit Guarantee and Bank Protection Fund (FOGADE) and other financial institutions. This reserve is interest-free and must be made in U.S. dollars when the related deposit or liability is in foreign currency. As from July 2006, the marginal increase of deposits is subject to a legal reserve of 30%.

4. Investment Portfolio

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>				<u>2005</u>			
<u>Cost</u>	<u>Unrealized gain</u>	<u>Unrealized loss</u>	<u>Book value (equivalent to market value)</u>	<u>Cost</u>	<u>Unrealized gain</u>	<u>Unrealized loss</u>	<u>Book value (equivalent to market value)</u>	
Investments in available for sale securities								
Securities issued or guaranteed by the Bolivarian Republic of Venezuela								
In bolivars	\$ 747,079	\$ 4,111	\$ (4,779)	\$ 746,411	\$ 570,109	\$ 8,020	\$ (334)	\$ 577,795
In U.S. dollars	457	1	(286)	172	30,507	737	-	31,244
Securities issued by the Argentine Republic	36,500	564	(830)	36,234	1,671	-	(103)	1,568
Securities issued or guaranteed by the Government and by the National Treasury of the United States of America (1)	17,602	-	(44)	17,558	88,688	48	(119)	88,617
Debt issued by foreign companies (2)	13,298	-	(39)	13,259	-	-	-	-
Debt in companies sponsored and supervised by the Government of the United States of America (3)	9,535	-	(33)	9,502	28,215	-	(233)	27,982
Corporate commercial paper	2,999	-	-	2,999	-	-	-	-
Shares issued by Venezuelan companies (4)	77	625	(242)	460	26,832	14,855	(14,595)	27,092
Shares issued by foreign companies	<u>27</u>	<u>274</u>	<u>-</u>	<u>301</u>	<u>563</u>	<u>16</u>	<u>(224)</u>	<u>355</u>
	<u>\$ 827,574</u>	<u>\$ 5,575</u>	<u>\$ (6,253)</u>	<u>\$ 826,896</u>	<u>\$ 746,585</u>	<u>\$ 23,676</u>	<u>\$ (15,608)</u>	<u>\$ 754,653</u>

(1) Includes U.S. Treasury, Small Business Administration and Government National Mortgage Association.

(2) Includes HSBC and UBS Finance.

(3) Includes Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal Farm Credit Bank and Federal National Mortgage Association.

(4) Includes principally ADS of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), as of December, 31 2005. The ADS of CANTV were sold during 2006.

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(In thousands of U.S. dollars)	2006				2005			
	Amortized cost	Unrealized gain	Unrealized loss	Market value	Amortized cost	Unrealized gain	Unrealized loss	Market value
Held to maturity securities								
Investment securities issued or guaranteed by the Bolivarian Republic of Venezuela								
In U.S. dollars	\$ 103,929	\$ -	\$ (42)	\$ 103,887	\$ 72,075	\$ 10,484	\$ (11)	\$ 82,548
In bolivars	48,784	67	(56)	48,795	114,003	3,097	(3,260)	113,840
Other investments	<u>41,772</u>	<u>-</u>	<u>(35)</u>	<u>41,737</u>	<u>188</u>	<u>-</u>	<u>-</u>	<u>188</u>
	<u>\$ 194,485</u>	<u>\$ 67</u>	<u>\$ (133)</u>	<u>\$ 194,419</u>	<u>\$ 186,266</u>	<u>\$ 13,581</u>	<u>\$ (3,271)</u>	<u>\$ 196,576</u>

The Bank holds various types of debt and equity securities. Although, substantial majority of such investments had unrealized gains, as of December 31, 2006 and 2005 certain investments had unrealized losses, all of which have been in continuous loss for a period less than 12 months.

The Bank has determined that unrealized losses on investments at December 31, 2006 are temporary in nature based on its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery and the results of its review conducted to identify and evaluate investments that have indications of possible impairments. In addition, as the likelihood of credit losses is remote, these securities are excluded from the periodic evaluation of other-than-temporary impairment.

Below is the classification of investments by maturity at December 31, 2006:

(In thousands of U.S. dollars)	Investments available for sale			Investments held to maturity		
	Cost	Book value (equivalent to market value)	Yield % (1)	Cost	Amortized cost	Yield % (1)
In bolivars						
Less than 1 year	\$ 356,697	\$ 353,373	7.01	\$ 47,041	\$ 46,400	11.37
From 1 to 5 years	389,296	392,289	4.65	2,431	2,417	3.97
From 5 to 10 years	11,017	11,023	5.38	30	30	5.62
More than 10 years	-	-	-	132	131	5.50
In U.S. dollars						
Less than 1 year	15,656	15,087	5.16	43,096	43,096	6.28
From 1 to 5 years	12,983	12,941	4.62	80,933	80,933	5.74
From 5 to 10 years	-	-	-	19,265	19,265	5.86
More than 10 years	<u>41,925</u>	<u>42,183</u>	6.10	<u>2,213</u>	<u>2,213</u>	5.68
	<u>\$ 827,574</u>	<u>\$ 826,896</u>		<u>\$ 195,141</u>	<u>\$ 194,485</u>	

(1) The yield of securities is based on average amortized cost. Yield is calculated by dividing interest income from securities (including amortization of premiums or discounts) by the average amortized cost. The effect of changes in fair value is not included.

At December 31, 2006, securities available for sale with a fair value of approximately US\$183 million (US\$351 million in 2005) were sold under agreements to repurchase (Note 9) and US\$16 million (US\$28 million in 2005) were pledged to regulatory entities in compliance with state requirements for the agency Bank's in the United States of America.

At December 31, 2006, held to maturity securities with a fair value of approximately US\$25 million were sold under agreements to repurchase (US\$116 million in 2005) (Note 9).

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In April 2006, the Bank sold shares of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) via the Venezuelan Stock Exchange (BVC), recognizing a gain of US\$14 million. Such amount was previously recorded under Accumulated comprehensive loss since this was an available for sale security.

During 2006, the Bank recorded gains of US\$38 million (US\$136 million during 2005) and losses of US\$4 million (US\$23 million during 2005) due to the sale of available for sale securities. During the year ended December 31, 2005, the Bank sold its interest in Bancolombia (Banco Comercial de Colombia) via the Colombian Stock Exchange, recognizing a net gain of US\$116 million, after commissions of US\$2 million.

During 2005, the Bank recorded impairment losses of US\$4 million and US\$10 million to reflect an other-than-temporary decline in the fair value of the National Public Debt below its cost and its investment in Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), respectively.

Debt securities issued by the Bolivarian Republic of Venezuela in bolivars include US\$102 million (US\$184 million at December 31, 2005) of securities with contractual indexation clauses which stipulate variable quarterly yields (options). The variable yields will be the higher of: a) 80-85% of the Venezuelan Market Lending Rate and b) three-month LIBOR plus a 100 basis-point margin, plus an indexation clause based on the annual bolivar to U.S. dollar devaluation rate. These indexation clauses have been deemed to be bifurcated embedded derivatives; therefore, were subject to valuation using the Black-Scholes-Merton model. Results were the following: options maturing in 2006 added no value to bonds; the par value of ordinary bonds maturing in 2007 is 100.08%. These debt securities and options are shown at amortized cost which, at December 31, 2006, is an aggregate 99.85%. The fair value of the derivative amounted to US\$0 million at December 31, 2006 and 2005 (Notes 20 and 22).

In January 2005, the Ministry of Finance, through the BCV, invited holders of National Public Debt Bonds (BDPNs) registered with the General Registry of BCV, to voluntarily participate in an exchange of BDPNs maturing between the second, third and fourth quarters of 2005 for new bond issues with longer terms. The modified debt instrument was accounted for as the continuation of the original debt.

