

**Mercantil Servicios Financieros,
C.A. and its Subsidiaries**
Report of Independent Auditors and
Consolidated Financial Statements
December 31, 2006, 2005 and 2004

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Report of Independent Auditors

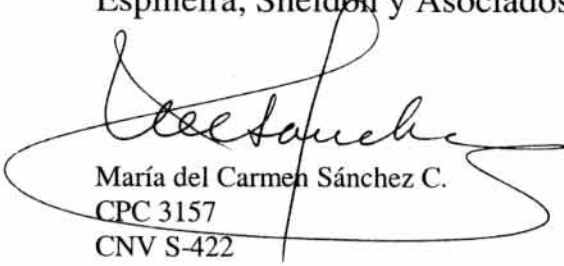
To the Shareholders and Board of Directors of
Mercantil Servicios Financieros, C.A.

We have audited the consolidated balance sheets of Mercantil Servicios Financieros C.A. and its subsidiaries at December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006, 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 financial statements and their notes is the responsibility of the management of Mercantil Servicios Financieros, C.A. Our responsibility is to express an opinion on these 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 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 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 Mercantil Servicios Financieros, C.A. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Espiñeira, Sheldon y Asociados



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Caracas, Venezuela
May 14, 2007

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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>3,789,083</u>	\$ <u>2,345,734</u>
Investment securities		
Trading	185,919	65,709
Available for sale	3,180,332	2,929,367
Held to maturity	<u>274,397</u>	<u>307,446</u>
Total investment securities	<u>3,640,648</u>	<u>3,302,522</u>
Loan portfolio, net of allowance for loan losses of \$111,478 and \$86,982, respectively	6,805,621	5,269,411
Fixed assets, net	195,945	157,920
Deferred income tax	139,312	108,706
Other assets, net	<u>534,193</u>	<u>361,445</u>
Total assets	\$ <u>15,104,802</u>	\$ <u>11,545,738</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	\$ 2,474,749	\$ 1,646,606
Interest bearing	<u>7,946,852</u>	<u>5,880,604</u>
	10,421,601	7,527,210
Securities sold under agreement to repurchase	1,957,073	1,867,942
Short-term borrowings	255,997	111,991
Long-term debt	382,571	328,088
Other liabilities	<u>758,236</u>	<u>599,050</u>
Total liabilities	<u>13,775,478</u>	<u>10,434,281</u>
Commitments and contingencies (Note 19)		
Minority interest	<u>1,540</u>	<u>6,796</u>
Shareholders' Equity		
Class "A" common stock, Bs 150 (\$0.07) par value, 417,003,636 shares issued and 414,018,538 outstanding (419,252,364 issued and 415,580,069 outstanding in 2005)		
Class "B" common stock, Bs 150 (\$0.07) par value, 301,108,533 shares issued and 299,172,504 outstanding (336,430,934 issued and 289,469,298 outstanding in 2005)	194,864	197,507
Additional-paid-in-capital	197,914	183,595
Repurchased shares restricted for employee stock option plan	(17,183)	(19,788)
Treasury stock		
Repurchase program	(6,640)	(68,316)
Held by subsidiaries	(3,378)	(9,325)
Legal reserve	234,951	234,951
Retained earnings	1,433,405	1,311,058
Accumulated other comprehensive loss	<u>(706,149)</u>	<u>(725,021)</u>
Total shareholders' equity	<u>1,327,784</u>	<u>1,104,661</u>
Total liabilities and shareholders' equity	\$ <u>15,104,802</u>	\$ <u>11,545,738</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Income
Years ended December 31, 2006, 2005 and 2004
(Thousands of U.S. dollars, except number of shares and net income per share)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest income			
Loan portfolio	\$ 726,529	\$ 490,995	\$ 342,928
Investment securities	178,482	156,833	154,892
Deposits with BCV and other banks	<u>146,556</u>	<u>118,878</u>	<u>113,653</u>
	<u>1,051,567</u>	<u>766,706</u>	<u>611,473</u>
Interest expense			
Deposits	168,789	107,425	69,750
Time deposits	176,691	136,740	59,905
Short-term borrowings	39,129	25,487	5,254
Long-term debt	<u>12,290</u>	<u>21,160</u>	<u>21,118</u>
	<u>396,899</u>	<u>290,812</u>	<u>156,027</u>
Net interest income	654,668	475,894	455,446
(Provision) release of allowance for loan losses	<u>(5,532)</u>	<u>9,689</u>	<u>7,281</u>
Interest income after (provision) release of allowance for loan losses	<u>649,136</u>	<u>485,583</u>	<u>462,727</u>
Commissions and other income			
Insurance premiums	334,021	228,347	166,537
Commissions for services	138,795	94,796	80,409
Gain on sale of investments, net	66,766	147,533	41,203
Commissions for asset management	32,353	31,635	30,337
Equity in earnings of affiliates	7,718	23,394	9,062
Foreign exchange gains	6,825	47,503	41,149
(Loss) gain on derivatives	(453)	(155)	3,044
Other income	<u>78,753</u>	<u>50,599</u>	<u>42,593</u>
	<u>664,778</u>	<u>623,652</u>	<u>414,334</u>
Other expenses			
Salaries and employee benefits	332,846	242,762	191,009
Claims and reserves for insurance policies	264,070	161,303	117,104
IT and other services	68,072	50,152	49,708
Occupancy	52,814	39,475	35,386
Advertising and marketing	41,503	26,901	20,211
Fees paid to regulatory agencies	36,057	25,548	17,585
Communications	35,309	28,222	26,222
Depreciation and amortization	33,933	27,935	29,442
State and other taxes	21,812	20,730	18,465
Minority interest	332	1,485	1,832
Other expenses	<u>144,537</u>	<u>106,877</u>	<u>103,894</u>
	<u>1,031,285</u>	<u>731,390</u>	<u>610,858</u>
Income before income taxes	282,629	377,845	266,203
Income taxes	<u>29,099</u>	<u>28,737</u>	<u>32,165</u>
Net income	\$ <u>253,530</u>	\$ <u>349,108</u>	\$ <u>234,038</u>
Net income per average common share			
Basic	\$ 0.37	\$ 0.51	\$ 0.33
Diluted	\$ 0.36	\$ 0.51	\$ 0.32
Weighted average number of common shares outstanding	689,756,974	678,191,588	717,543,592