5. Loan Portfolio

The loan portfolio at December 31 comprises the following:

	2006			2005	
	<u>Venezuela</u>	<u>United States of America</u>	<u>Other countries</u>	<u>Total</u>	<u>Total</u>
<i>(In thousands of U.S. dollars)</i>					
Commercial loans					
Trade, industrial and agriculture	\$ 2,347,740	\$ -	\$ 65,900	\$ 2,413,640	\$ 2,448,099
Construction	206,156	-	-	206,156	70,525
Banks and other financial institutions	<u>1,538</u>	<u>-</u>	<u>33,460</u>	<u>34,998</u>	<u>40,627</u>
	<u>2,555,434</u>	<u>-</u>	<u>99,360</u>	<u>2,654,794</u>	<u>2,559,251</u>

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	<u>2006</u>			<u>2005</u>	
	<u>Venezuela</u>	<u>United States of America</u>	<u>Other countries</u>	<u>Total</u>	<u>Total</u>
<i>(In thousands of U.S. dollars)</i>					
Consumer credit					
Mortgages	243,486	11,260	-	254,746	122,322
Credit cards	437,786	-	-	437,786	197,300
Auto loans	489,400	-	-	489,400	240,149
Other	<u>271,017</u>	<u>-</u>	<u>-</u>	<u>271,017</u>	<u>102,404</u>
	<u>1,441,689</u>	<u>11,260</u>	<u>-</u>	<u>1,452,949</u>	<u>662,175</u>
Interest collected in advance	(7,478)	-	(679)	(8,157)	(8,783)
Allowance for loan losses	<u>(79,570)</u>	<u>(390)</u>	<u>(1,451)</u>	<u>(81,411)</u>	<u>(60,572)</u>
	<u>\$ 3,910,075</u>	<u>\$ 10,870</u>	<u>\$ 97,230</u>	<u>\$ 4,018,175</u>	<u>\$ 3,152,071</u>

Impaired loans at December 31 are as follows:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Impaired loans with assigned allowance	\$ <u>27,841</u>	\$ <u>18,519</u>
Total impaired loans	\$ <u>32,213</u>	\$ <u>23,105</u>
Allowance for impaired loans	\$ <u>16,340</u>	\$ <u>7,108</u>
Average of impaired loans	\$ <u>27,659</u>	\$ <u>21,247</u>
Interest income from impaired loans recognized in the year	\$ <u>7,355</u>	\$ <u>2,005</u>

The interest income that would have been recorded for the impaired loans in accordance with the original contractual terms amounted to approximately US\$5 million and US\$3 million for the years ended December 31, 2006 and 2005, respectively.

Loan concentration per sector is as follows:

	<u>2006</u>	<u>2005</u>
	<u>%</u>	<u>%</u>
Commercial	26	37
Agriculture	13	11
Auto loans	12	7
Industrial	11	16
Credit cards	11	6
Construction	10	8
Bank and other financial institutions	1	1
Mortgages	6	4
Other	<u>10</u>	<u>10</u>
Total	<u>100</u>	<u>100</u>

Most of the loan portfolio earns interest at variable rates that are revised frequently, generally between 30 and 90 days.

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The roll forward in the allowance for losses on the loan portfolio is as follows:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Balance at the beginning of the year	\$ 60,572	\$ 66,971
Release of allowance for loan losses	(1,684)	(9,500)
Recoveries	30,427	22,895
Charge-offs	(7,904)	(13,197)
Effect of exchange rate changes	_____ -	(6,597)
Balance at the end of the year	\$ <u>81,411</u>	\$ <u>60,572</u>

6. Fixed Assets

Fixed assets at December 31 comprise the following:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>	<u>Estimated useful lives (In years)</u>
Land	\$ 6,386	\$ 10,132	-
Buildings and facilities	82,066	80,896	10-40
Computer equipment and software	116,638	90,386	3-10
Office furniture and equipment	13,810	11,839	4-10
Other property	<u>8,906</u>	<u>8,797</u>	4-10
	227,806	202,050	
Less: Accumulated depreciation and amortization	<u>(116,822)</u>	<u>(101,926)</u>	
	110,984	100,124	
Construction in progress	<u>11,354</u>	<u>9,779</u>	
	\$ <u>122,338</u>	\$ <u>109,903</u>	

For the year ended December 31, 2006, the Bank recorded depreciation expense of US\$19.3 million (US\$16.9 million for the year ended December 31, 2005).

In June 2006, the Bank sold a land to a third party for an amount of US\$18.3 million, and consideration received was a 20% of the total square feet of a mall that will be built in that land. The Bank recognized a loss of US\$4.6 million from this transaction, included in other expenses. In November 2006, the Bank sold to MSF (Parent Company), 68.8% of the total square feet received in the mall for an amount of US\$13.8 million. The difference between the carrying value and the purchase price paid by the Parent Company was recorded as a capital contribution in Additional paid-in-capital (Note 13-d). The remaining 31.2% will be used as the Bank's main office and other facilities (Note 7). Both transactions were made based on independent appraisals.

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7. Other Assets

Other assets at December 31 comprise the following:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Interest receivable	\$ 47,770	\$ 43,166
Equity method investments (a)	28,558	22,231
Prepaid taxes and other prepaid expenses	24,249	22,642
Receivable on sale of investments	23,803	24,943
Goodwill (b)	22,625	22,625
Account receivable for granted guarantees (Note 12)	18,876	9,438
Intangible assets, net (b)	13,181	16,476
Pending items and main office, branches and agencies	12,718	3,551
Commissions receivable	7,497	6,343
Rights to receive real estate (Note 6)	5,701	-
Securities lending (c)	3,734	4,434
Foreclosed assets	2,796	216
Other	<u>14,598</u>	<u>8,691</u>
Total	<u>\$ 226,106</u>	<u>\$ 184,756</u>

a) Equity method investments

Equity method investments at December 31 comprise the following:

	<u>2006</u>			<u>2005</u>		
	<u>Number of shares</u>	<u>Equity %</u>	<u>Carrying value (In thousand of U.S. dollars)</u>	<u>Number of shares</u>	<u>Equity %</u>	<u>Carrying value (In thousand of U.S. dollars)</u>
Inversiones y Valores Mercantil VI, C.A.	33,139	19.50	\$ 22,103	33,139	19.50	\$ 16,772
Merinvest, C.A.	3,997,500	19.50	5,581	3,997,500	19.50	4,756
Proyecto Conexus	343,334	33.33	844	343,334	33.33	673
Other			<u>30</u>			<u>30</u>
			<u>\$ 28,558</u>			<u>\$ 22,231</u>

During the year ended December 31, 2005, the Bank acquired from MSF a 19.5% shareholding of the equity interest in two subsidiaries of MSF for an amount of US\$32 million. The carrying value of those investments at the date of transfer amounted to US\$19 million. The difference between the purchase price and the net carrying value of these investments was recorded as a deemed dividend.

b) Goodwill and intangible assets

The following table presents the movement on intangible assets and goodwill for the fiscal years ended December 31:

	<u>2006</u>			<u>2005</u>		
	<u>Goodwill</u>	<u>Cost</u>	<u>Intangibles Accumulated amortization</u>	<u>Goodwill</u>	<u>Cost</u>	<u>Intangibles Accumulated amortization</u>
<i>(In thousands of U.S. dollars)</i>						
Balance at the beginning of the year	\$ 22,625	\$ 32,952	\$ 16,476	\$ 25,334	\$ 36,899	\$ 14,760
Amortization expense	-	-	3,295	-	-	3,355
Effect of exchange rates changes	-	-	-	(2,709)	(3,947)	(1,639)
Balance at the end of the year	<u>\$ 22,625</u>	<u>\$ 32,952</u>	<u>\$ 19,771</u>	<u>\$ 22,625</u>	<u>\$ 32,952</u>	<u>\$ 16,476</u>

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In 2000 the Bank acquired the majority shareholding in a commercial bank in Venezuela and recognized goodwill for the difference between the consideration paid and the fair value of the net assets acquired. As part of the consideration paid, the Bank issued mandatorily redeemable preferred shares to the former shareholders of the acquired bank. Those preferred shares were entitled to dividend; they were considered contractual obligations and were recorded in the balance sheet under the caption Short-term borrowings. The Bank redeemed such preferred shares in September 2005.

c) Securities lending

At December 31, 2006 and 2005, the Bank has securities loan agreements with third parties, represented by Treasury Notes of the Bolivarian Republic of Venezuela for US\$3.7 million and US\$4.4 million, respectively, with yields of 6.5% in 2006 and between 8.38% and 9.80% in 2005 and maturities up to 30 days.