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity
Years ended December 31, 2006, 2005 and 2004
(Thousands of U.S. dollars except for number of shares)

	Shares issued and outstanding	Capital stock	Additional -paid-in-capital	Repurchased shares restricted for employee stock option plan (Note 18)	Treasury stock				Accumulated other comprehensive loss			Total shareholders' equity	Comprehensive income for the year
					Repurchase program (Note 13)	Held by subsidiaries	Legal reserve	Retained earnings	Unrealized gain (loss) on valuation of investments in available for sale securities	Pension plan			
											Cumulative translation adjustment		
Balances at December 31, 2003	552,853,100	\$ 183,351	\$ 189,389	\$ (22,817)	\$ (16,886)	\$ (6,888)	\$ 219,854	\$ 812,798	\$ (532,787)	\$ 42,700	\$ -	\$ 868,714	\$ -
Net income for the year	-	-	-	-	-	-	-	234,038	-	-	-	234,038	234,038
Legal reserve	-	-	-	-	-	-	12,002	(12,002)	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	(50,658)	(1,940)	-	-	-	-	-	(52,598)	-
Purchases and sales of shares restricted for employee stock option plan	-	-	(752)	(1,662)	-	-	-	-	-	-	-	(2,414)	-
Cancellation of repurchased shares	(2,919,210)	(234)	-	-	2,436	-	-	(2,202)	-	-	-	-	-
Cash dividends (\$ 0.02 per share)	-	-	-	-	-	-	-	(16,984)	-	-	-	(16,984)	-
Adjustment of available for sale investment securities	-	-	-	-	-	-	-	-	-	57,400	-	57,400	57,400
Translation adjustment	-	-	-	-	-	-	-	-	(113,247)	-	-	(113,247)	(113,247)
Comprehensive income													<u>178,191</u>
Balances at December 31, 2004	549,933,890	183,117	188,637	(24,479)	(65,108)	(8,828)	231,856	1,015,648	(646,034)	100,100	-	974,909	-
Net income for the year	-	-	-	-	-	-	-	349,108	-	-	-	349,108	349,108
Legal reserve	-	-	-	-	-	-	3,095	(3,095)	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	(3,208)	(497)	-	-	-	-	-	(3,705)	-
Purchased and sales of shares restricted for employee stock option plan	-	-	(5,042)	4,691	-	-	-	-	-	-	-	(351)	-
Cash dividends (\$ 0.05 per share)	-	-	-	-	-	-	-	(36,213)	-	-	-	(36,213)	-
Stock distribution effected in the form of a stock split	205,749,408	14,390	-	-	-	-	-	(14,390)	-	-	-	-	-
Adjustment of available for sale investment securities	-	-	-	-	-	-	-	-	-	(75,515)	-	(75,515)	(75,515)
Translation adjustment	-	-	-	-	-	-	-	-	(103,572)	-	-	(103,572)	(103,572)
Comprehensive income													<u>170,021</u>
Balances at December 31, 2005	755,683,298	197,507	183,595	(19,788)	(68,316)	(9,325)	234,951	1,311,058	(749,606)	24,585	-	1,104,661	-
Net income for the year	-	-	-	-	-	-	-	253,530	-	-	-	253,530	253,530
Purchases and sales of shares restricted for employee stock option plan	-	-	4,248	2,605	-	-	-	-	-	-	-	6,853	-
Cancellation of repurchased shares	(37,571,129)	(2,643)	-	-	66,474	-	-	(63,831)	-	-	-	-	-
Cash dividends (\$ 0.11 per share)	-	-	-	-	-	-	-	(67,352)	-	-	-	(67,352)	-
Purchases and sales of treasury stock	-	-	10,071	-	(4,798)	5,947	-	-	-	-	-	11,220	-
Adjustment of available for sale investment securities	-	-	-	-	-	-	-	-	-	(21,929)	-	(21,929)	(21,929)
Adjustment to initially apply FAS 158, net of tax	-	-	-	-	-	-	-	-	-	-	(2,834)	(2,834)	-
Translation adjustment	-	-	-	-	-	-	-	-	43,635	-	-	43,635	43,635
Comprehensive income													<u>\$ 275,236</u>
Balances at December 31, 2006	<u>718,112,169</u>	<u>\$ 194,864</u>	<u>\$ 197,914</u>	<u>\$ (17,183)</u>	<u>\$ (6,640)</u>	<u>\$ (3,378)</u>	<u>\$ 234,951</u>	<u>\$ 1,433,405</u>	<u>\$ (705,971)</u>	<u>\$ 2,656</u>	<u>\$ (2,834)</u>	<u>\$ 1,327,784</u>	

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Cash Flows
Years ended December 31, 2006, 2005 and 2004
(Thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities			
Net income	\$ 253,530	\$ 349,108	\$ 234,038
Adjustments to reconcile net income to net cash provided by operating activities			
Provision (release of allowance) for loan losses	5,532	(9,689)	(7,281)
Depreciation and amortization	33,933	27,935	29,442
Provision for contingencies, net of reversals	8,012	27,603	36,303
Deferred income taxes	(31,838)	(9,190)	4,613
Foreign exchange gains	(6,825)	(47,503)	(41,149)
Equity in earnings of affiliates	(7,718)	(23,394)	(9,062)
Loses (gain) on sale of fixed assets	4,634	(66)	-
Gain on sales of investments available for sale, net	(13,923)	(44,610)	(78,943)
Minority interest	332	1,485	1,832
Net change in operating assets and liabilities			
Investment in securities - trading	(120,210)	(60,196)	3,787
Other assets	(10,969)	(132,054)	(58,717)
Other liabilities	<u>335,401</u>	<u>309,397</u>	<u>66,927</u>
Net cash provided by operating activities	<u>449,891</u>	<u>388,826</u>	<u>181,790</u>
Cash flows from investing activities			
Purchases of investments			
Available for sale	(34,790,713)	(21,477,659)	(8,995,717)
Held to maturity	(29)	(43,762)	(332,120)
Sales and maturities of investments			
Available for sale	34,293,947	20,814,090	8,738,711
Held to maturity	33,078	174,236	87,430
Acquisition of net assets in business combination, net of cash acquired	(21,643)	-	-
Net change in loan portfolio	(1,541,742)	(1,689,991)	(1,165,938)
Securities lending transactions	(39,541)	-	-
Purchases of fixed assets	(83,427)	(58,987)	(29,032)
Sales of fixed assets	<u>10,794</u>	<u>12,872</u>	<u>114</u>
Net cash used in investing activities	<u>(2,139,276)</u>	<u>(2,269,201)</u>	<u>(1,696,552)</u>
Cash flows from financing activities			
Net change in deposits	2,894,391	1,307,920	1,011,530
Net change in securities sold under agreement to repurchase	89,131	1,212,117	725,394
Proceeds from issuance of short-term borrowings	455,332	253,962	60,822
Repayment of short-term borrowings	(366,584)	(153,373)	(38,504)
Proceeds from issuance of long-term debt	528,044	275,327	173,471
Repayment of long-term debt	(457,263)	(364,710)	(72,545)
Net increase in securities borrowing transactions	38,962	-	-
Cash dividends	(67,352)	(36,213)	(16,984)
Purchases and sales of treasury stock	11,220	(3,705)	(52,598)
Purchase and sales of shares restricted for employee stock option plan	<u>6,853</u>	<u>(351)</u>	<u>(2,414)</u>
Net cash provided by financing activities	<u>3,132,734</u>	<u>2,490,974</u>	<u>1,788,172</u>
Effect of exchange rate changes on cash and cash equivalents	<u>-</u>	<u>(172,722)</u>	<u>(286,578)</u>
Net increase (decrease) in cash and cash equivalents	1,443,349	437,877	(13,168)
Cash and cash equivalents at the beginning of the year	<u>2,345,734</u>	<u>1,907,857</u>	<u>1,921,025</u>
Cash and cash equivalents at the end of the year	<u>\$ 3,789,083</u>	<u>\$ 2,345,734</u>	<u>\$ 1,907,857</u>

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Cash Flows
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(Thousands of U.S. dollars)

Supplemental information			
Taxes paid	\$ <u>13,838</u>	\$ <u>19,542</u>	\$ <u>31,834</u>
Interest paid	\$ <u>398,368</u>	\$ <u>282,887</u>	\$ <u>159,145</u>
Non cash transactions			
Exchange of National Public Debt Bonds	\$ <u>-</u>	\$ <u>33,061</u>	\$ <u>-</u>
Cash paid for the capital stock in acquisition (Note 7)	\$ 27,919	\$ <u>-</u>	\$ <u>-</u>
Fair value net assets acquired	\$ <u>(9,284)</u>	\$ <u>-</u>	\$ <u>-</u>
Goodwill	\$ <u>18,635</u>	\$ <u>-</u>	\$ <u>-</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2006, 2005 and 2004
(Thousands of U.S. dollars)

1. Activities of the Company

Mercantil Servicios Financieros, C.A. (the Company) was incorporated in Bolivarian Republic of Venezuela in 1997 and its shares are listed on the Caracas Stock Exchange (BVC). In addition, the Company has a Level 1 American Depository Receipt (ADR) program, which is listed on the Over the Counter (OTC) market in the United States of America (U.S.) with Classes "A" and "B" shares. The Company is regulated by the Venezuelan Capital Markets Law and the CNV (Venezuelan Securities and Exchange Commission) and, 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 CNV. 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 (Note 2).