8. Deposits

The following table presents a breakdown of deposits at December 31, classified by country:

	2006			2005	
	<u>Venezuela (1)</u>	<u>United States of America</u>	<u>Other countries</u>	<u>Total</u>	<u>Total</u>
<i>(In thousands of U.S. dollars)</i>					
Non-interest-bearing deposits					
Non-interest-bearing checking accounts	\$ 1,933,105	\$ 11,361	\$ 19	\$ 1,944,485	\$ 1,130,909
Interest-bearing deposits					
Interest-bearing checking accounts	2,062,520	70	67	2,062,657	1,473,331
Savings deposits	2,229,858	4,299	272	2,234,429	1,314,549
Time deposits	<u>443,797</u>	<u>11,040</u>	<u>26,303</u>	<u>481,140</u>	<u>306,760</u>
	<u>4,736,175</u>	<u>15,409</u>	<u>26,642</u>	<u>4,778,226</u>	<u>3,094,640</u>
	<u>\$ 6,669,280</u>	<u>\$ 26,770</u>	<u>\$ 26,661</u>	<u>\$ 6,722,711</u>	<u>\$ 4,225,549</u>

(1) In bolivars.

Maturities of time deposits are as follows:

	2006	
	<u>In thousands of U.S. dollars</u>	<u>%</u>
2007	\$ 479,677	100
2008	1,362	-
2009	<u>101</u>	<u>-</u>
Total	<u>\$ 481,140</u>	<u>100</u>

As of December 31, 2006, the total amount of individual time deposits and bank certificates that exceed US\$100,000 are approximately US\$142 million (US\$169 million as of December 31, 2005).

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Deposits at December 31, bear interest at the rates shown below:

	2006				2005			
	Deposits in bolivars		Deposits in U.S. dollars		Deposits in bolivars		Deposits in U.S. dollars	
	Minimum rate	Maximum rate	Minimum rate	Maximum Rate	Minimum rate	Maximum rate	Minimum rate	Maximum Rate
	%		%		%		%	
Interest-bearing checking accounts	0.50	5.00	0.35	0.70	1.00	2.50	0.35	0.55
Savings deposits	6.50	7.50	0.45	1.59	6.50	8.00	0.45	1.49
Time deposits	6.50	6.50	0.15	6.57	7.50	13.75	0.15	6.57

9. Securities Sold Under Agreements to Repurchase

At December 31, 2006 and 2005, securities sold under agreements to repurchase amounted to approximately US\$1,149 million and US\$1,438 million, respectively with maturities of less than 1 month (Notes 3 and 4). The average interest rate paid was 6.06% in 2006 (10.76% in 2005).

10. Short-term Borrowings

Short-term borrowings at December 31 comprise the following:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Liabilities in respect of letters of credit	\$ 50,378	\$ 25,278
Credit balances with correspondent banks	23,040	15,400
Securities borrowing	7,004	1,166
Accounts payable related to credit card points of sale	1,189	2,304
Loans granted by foreign financial institutions, with fixed annual interest of 4.13% at December 31, 2005	-	1,762
Other	<u>89</u>	<u>798</u>
	<u>\$ 81,700</u>	<u>\$ 46,708</u>

Maturities of short-term borrowings are as follows:

	2006		2005	
	In thousands of U.S. dollars	%	In thousands of U.S. dollars	%
Up to 30 days	\$ 31,666	39	\$ 34,309	73
31 to 60 days	20,220	24	11,648	25
61 to 90 days	21,274	26	751	2
91 to 180 days	<u>8,540</u>	<u>11</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 81,700</u>	<u>100</u>	<u>\$ 46,708</u>	<u>100</u>

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11. Long-term Debt

Long-term debt at December 31 comprises the following:

	<u>2006</u>		<u>2005</u>
	<u>Up to one year</u>	<u>More than one year</u>	<u>Total</u>
<i>(In thousands of U.S. dollars)</i>			
Loans granted by foreign financial institutions, with annual fixed interest between 6% and 9.63% (between 4.25% and 9.63% at December 31, 2005)	\$ 1,003	\$ 5,784	\$ 6,787
Funds received for special financing programs, with annual variable interest between 18% and 22.29% at December 31, 2006 y 2005	719	1,349	2,068
Other	<u>342</u>	<u>-</u>	<u>342</u>
	<u>\$ 2,064</u>	<u>\$ 7,133</u>	<u>\$ 9,197</u>
			<u>\$ 19,950</u>

Maturities of long-term debt are as follows:

	<u>2006</u>	
	<u>In thousands of U.S. dollars</u>	<u>%</u>
2007	\$ 2,064	22
2008	380	4
2009	630	7
2010	314	3
2011 and beyond	<u>5,809</u>	<u>64</u>
Total	<u>\$ 9,197</u>	<u>100</u>

12. Other Liabilities

Other liabilities at December 31 comprise the following:

	<u>2006</u>	<u>2005</u>
<i>(In thousands of U.S. dollars)</i>		
Provision for contingencies (a)	\$ 57,763	\$ 51,163
Taxes collected and withheld	40,340	17,621
Labor contributions	38,428	31,152
Provisions for taxes payable	29,514	16,798
Credit card prepayments	28,700	14,100
Suppliers	22,474	10,514
Account payable for guarantees granted (Notes 7 and 19)	19,962	10,279
Pending items and main office, branches and agencies	18,711	5,452
Interest payable	4,913	10,445
Supplementary retirement pension and post-retirement benefit plan (Note 17)	4,150	-
Total return swap (Notes 20, 22 and 23)	3,009	3,245
Investment securities purchased	1,652	-
Other	<u>37,380</u>	<u>39,580</u>
	<u>\$ 306,996</u>	<u>\$ 210,349</u>

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- (a) US\$10 million in 2006 and 2005 which correspond to an estimated amount to be paid of tax assessments received from the authorities. The Company has filed appeals against these assessments which are pending final rulings (Note 19). Other contingencies for US\$5 million in 2006 and US\$7 million in 2005 which correspond to legal actions against the Company arising in the ordinary course of business. The Company's legal counsels appeal these actions (Note 19). US\$15 million in 2006 and US\$4 million in 2005 which correspond to financial instruments with off-balance sheet risk (Note 19). US\$20 million in 2006 and 2005 which correspond mainly for accounts in process of analysis. US\$0 in 2006 and US\$7 million in 2005 which refer to estimated losses due to governmental ruling that affected all financial system. This provision was released during 2006 as a consequence of a decision taken by the Venezuelan Supreme Court.

Below is the movement on the balance for the provision for contingencies:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Balance at the beginning of the year	\$ 51,163	\$ 49,315
Provisions	26,521	32,170
Reversals of provisions	(17,791)	(7,428)
Settlements	(2,130)	(17,722)
Effect of exchange rate changes	<u>—</u>	<u>(5,172)</u>
Balance at the end of the year	\$ <u>57,763</u>	\$ <u>51,163</u>

13. Shareholders' Equity

a) Capital stock and authorized capital

	<u>2006</u>		
	<u>Class "A"</u>	<u>Class "B" (1)</u>	<u>Total</u>
Common shares	<u>731,486,166</u>	<u>609,636,696</u>	<u>1,341,122,862</u>

- (1) Class "B" shares have limited voting rights, only to approve the financial statements and to designate the statutory auditors.

At a Shareholders' Meeting on September 28, 2005, it was resolved to increase paid-in capital stock by US\$24 million through the issue of 285,236,166 Class "A" common shares and 237,761,696 Class "B" common shares with a par value of Bs 100 (US\$0.05) each. This process was completed in December 2005.

Classes "A" and "B" shares have the same cash dividend rights. In the case of stock dividends or split, Class "B" shares can only receive shares of it same class.

b) Reserves

In accordance with its bylaws and the General Law of Banks, the Bank records biannually an appropriation to legal reserve equivalent to 20% of net income for the six-month period until the reserve reaches 50% of its capital stock. When the legal reserve has reached this amount, the Bank's appropriation to legal reserve will be 10% of the net income for each six-month period until the reserve reaches 100% of its capital stock.

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c) Retained earnings and dividends (Note 1)

In 1999 the Superintendence of Banks ruled that an amount equal to 50% of income of each year will not be able to be distributed as dividends. This amount will only be used to increase shareholders equity. In November 2002 the Trial Court for Administrative Matters ruled favorably on a request filed by the Bank. The Court granted a preliminary injunction until a decision is made regarding annulment of the Resolution of Superintendence of Banks and ordered the latter not to apply this Resolution. In April 2006 the Court revoked the injunction granted. Based on this decision and the opinion of its legal advisors, the Bank restricted per dividend distribution the 50% of its retained earnings US\$256 million at December 31, 2006.

Additionally, the Bank will not be able to distribute as dividends the amount of income related to investments accounted under the equity method until the subsidiaries and affiliates declare and distribute dividends or until the investments are sold. The amount of restricted retained earnings related to this concept at December 31, 2006 is US\$82 million (US\$43 million in 2005).

Retained earnings at December 31, 2006 include US\$240 million available for dividend distribution.

d) Additional paid-in-capital

Additional paid-in-capital includes the following items:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Additional paid-in- capital	\$ 76	\$ 76
Employee stock option plan - equity instrument of Parent Company settled award	8,022	8,409
Capital contribution (Note 6)	1,235	-
Net effect on sales of shares of the Parent Company	<u>14,537</u>	<u>4,393</u>
	<u>\$ 23,870</u>	<u>\$ 12,878</u>

During the years ended December 31, 2006 and 2005, the Bank sold shares of its Parent Company held for investment in cash at market value to third parties, at a gain on sale of US\$10.1 million and US\$0.9 million, respectively; the gain on sale of these shares was recorded in Additional paid-in-capital.

14. Regulatory Capital Requirements

The Bank is subject to various regulatory minimum capital requirements administered by its supervisors (Note 1). Failure to meet capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

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Below are the regulatory minimum capital requirements of the Bank:

	<u>2006</u>		<u>2005</u>	
	<u>Current</u> <u>%</u>	<u>Minimum</u> <u>required</u> <u>%</u>	<u>Current</u> <u>%</u>	<u>Minimum</u> <u>required</u> <u>%</u>
Total capital ratio	13.91	12	13.91	12
Leverage ratio	9.81	8	11.06	10

15. Income Taxes

The Bank and its subsidiaries are subject to the income tax laws of the countries in which they operate. At December 31, 2006, the Bank's subsidiaries had income tax loss carry forwards as follows:

(In thousands of U.S. dollars)

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Maturity			
2007	\$ 5,085	\$ 2,503	\$ 7,588
2008	-	<u>15,652</u>	<u>15,652</u>
	<u>\$ 5,085</u>	<u>\$ 18,155</u>	<u>\$ 23,240</u>

a) Income tax expense for the years ended at December 31, 2006, and 2005 is as follows:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Current		
Venezuela	\$ 29,821	\$ 16,770
United States of America	<u>542</u>	<u>112</u>
	<u>30,363</u>	<u>16,882</u>
Deferred		
Venezuela	(30,076)	(5,865)
	<u>(30,076)</u>	<u>(5,865)</u>
Total income tax provision	<u>\$ 287</u>	<u>\$ 11,017</u>

b) A summary of the deferred tax assets and liabilities at December 31 is as follows:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Assets		
Fixed assets	\$ 55,837	\$ 44,725
Allowance for loan losses	27,054	19,813
Contingencies and other allowances	23,373	12,842
Equity method investments	16,665	8,832
Tax loss carry forwards	9,142	-
Deferred commissions for granted loans	3,327	2,747
Pension plan (Note 17)	1,411	-
Deferred income	1,060	3,339
Others	<u>6,963</u>	<u>5,977</u>
	<u>144,832</u>	<u>98,275</u>
Valuation allowance	<u>(25,807)</u>	<u>(8,550)</u>
Deferred income tax assets	<u>119,025</u>	<u>89,725</u>

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<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Liabilities		
Accounts receivable for granted guarantees	(1,060)	(3,209)
Interest collected in advance	<u>(911)</u>	<u>(949)</u>
	<u>(1,971)</u>	<u>(4,158)</u>
Net deferred income tax asset	\$ <u>117,054</u>	\$ <u>85,567</u>

c) A reconciliation of the differences between the statutory income tax rate and the effective income tax rate is as follows:

	<u>2006</u>	<u>2005</u>
	<u>%</u>	<u>%</u>
Tax expense based on book income computed at the statutory tax rate in effect	34.0	34.0
Difference between statutory tax expense and actual tax expense		
Effect of the annual inflation adjustment	(17.2)	(12.7)
Tax exempt National Public Debt Bonds	(10.4)	(0.5)
Tax exempt sale of equity investment (Note 4)	(3.4)	(17.9)
Equity method	(1.5)	(0.3)
Others	<u>(1.3)</u>	<u>2.2</u>
Effect of applying tax rate to local taxable income	<u>0.2</u>	<u>4.8</u>

The valuation allowance in 2006 was provided primarily against deferred tax assets recorded at the Bank's domestic subsidiaries with operating loss carryforwards and in connection with the application of the outside method for equity investees. In 2005, the allowance was provided in connection solely with the application of the outside method for equity investments.

16. Earnings per Share

Calculation of net income per common share for the years ended December 31 is explained below:

<i>(In thousands of U.S. dollars, except number of shares)</i>	<u>2006</u>	<u>2005</u>
Net income per common share		
Net income	\$ 196,296	\$ 216,620
Common shares issued	1,341,122,862	1,341,122,862
Weighted average number of common shares outstanding	1,341,122,862	861,708,155
Basic earnings per share	\$ 0.15	\$ 0.25

17. Employee Benefit Plans

a) Supplementary Savings Plan

In 2006 the Bank implemented, a new defined contribution plan entitled "Plan de Ahorro Previsional Complementario Mercantil" (Supplementary Savings Plan). This plan replaces the existing defined benefit plan entitled "Plan Complementario de Pensiones de Jubilación" (Supplementary Defined Benefit Pension Plan). Active employees at the time of implementation have the option of subscribing the new plan or remaining in the existing defined benefit plan. All new future employees will be only given the option of joining the new defined contribution plan.