The subsidiaries of the Company provide general banking services to corporate, middle market and retail customers and third-party asset management services both in Venezuela and in the United States of America. In addition, a subsidiary provides insurance services in Venezuela.

Below is a summary of the operation locations and main regulations that govern the Company and its subsidiaries:

a) Banco Mercantil, C.A. (Banco Universal) in Venezuela

The activities of Banco Mercantil are regulated by the Venezuelan General Law of Banks and Other Financial Institutions (General Bank Law). The regulations require, 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 set certain limits in respect of commissions and fees for certain financial services.

b) Commercebank, N.A.

This subsidiary is incorporated and domiciled in accordance with the laws of the United States of America, and is supervised and regulated by the Office of the Comptroller of the Currency (OCC).

c) Seguros Mercantil, C.A.

This subsidiary is incorporated in Venezuela and regulated by the Venezuelan Law of Insurers and Reinsurers.

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d) Banco Mercantil Schweiz AG

This subsidiary bank is incorporated, domiciled and regulated by the laws of Switzerland and supervised by the Swiss Federal Banking Commission and the Swiss National Bank.

e) Merinvest, C.A.

This subsidiary is a holding company for Venezuelan subsidiaries engaged in securities brokerage and investment (mutual funds) banking. These subsidiaries are regulated by the Venezuelan CNV and the Capital Markets Law.

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.

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 Company and its more than 50% owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The accounting year end of the Company 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 Company. 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 Company.

Variable interest entities for which the Company is deemed to be the primary beneficiary are consolidated. The Company 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 Company and 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 Company and its subsidiaries located 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.

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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>		
	<u>Purchase</u>	<u>Sale</u>	<u>Average for the year</u>
2003	1,596.00	1,600.00	1,603.48
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.

Held to maturity securities

Held to maturity securities are investments in debt securities for which the Company 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 Company's cost are taken into consideration to determine if an impairment of an investment security has occurred.

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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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 Company 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 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.

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 Company 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 Company follows the same methodology described for allowance for loans and losses, but including a propensity 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 and in the case of the Venezuelan subsidiaries, 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

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recorded as interest income. The Company 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.

Maintenance, repairs and minor improvements are charged to operations as incurred. The Company 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 Company 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

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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, 2005 and 2004, no impairment charges were recorded.

Intangibles assets 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, 2005 and 2004, intangible assets include core deposit, client list and points of sale, all of which are amortized on straight-line basis over 10 years.

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

Securities sold with 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 transactions are treated as secured financing or lending.

Reserve, premiums and acquisitions cost

The reserve for unearned premiums represents the unmaturing portion of insurance premiums. Reserves for insurance claims include the estimated cost of claims reported and related expenses in addition to the estimated provisions for claims incurred but not yet reported. Reserves are adjusted regularly based on historical claims experience. To determine whether a premium deficiency reserve is warranted, the Company determines and compares by business groups, the present value of future costs against unearned premiums at year-end. Based on this assessment, the Company did not require a premium deficiency reserve.

In determining the reserves for insurance policies and claims, the Company conducts an ongoing review of its reserves, including technical reserves and reinsurance. Since reserves are based on estimates, the actual amounts may be greater or less than those reserves. The effects of changes in estimated reserves are included in the results for the period in which they occur. The reserve for insurance policies and claims is included under the caption Other liabilities (Note 12).