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In the Supplementary Savings Plan, employees contribute between 1% and 5% of their basic monthly salary and the Bank doubles this amount up to a maximum of 10%. Both contributions are recorded in individual accounts on behalf of each employee.

The Bank made an initial contribution of US\$45 million to the Supplementary Savings Plan. This contribution was made at June 30, 2006. This initial contribution consists of transfers of employee balances from the old defined benefit plan, as well as Bank contributions. US\$23 million was contributed by the Bank and recorded as personnel expense in June 2006. The difference represents transfers of employee balances. The Bank has agreed to contribute an additional US\$15 million to active employees in the plan over the next four years. These future contributions will be recorded in expense in the year in which the contribution is made. For the year ended December 31, 2006, the Bank has recorded a total expense in the consolidated statement of income of US\$29 million relating to this plan.

b) Supplementary retirement pension and post-retirement benefit plan (Note 12)

The supplementary retirement pension plan and other benefits for eligible employees are based on a minimum 10-year length-of-service period and a minimum retirement age. The retirement pension is based on the employee's average salary over the last three years of employment preceding retirement and is payable at a maximum of 60% of this average salary.

At December 31, plan assets, obligations and results, as well as long-term assumptions used, are as follows:

	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	2006	2005	2006	2005
<i>(In thousands of dollars)</i>				
Variation of projected benefit obligation				
Benefit obligation at January 1	\$ 30,774	\$ 24,061	\$ 3,671	\$ 2,425
Service cost	533	1,497	327	51
Interest cost	2,377	2,575	700	279
Actuarial gain (loss)	7,440	6,455	(667)	1,207
Plan reduction (gain)	(3,992)	-	-	-
Payment of obligation for transfer of assets	(3,895)	-	-	-
Transfer of obligations	(17,560)	-	-	-
Exchange rate	-	(2,767)	-	(291)
Plan modification	-	-	4,441	-
Paid benefits	<u>(1,480)</u>	<u>(1,047)</u>	<u>(406)</u>	<u>-</u>
Projected benefit obligation	\$ <u>14,197</u>	\$ <u>30,774</u>	\$ <u>8,066</u>	\$ <u>3,671</u>
Variation in plan assets				
Fair value of assets at the beginning of the period	\$ 23,932	\$ 23,389	\$ 3,671	\$ 2,425
Yield on assets	2,379	2,612	402	967
Company contribution	4,003	1,543	2,507	-
Payment of obligation for transfer of assets	(3,336)	-	-	-
Transfer of obligations	(11,240)	-	(2,258)	-
Funds redistribution	20	-	-	-
Exchange rate	-	(2,565)	-	279
Paid benefits	<u>(1,480)</u>	<u>(1,047)</u>	<u>(406)</u>	<u>-</u>
Fair value of plan assets at year-end	\$ <u>14,278</u>	\$ <u>23,932</u>	\$ <u>3,916</u>	\$ <u>3,671</u>

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<i>(In thousands of dollars)</i>	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Financial position at year-end				
Projected benefits obligations	\$(14,197)	\$(30,774)	\$(8,066)	\$(3,671)
Assets of external fund supporting the plan	<u>14,278</u>	<u>23,932</u>	<u>3,916</u>	<u>3,671</u>
Projected obligation (less assets)	81	(6,842)	(4,150)	-
Unrecognized actuarial gain (loss)	11,013	9,461	(734)	503
Unrecognized past service cost	-	-	<u>4,181</u>	-
	\$ <u>11,094</u>	\$ <u>2,619</u>	\$ <u>(703)</u>	\$ <u>503</u>

Components of net benefit cost for the year				
Service cost	\$ 533	\$ 1,497	\$ 64	\$ 51
Interest cost	2,377	2,575	964	279
Expected yield from plan assets	(1,812)	(2,561)	(277)	(241)
Effect of decrease and payment	(2,373)	-	-	-
Amortization of unrecognized past service cost	-	-	252	-
Amortization of actuarial gain (loss)	<u>1,755</u>	<u>1,190</u>	-	<u>(25)</u>
Net benefit cost for the year	\$ <u>480</u>	\$ <u>2,701</u>	\$ <u>1,003</u>	\$ <u>64</u>

Assumptions used to determine benefit obligation for the period and year-end

<i>(In thousands of dollars)</i>	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Discount rate	11.0%	11.5%	11.0%	11.5%
Salary increase	12.0%	12.5%	12.0%	12.5%
Yield on assets				
Bolivars	15.0%	16.0%	15.0%	16.0%
U.S. dollars	6.5%	6.0%	6.5%	6.0%
Initial healthcare trend rate	-	-	-	13.8%
Ultimate healthcare trend rate	-	-	-	13.8%
Increase of medical expense for the year	13.5%	-	13.5%	-

The Bank's policy for determining asset mix targets includes periodic consultation with in-house and third party investment consultants. The expected long-term rate of return on plan assets is updated periodically, taking into consideration assets allocations, historical returns and the current economic environment. The fair value of plan assets is impacted by general market conditions. If actual returns on plan assets vary from the expected returns, actual results could differ.

Distribution of assets

	<u>Retirement pension benefits</u>		<u>Other retirement benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Debt (Bs)	26.3%	26.5%	26.3%	26.5%
Time deposit (Bs)	47.6%	19.3%	47.6%	19.3%
Time deposit (US\$)	<u>26.1%</u>	<u>54.2%</u>	<u>26.1%</u>	<u>54.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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	<u>2006</u>	<u>2005</u>
Effect of 1% increase of medical expense		
Service cost + Interest cost	\$ <u>45</u>	\$ <u>-</u>
Effect on obligation projected by benefits	\$ <u>1,538</u>	\$ <u>667</u>
Effect of 1% decrease of medical expense		
Service cost + Interest cost	\$ <u>(42)</u>	\$ <u>-</u>
Effect on obligation projected by benefits	\$ <u>(1,836)</u>	\$ <u>(534)</u>

Supplementary pension plan and other post-retirement benefits costs for 2007 are estimated at US\$5.1 million and US\$1.2 million, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>(In thousands of U.S. dollars)</i>	<u>Pension</u>	<u>Other benefits</u>
2007	\$ 1,829	\$ 523
2008	\$ 2,086	\$ 614
2009	\$ 2,350	\$ 723
2010	\$ 2,507	\$ 849
2011	\$ 2,715	\$ 994
Years 2012 - 2015	\$ 15,039	\$ 8,794

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 (SFAS 158) "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of SFAS 87, 88, 106, and 132(R)." The Bank decided to apply SFAS 158 requirements as of December 31, 2006. This SFAS requires to recognize the overfunded or underfunded status of a defined benefit post-retirement plan, including pension plans, as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Bank adopted the recognition provisions of SFAS 158 and has recognized the effects of adoption within its financial statements as of December 31, 2006, as reflected in the table below.

The amounts recognized in accumulated other comprehensive loss as of December 31, 2006 are shown in the below table. These amounts are being amortized into income over 10 years.