Premiums for short duration contracts are earned on a pro rata basis over the term of the related coverage. All the Company's insurance products including property and casualty and accident and health policies qualify as short-duration contracts.

The direct cost incurred to underwrite insurance policies are deferred and charge to earnings proportionate with the premium earned. These policy acquisition costs include commissions and fees.

Accrual for employee termination benefits

The Company 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

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certain circumstances, the Law provides for an additional indemnity in the event of layoffs. Based on historical experiences, the Company and its Venezuelan subsidiaries establish additional provisions through the service period of the employee, to cover this estimated liability. This provision amounted to US\$0.8 million in 2006 and US\$1 million in 2005.

Profit-sharing bonus and vacation leave

As established in its Collective Labor Agreement, the Company 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 Company and certain Venezuelan subsidiaries have 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, Company contributions are not made.

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

In addition, Commercebank, N.A. has a 401 (k) employee benefit plan whereby it contributes a fixed percentage of participating employees’ salaries. This plan covers substantially all Bank employees.

Supplementary Savings Plan

During 2006 the Company 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 income statement for the year. This plan also grants employees certain post-retirement benefits, mainly medical insurance.

Long-term stock option plan

The Company has a long-term stock option plan for certain key officers (Note 18). The Company 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-Sholes-Merton 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 bases as reported in the financial statements. Deferred tax assets have also been recognized for net operating loss carry forwards and tax credit carry

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forwards. Valuation allowances are recorded to reduce deferred tax assets to the amounts management concludes are more likely than not to be realized.

Comprehensive loss

Comprehensive loss 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 Company and its subsidiaries whose functional currency is different than the U.S. dollar, and the unfunded amount of the post-retirement benefits plan, net of tax effect.

Net income per share

Basic net income per share is determined by dividing net income for the year by the weighted average of outstanding shares, excluding treasury stock and repurchased shares restricted for employee stock option plan. Diluted net income per share is reflected by application of the "treasury stock method". Under the treasury stock method, net income per share is calculated as if options of employee stock option plan were exercised and as if the assumed proceeds were used to purchase the Company's stock.

Effective April 27, 2005, the Company distributed shares in the form of a split. For net income per share purposes, the effect of share amounts has been calculated as if the stock split occurred on January 1, 2004.

Mandatory dividends

As required by Venezuelan Capital Markets Law, the Company distributes a dividend in an amount equal to at least 50% of its base annual income of which at least 25% must be paid in cash each year. At December 31, 2006, minimum mandatory dividend payable in cash dividend is recorded as a liability against retained earnings.

Treasury stock

Treasury stocks are recorded at cost, which approximates market prices at the date of purchase. The cancellation of treasury stocks is recorded against Retained earnings and gain or losses on sales of treasury stocks are recorded in Additional paid in capital.

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, the Company has designated derivatives as hedges of the fluctuations in the fair value of certain fixed rate instruments due to interest rate risk ("fair value" hedges). Changes in the fair value of these derivatives are recorded in current earnings as well as changes in the fair value of the hedged instruments. Management considers that the derivatives are highly effective in offsetting the fluctuations in value of fixed rate instruments arising from interest rate risk.

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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).

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, federal funds sold, deposits with BCV and other banks.

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 No. 48 shall be effective for fiscal years beginning after December 15, 2006. The Company 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 Company'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." 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 Company's financial operations in future periods.

Fair Value Measurements SFAS 157

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements". 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

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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 Company'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 No. 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 Company'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," 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 No. 159 is effective for the Company beginning in the 2008 first quarter. This Statement is not expected to impact the Company's consolidated financial operations in future periods.

Reclassifications

Certain reclassifications have been made to the December 31, 2005 and 2004 consolidated financial statements to conform to current year presentation.

3. Cash and Cash Equivalents

Cash equivalents at December 31 comprise the following:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Non-interest bearing		
Cash due from banks	\$ 161,347	\$ 130,196
Pending cash items	232,925	141,702
Deposits with correspondent banks	<u>20,193</u>	<u>22,947</u>
	<u>414,465</u>	<u>294,845</u>
Interest bearing		
Overnight deposits and placements in BCV	1,954,917	1,368,922
Federal funds sold	<u>53,128</u>	<u>75,367</u>
	<u>2,008,045</u>	<u>1,444,289</u>
Legal reserve deposited with BCV and the Federal Reserve Bank	<u>1,366,573</u>	<u>606,600</u>
	<u>\$ 3,789,083</u>	<u>\$ 2,345,734</u>

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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).

Legal reserves deposits in BCV and Federal Reserve Bank relate to minimum balances that certain banking subsidiaries must maintain as required by regulatory entities. These balances are determined based on deposits and other borrowings by subsidiaries. At December 31, 2006, the legal reserve in Venezuela amounts to 15% of all deposits and other liabilities. As from July 2006, the marginal increase of deposits is subject to a legal reserve of 30%.

4. Investment Portfolio

At December 31, 2006, trading securities are comprised of mainly US\$104 million of U.S. Government agencies securities (US\$62 million at December 31, 2005). At December 31 2006, the Company recorded a net gain of approximately US\$53 million related to trading securities (gain of US\$103 million and loss of US\$38 million during 2005 and 2004, respectively).

	2006				2005			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
<i>(In thousands of U.S. dollars)</i>								
Investments in available for sale securities								
Securities issued or guaranteed by the Government and by the National Treasury of the United States of America (1)	\$ 931,330	\$ 5,122	\$ (4,278)	\$ 932,174	\$ 810,768	\$ 6,381	\$ (6,542)	\$ 810,607
Securities issued or guaranteed by the Bolivarian Republic of Venezuela								
In bolivars	856,584	4,481	(5,171)	855,894	642,924	10,529	(366)	653,087
In U.S. dollars	73,665	3,289	(286)	76,668	108,997	1,769	(214)	110,552
Debt in companies sponsored and supervised by the Government of the United States of America (2)	644,565	712	(5,307)	639,970	862,485	327	(9,110)	853,702
Financial institutions commercial paper	375,836	142	(394)	375,584	161,309	-	(553)	160,756
Corporate commercial paper	151,473	540	(81)	151,932	110,760	9	(30)	110,739
Corporate securities	99,183	325	(99)	99,409	93,259	40	(223)	93,076
Securities issued or guaranteed by the Argentine Republic	36,622	579	(831)	36,370	8,417	-	(371)	8,046
Shares issued by Venezuelan companies (3)	10,049	8,870	(7,599)	11,320	102,201	54,203	(36,458)	119,946
Other	1,011	-	-	1,011	8,997	-	(141)	8,856
	<u>\$ 3,180,318</u>	<u>\$ 24,060</u>	<u>\$ (24,046)</u>	<u>\$ 3,180,332</u>	<u>\$ 2,910,117</u>	<u>\$ 73,258</u>	<u>\$ (54,008)</u>	<u>\$ 2,929,367</u>

(1) Includes Government National Mortgage Association and Small Business Administration.

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

(3) Includes principally ADS of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), equivalent to 1.40% of its capital stock, as of December 31, 2005. The majority of CANTV's ADS were sold during 2006.

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At December 31, 2006 and 2005, the Company computed a deferred income tax for approximately US\$2.6 million and US\$5.3 million, respectively, based on the unrealized loss on investments in available for sale securities (Note 15).