<i>(In thousands of U.S. dollars)</i>	<u>Before application of SFAS 158</u>	<u>Adjustments</u>	<u>After application of SFAS 158</u>
Consolidated balance sheet data			
Deferred income tax	\$ <u>115,643</u>	\$ <u>1,411</u>	\$ <u>117,054</u>
Total assets	\$ <u>9,104,366</u>	\$ <u>1,411</u>	\$ <u>9,105,777</u>
Other liabilities	\$ <u>302,846</u>	\$ <u>4,150</u>	\$ <u>306,996</u>
Total liabilities	\$ <u>8,265,126</u>	\$ <u>4,150</u>	\$ <u>8,269,276</u>
Minority interest	\$ <u>46</u>	\$ <u>-</u>	\$ <u>46</u>
Accumulated other comprehensive loss, net of deferred income taxes	\$ <u>(636,683)</u>	\$ <u>(2,739)</u>	\$ <u>(639,422)</u>
Total shareholders' equity	\$ <u>839,194</u>	\$ <u>(2,739)</u>	\$ <u>836,455</u>

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The amounts recognized in accumulated other comprehensive loss as of December 31, 2006 are as follows:

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Prior service cost (Note 12)	\$ (4,150)
Net gain net of income tax (Note 15)	<u>1,411</u>
	\$ <u>(2,739)</u>

18. Long-term Stock Option Plan

The Bank offers a long-term stock option plan to eligible officers approved by the Board of Directors' Compensation Committee in order to acquire shares of the Parent Company. These shares are allotted over three-year periods and awarded annually. Foundation BMA manages the plan and sets up trust funds with the shares on behalf of members, once these shares have been assigned and subsequently granted to eligible officers based on individual allotments approved in accordance with plan regulations. During each administrative phase and until the shares are actually acquired by officers, cash dividends declared in respect of these shares are received by Foundation BMA and stock dividends by the participants. According to the long-term incentive nature of the plan, officers must be active employees of the Bank in order to exercise their purchase options within the time periods established. If they are not active employees, or if the allotted shares are not purchased within the established exercise periods, the entitlements are cancelled. At December 31, 2006, 144 employees are participating in this plan. There is no compensation expense recorded for this plan during 2006 and 2005. At December 31, 2006, all the options granted under this plan were fully vested and exercisable at that date, at a weighted average exercise price of US\$0.30. Therefore, as of December 31, 2006, there is no unrecognized compensation expense related to this plan.

Below is a breakdown of shares granted and shares approved but not yet granted included in the plan at December 31, 2006:

<u>Phase</u>	<u>Grant date</u>	<u>Approval date</u>	<u>Number of shares (4)</u>		<u>Option price</u>		<u>End of term for option exercise</u>
			<u>Class "A"</u>	<u>Class "B"</u>	<u>Class "A"</u>	<u>Class "B"</u>	
Granted							
III	January 2001	2001	2,672,173 (1)	2,164,985 (1)	700	600	2006, 2007 y 2008
Approved but not yet granted							
IV	March 2007	2004 (5)	4,861,230 (2)	4,052,416 (2)	2,500	2,500	2009
V	-	2006 (5)	<u>1,830,883</u> (3)	<u>3,206,366</u> (3)	4,765	4,765	2010
Total shares			<u>9,364,286</u> (4)	<u>9,423,767</u> (4)			

(1) Shares in individual trust funds on behalf of participants.

(2) Shares to be allotted to the participants in Phase IV of the plan.

(3) Shares for Phase V under development.

(4) Includes stock dividends.

(5) Corresponds to the date in which the Board of Directors' Compensation Committee approved these phases. Phase IV was granted on March 2007 (Note 25).

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Below is the movement of shares granted in Phases I, II and III:

	<u>Shares granted</u>		
	<u>Class "A"</u>	<u>Class "B"</u>	<u>Total</u>
Balance at December 31, 2004	8,932,871	7,294,078	16,226,949
Stock dividends	1,712,917	1,391,472	3,104,389
Options exercised	(5,405,181)	(4,456,719)	(9,861,900)
Balance at December 31, 2005	5,240,607	4,228,831	9,469,438
Options exercised	(2,567,510)	(2,063,072)	(4,630,582)
Options recovered	(924)	(774)	(1,698)
Balance at December 31, 2006	<u>2,672,173</u>	<u>2,164,985</u>	<u>4,837,158</u>

The market value of each option is estimated at the grant date based on the Black-Scholes valuation model using the following premises:

	<u>Expected share volatility</u>	<u>Risk-free rate</u>	<u>Expected term (years)</u>	<u>Option fair value</u>
Phase I	78.6%	28.6%	7.8	\$ 3.60
Phase II	68.7%	21.0%	6	\$ 0.18
Phase III	35.8%	26.9%	7.5	\$ 0.68

The weighted average remaining contractual term and aggregate intrinsic value of options outstanding and vested were 2 years and US\$12.1 million, respectively, at December 31, 2006.

19. Commitments and Contingencies

In the normal course of business, the Bank is defendant in various legal proceedings. Other than the tax assessments mentioned below, the Bank is not aware of any other pending legal proceedings which could have a significant effect on its financial position or the results of its operations.

The Bank's future minimum annual lease payments are not significant.

The Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, guarantees and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Bank controls the credit risk of loan commitments and letters of credit through credit approvals, customer limits, and monitoring procedures.

Loan commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's

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creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include cash, accounts receivable, inventory, property and equipment, real estate in varying stages of development, and income-producing commercial properties. Contract amount of loans commitments in 2006 amounted to US\$182 million (US\$93 million in 2005).

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support borrowing arrangements. They generally have less than one year terms. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds deposits, investments and real estate as collateral supporting those commitments. The extent of collateral held for those commitments at December 31, 2006 ranges from unsecured commitments to commitments fully collateralized by cash and securities.

Commercial letters of credit are conditional commitments issued by the Bank to guarantee payment by a customer to a third party upon proof of shipment or delivery of goods as agreed. Commercial letters of credit are used primarily for importing or exporting goods and are terminated when proper payment is made by the customer.

In July 2006, the Bank was notified of a court judgment delivered against it in relation to a trial initiated by a Bank client. This judgment orders the Bank to pay around US\$17 million for consequential damages and damages for loss of profit, plus a monetary indexation. In November 2006, the Bank's legal counsel appealed against this judgment due to operational defects and lawbreaking. In December 2006, the claimant appealed this Bank legal action and Supreme Court of Justice began the decision making process on February 7, 2007. In the opinion of management, in consultation with the Bank's legal counsels, the judgment has many legal defects that will be considered invalid and therefore the new judgment should be notified.

The Bank has received additional income tax assessments from the Tax Authorities amounting to US\$21 million, mainly due to disallowance of certain income considered nontaxable, expenses related to tax-exempt income, expenses for unpaid or late payment of withholdings, nondeductible expenses for uncollectible accounts, rejection of tax loss carryforwards and tax debit assessments. Additionally, the Bank was subject to assessments of approximately US\$1.6 million in respect of unwithheld and/or late payments of value added tax (VAT). The Bank appealed alleging no grounds for disallowance and rejection. To date, the tax courts have not ruled on some of these assessments; those that went in favor of the Bank were appealed by the National Treasury and rulings are pending. The Bank management identified a risk of US\$10 million in connection with the aforementioned assessments based on inadmissibility of monetary restatement and compensatory interest; hence, a provision has been set aside to cover this amount (Note 12).

In September 2006, the Colombian Tax and Customs Administration (DIAN) filed a special requirement against one of the Bank's Colombian subsidiaries, regarding the treatment of certain assets for tax payments purposes. Although the Bank's legal advisors appealed this decision, in June 2007, the DIAN requested the official settlement of the tax review made to the income tax return for 2005, giving rise to an additional tax liability and penalties of approximately US\$15 million and US\$24 million, respectively. In the opinion of management and its legal advisors, and based on the current

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undertaken legal proceedings, the enforcement of these penalties is considered a remote event, according to the Decision 578 of Andean Community which indicates that the assets that cause the additional tax can not be taxed in Colombia.

Financial instruments, whose contract amount represents off-balance sheet credit risk at December 31, are generally short-term and are as follows:

	2006		2005	
	Notional value	Market value (Note 12)	Notional value	Market value (Note 12)
<i>(In thousands of U.S. dollars)</i>				
Standby letters of credit	\$ 240,906	\$ 569	\$ 154,220	\$ 346
Other financial guarantees (1)	<u>174,344</u>	<u>19,393</u>	<u>172,734</u>	<u>9,933</u>
	<u>\$ 415,250</u>	<u>\$ 19,962</u>	<u>\$ 326,954</u>	<u>\$ 10,279</u>

(1) Include agreements to guarantee lines of credit of customers.

20. Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values for financial instruments with no available quoted market prices have been estimated using the present value of future cash flows of these financial instruments or other valuation techniques and assumptions. These techniques are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows, and the expectation of payments in advance. In addition, fair values presented do not purport to reflect the value of other income-generating activities or future business activities; that is, they do not represent the value of the Bank as a going concern.

Below is a summary of the most significant methods and assumptions used in estimating the fair values of financial instruments:

Investment portfolio

The fair value of these financial instruments was determined using either quoted market prices, reference prices determined from trading operations on the secondary market, quoted market prices of financial instruments with similar characteristics or the estimated future cash flows from these securities plus earned uncollected interest.

Loan portfolio

The fair values of loans are estimated for groups of similar characteristics, including type of loan, credit quality and remaining maturity. In incorporating the credit risk factor, management concluded that the allowance for loan losses adequately adjusts the related book values for credit risk. Most of the loan portfolio earns interest at variable rates that are revised frequently, generally between 30 and 90 days for most of the short-term portfolio. Therefore, in management's opinion, the net book value of this loan portfolio plus earned uncollected interest approximates its fair value. Fair values of loans with fixed rates or with maturities in excess of 90 days are estimated by discounting the future cash flows using the current rates of similar loans with comparable credit ratings and terms.

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Other assets - Derivatives

The estimated fair values of derivative financial instruments are the amounts the Bank would receive or pay to terminate the contracts at the balance-sheet date, taking into account the current unrealized gains or losses on open contracts. They are based on market or dealer quotes when available. Valuation models such as present value and option pricing models are applied to current market information to estimate fair values when such quotes are not available.

Deposits

The fair value of customer deposits with no fixed maturity, such as interest-bearing deposits and savings accounts, is represented by the amount payable or due at the reporting date. Fair values of time deposits are estimated by discounting the future cash flows using the current rates of similar deposits with comparable terms.

Securities sold under agreement to repurchase

Most of the securities sold under agreement to repurchase have maturities less of 60 days; therefore their book value approximates the fair value.

Short-term borrowings and long-term debt

The fair value of up to one year short-term borrowings approximates the carrying value since these liabilities relate to funds obtained from other banks to increase liquidity; they are unsecured, generally mature between 90 and 180 days and bear interest at variable rates. The fair value of more than one year long-term debt also approximates the carrying value since most bears interest at variable rates. Fair values of fixed rate financial liabilities with maturities in excess of one year are estimated by discounting the future cash flows using the current rates at which similar instruments would be issued with comparable credit ratings and terms.

The carrying values and fair values of financial instruments at December 31 are as follows:

	2006		2005	
	Book value	Fair value	Book value	Fair value
<i>(In thousands of U.S. dollars)</i>				
Assets				
Cash and cash equivalents	\$ 3,600,723	\$ 3,600,723	\$ 2,128,045	\$ 2,128,045
Interest earning deposits with banks, with original maturities in excess of 90 days	-	-	1,226	1,226
Available for sale securities	826,896	826,896	754,653	754,653
Held to maturity securities	194,485	194,419	186,266	196,576
Loan portfolio	<u>4,018,175</u>	<u>3,988,411</u>	<u>3,152,071</u>	<u>3,143,700</u>
	<u>\$ 8,640,279</u>	<u>\$ 8,610,449</u>	<u>\$ 6,222,261</u>	<u>\$ 6,224,200</u>
Liabilities				
Deposits	\$ 6,722,711	\$ 6,722,765	\$ 4,225,549	\$ 4,227,033
Securities sold under agreement to repurchase	1,148,672	1,148,672	1,437,812	1,437,812
Short-term borrowings	81,700	81,700	46,708	46,708
Long-term debt	9,197	10,137	19,950	21,433
Other liabilities - Derivatives (Notes 12 and 22)	<u>3,009</u>	<u>3,009</u>	<u>3,245</u>	<u>3,245</u>
	<u>\$ 7,965,289</u>	<u>\$ 7,966,283</u>	<u>\$ 5,733,264</u>	<u>\$ 5,736,231</u>

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21. Risk Management

The Bank is mainly exposed to credit, market and operational risks. Below is the risk policy employed by the Bank to manage each of the aforementioned risks:

Credit risk

The Bank considers exposure to credit risk as the risk that one of the parties may be unable to pay off its debts at maturity. The Bank monitors credit risk exposure by regularly analyzing payment capabilities of its borrowers. The Bank structures the level of credit risk by establishing limits for individual or group borrowers. In certain cases, the Bank requests fiduciary or mortgage guarantees, collateral, or certificates of deposit, after assessing specific borrower characteristics.

The control environment of the Bank includes policies and procedures to determine credit risks by client and economic sector. Concentration of risk is limited since loans are granted to a variety of economic sectors and a large number of clients. At December 31, 2006 and 2005, the Bank does not have significant risk concentrations in its consolidated loan portfolio. In Venezuela, the petroleum activity has a relevant influence in the national economy; therefore, its course determines the performance of other economic sectors.

Market risk

Financial institutions encounter market risks when market conditions show adverse changes that affect the liquidity and value of financial instruments included in investment portfolios or contingent positions and result in a loss for these financial institutions. Market risks are mainly of two types: price and liquidity. Price risks include interest rate, exchange rate and share price risks. Interest rate risks arise from temporary differences between assets and liabilities maturities shown in the balance sheet. Differences resulting from adverse changes in interest rates have a potential impact on financial margins of institutions. Exchange rate risks arise from fluctuations in the value of financial instruments due to changes in foreign currency exchange rates. However, when the Treasury identifies short or medium-term market opportunities, investments might be made in foreign currency instruments, mainly in U.S. dollars, in accordance with limits established by regulations.

The Bank reviews daily its funds provided by cash, overnight deposits, current accounts, deposit and loan maturity, as well as guarantees and margins.

The Bank's investment strategy is aimed at guaranteeing adequate liquidity levels. A significant portion of cash is invested in short-term instruments such as certificates of deposit with Venezuelan Central Bank (BCV). In addition, a large portion of the investment portfolio includes securities issued by the Republic of Venezuela and other highly liquid financial obligations.

Operational risks

The Bank considers exposure to operational risks arising from direct or indirect losses that result from inadequate or defective internal processes, human error, system failures and circumstances derived from external events. The structure used by the Bank to measure operational risks is based on a qualitative and a quantitative approach. The first approach identifies and analyzes risks before related events occur. The second approach mainly relates to the analysis of events and experiences gained from them.

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Concentration of risk

Concentration in placements and investment securities is as follows:

	<u>% of total assets</u>	
	<u>2006</u>	<u>2005</u>
Venezuelan Central Bank (BCV)	19	18
Government agencies of Venezuela	10	12
Government agencies of the United States of America	-	1

22. Derivative Financial Instruments

Forward contracts changes in fair value are recorded in the consolidated statement of income under the caption "Gain (loss) on derivatives." The Bank had until 2005 non delivery forward contracts with MSF, which do not qualify for hedge accounting, and recognized a loss of US\$6.5 million for the year ended December 31, 2005 (Notes 7, 20 y 23).

The Bank entered into a swap agreement with MSF to exchange cash flows generated by certain securities denominated in U.S. dollar for cash flows of certain securities denominated in bolivars (Total Return Swap) of US\$100 million and US\$63 million in 2006 and 2005, respectively. According to this agreement, net cash flows will be swapped on the date interest principal is paid by the issuer of the securities traded. This swap does not qualify for hedge accounting; therefore changes in fair value of these contracts are recorded in the consolidated statement of income under the caption "(Loss) gain on derivatives." For the years ended December 31, 2006 and 2005, the difference between the economic values of both securities resulted in a gain of US\$493 and a loss of US\$4.9 million, respectively (Notes 12, 20 and 23).

In addition, the Bank holds embedded derivatives as described in Note 4, and has recognized a loss of US\$7.6 million for the year ended December 31, 2005, related to changes in the fair value of those embedded derivatives.

23. Related Party

In the normal course of business, the Bank conducts commercial transactions with its parent company and affiliates; additionally, it grants mortgage loans to its executives, the effects of which are included in the consolidated financial statements.

Under the Bank's employees general benefit program for the subsidiaries in Venezuela, during 2006 and 2005, Bank's executives received mortgage loans amounting to US\$39 and US\$368, respectively. At December 31, 2006 and 2005, the outstanding amount of these loans were US\$413 (5 loans) and US\$462 (5 loans), respectively.

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A breakdown of the Bank's balance with related companies is as follows:

a) Balance sheet

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 61,438	\$ 51,464
Other assets	<u>37,363</u>	<u>46,262</u>
Total assets	\$ <u>98,801</u>	\$ <u>97,726</u>
Liabilities		
Deposits		
Non-interest bearing	\$ 1,148	\$ 498
Interest bearing	36,285	38,237
Long-term borrowings	1,004	2,577
Other liabilities	<u>3,170</u>	<u>9,034</u>
Total liabilities	\$ <u>41,607</u>	\$ <u>50,346</u>

b) Statement of income

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Interest income	\$ <u>14,136</u>	\$ <u>4,234</u>
Interest expenses	\$ <u>6,907</u>	\$ <u>10,381</u>
Other income	\$ <u>26,518</u>	\$ <u>84,181</u>
Other expenses	\$ <u>12,143</u>	\$ <u>20,984</u>

Cash and due from banks, deposits and borrowings with foreign institutions, up to one year, are mainly in respect of debit or credit balances of checking accounts at Bank agencies or related banks abroad.

Other expenses payable are mainly in respect of data processing personnel administration and consulting services, and were incurred by the Bank's offices abroad.

At December, 2006 and 2005, the Branch in Curacao had US\$8.5 million and US\$10.3 million, respectively, in participations in loans sold to related banks. At December 31, 2006 and 2005, the Branch had US\$59 million and US\$35 million, respectively, in participation in loans acquired from agencies and related banks. Purchase and sale transactions with related banks of participations in loans were conducted with unrelated borrowers under the same terms used by the Branch for granting loans.

During 2006 the Bank sold to MSF and some of its subsidiaries, in cash at market value, the equity maintained in some of its subsidiaries. The total sales amounted of US\$129 million and the realized gain was US\$1.7 million, which was previously recorded in shareholders' equity under Accumulated comprehensive loss.

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During 2005 the Bank sold shares of MSF to a subsidiary of MSF in cash at market value. A gain on sale of US\$912,900 was recorded under the caption "Additional paid-in-capital" in the statement of changes in shareholders' equity.

During 2005 the Bank sold in cash at market values shares and ADS to MSF and a subsidiary of MSF and realized a gain of US\$3.5 million. Such amount was previously recorded in shareholders' equity under Accumulated comprehensive loss.

During the year ended December 31, 2006, the Bank purchased and sold securities, mainly National Public Debt Bonds, held as investments available for sale, in cash at market values with related companies for US\$4,414 million and US\$4,858 million, respectively (US\$3,483 million and US\$3,707 million, respectively, during the year ended December 31, 2005), resulting in gains US\$5 million (US\$7 million during the year ended December 31, 2005) and losses of US\$918,169 during the year ended December 31, 2005, (Note 4).

At December 31, 2006 and 2005, the Bank recorded in other liabilities an account payable to MSF for concept of Total Return Swap for US\$3 million and US\$3.2 million, respectively, which were recognized in the consolidated statement of income under the caption "Gain (loss) on derivatives."

The Bank has been engaged as auxiliary trustee funds at a subsidiary of MSF according to the terms of the respective agreement.

24. Foreign Currency Activities

The operations of the Bank are distributed by type of currency at December 31, as follows:

	2006		2005	
	In thousands of U.S. dollars	%	In thousands of U.S. dollars	%
Assets				
Bolivars	\$ 8,589,014	94	\$ 6,187,607	94
U.S. dollars	514,809	6	402,696	6
Other	1,954	-	12,184	-
Total	\$ 9,105,777	100	\$ 6,602,487	100
Liabilities				
Bolivars	\$ 8,143,555	98	\$ 5,824,972	98
U.S. dollars	124,576	2	112,564	2
Other	1,145	-	2,832	-
Total	\$ 8,269,276	100	\$ 5,940,368	100
Income				
Bolivars	\$ 987,027	99	\$ 828,296	99
U.S. dollars	9,617	1	6,426	1
Total	\$ 996,644	100	\$ 834,722	100

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	2006		2005	
	In thousands of U.S. dollars	%	In thousands of U.S. dollars	%
Net income before taxes				
Bolivars	\$ 196,177	100	\$ 227,525	100
U.S. dollars	406	-	112	-
Total	\$ 196,583	100	\$ 227,637	100
Net income				
Bolivars	\$ 193,345	98	\$ 216,620	100
U.S. dollars	2,951	2	-	-
Total	\$ 196,296	100	\$ 216,620	100

25. Subsequent Events

a) Employee Stock Purchase Plan

In February 2007, the Bank implemented an Employee Stock Purchase Plan (“ESPP”) whereby employees may purchase shares of its Parent Company. The purchase price was US\$0.07 (par value) per share. The market value of the shares at the grant date was established at US\$2.5 per share. A total of US\$1.7 million was expensed at the grant date (February 27, 2007). All the employees of the Bank, excluding eligible officers for the stock option plan (Note 18), are eligible to participate in this plan. The Parent Company has the preferential right to purchase these shares at market value when the employee decides to sell it. The employees have certain restrictions for its sale during a specified period of time.

b) Stock Option Plan (Phase IV)

In March 2007, the Bank granted to the employees’ stock options related to the Phase IV of the aforementioned plan (Note 18). The price of the options was determined in 2004 at Bs 2,500 for Classes “A” and “B” common shares, based on prices traded on the Caracas Stock Exchange during a period prior to the general approval of the respective Phase. This award was amended and included the following features:

- There are two groups of options to all eligible officers, the first one, which granted to 2,962,448 of Class “A” shares and 2,469,552 of Class “B” shares to be exercisable over a 0.75 year vested period and the second one, which granted 509,908 of Class “A” shares and 425,092 of Class “B” shares to be exercisable over a 1.75 year vested period.
- The 50% of two types of options when exercised are restricted to be sold while the employee officers are active employees.

The fair value at the grant date was estimated at US\$1.42 for the first type of option and US\$1.40 for the second type of option and will be recognized a compensation expense over a weighted average requisite service period of 1.25 years.

c) Dividends

In April 2007, the Board of Directors approved to pay a cash dividend of Bs 40,000 million (equivalent to US\$18.6 million).

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d) New denominated currency

In March 2007, the Venezuelan Government approved effective January 1, 2008, the issuance of a new denominated currency, the “bolivar fuerte”. The current bolivars in circulation will be exchanged using a ratio of Bs 1,000 to 1 bolivar fuerte. The BCV has established a timetable that should be accomplished by the Bank.