	2006				2005			
	Amortized cost	Unrealized gain	Unrealized loss	Market value	Amortized cost	Unrealized gain	Unrealized loss	Market value
<i>(In thousands of U.S. dollars)</i>								
Held to maturity securities								
Investment securities issued or guaranteed by the Republic of Venezuela								
In U.S. dollars	\$ 103,929	-	\$ (42)	\$ 103,887	\$ 72,075	\$ 10,484	\$ (11)	\$ 82,548
In bolivars	49,697	67	(56)	49,708	114,003	3,097	(3,260)	113,840
Mandatory redeemable preferred stock (1)	22,350	-	(15)	22,335	16,619	-	-	16,619
Debt in companies sponsored and supervised by the Government of the United States of America (2)								
	17,208	-	-	17,208	31,968	-	-	31,968
Other investments	<u>81,213</u>	<u>30</u>	<u>(36)</u>	<u>81,207</u>	<u>72,781</u>	<u>46</u>	<u>(82)</u>	<u>72,745</u>
	<u>\$ 274,397</u>	<u>\$ 97</u>	<u>\$ (149)</u>	<u>\$ 274,345</u>	<u>\$ 307,446</u>	<u>\$ 13,627</u>	<u>\$ (3,353)</u>	<u>\$ 317,720</u>

(1) Includes shares of private companies.

(2) Includes securities of Federal National Mortgage Association, Government National Mortgage Association and Small Business Administration.

The Company 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 Company 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 available for sale and held to maturity investments by maturity at December 31, 2006:

	Investments available for sale			Investments held to maturity		
	Cost	Book value (equivalent to market value)	Yield % (1)	Cost	Amortized cost	Yield % (1)
<i>(In thousands of U.S. dollars)</i>						
In bolivars						
Less than 1 year	\$ 452,255	\$ 449,982	6.32	\$ 47,313	\$ 47,314	11.48
From 1 to 5 years	401,436	404,220	4.64	2,417	2,417	3.97
From 5 to 10 years	11,017	11,023	5.38	30	30	5.62
More than 10 years	-	-	-	131	131	5.50
In U.S. dollars						
Less than 1 year	719,762	719,406	4.65	53,970	53,970	4.42
From 1 to 5 years	127,137	127,679	5.37	83,972	83,968	5.76
From 5 to 10 years	210,509	214,240	5.56	41,653	41,652	4.84
More than 10 years	<u>1,258,202</u>	<u>1,253,782</u>	5.43	<u>44,924</u>	<u>44,915</u>	7.45
	<u>\$ 3,180,318</u>	<u>\$ 3,180,332</u>		<u>\$ 274,410</u>	<u>\$ 274,397</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.

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At December 31, 2006, securities available for sale with a fair value of approximately US\$853 million were pledged as collateral to secure federal tax deposits, public deposits and securities sold under agreements to repurchase (US\$720 million in 2005) (Note 9), US\$123 million were pledged as collateral to secure Federal Home Loan Bank advances (US\$123 million in 2005) (Note 11), US\$16 million were pledged to regulatory entities in compliance with state requirements for the agency of Banco Mercantil in the United States of America (US\$28 million in 2005), US\$40 million were used for securities lending transactions (Note 7) (nil in 2005) and US\$39 million were used for securities borrowing transactions (Note 10) (nil in 2005).

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).

During 2006, gains of US\$19 million (US\$72 million and US\$111 million during 2005 and 2004, respectively) and losses of US\$5 million (US\$27 million and US\$32 million during 2005 and 2004, respectively) were recorded on the sale of available for sale securities.

In April 2006, the Company sold shares of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) via the Venezuelan Stock Exchange (BVC), recognizing a gain of US\$25 million. Such amount was previously recorded under Accumulated other comprehensive loss because this was an available for sale security.

During 2005, the Company and its subsidiaries sold their interest in Bancolombia (Banco Comercial de Colombia) via the Colombian Stock Exchange recognizing a net gain of US\$145 million, after commissions of US\$5 million.

During 2005 and 2004, the Company recorded impairment losses of US\$6 and US\$17 million, respectively, to reflect an other-than-temporary decline in the fair value of the National Public Debt below its cost.

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 and 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. Given the difficulties in 2004 of estimating forward exchange rates in the Venezuelan market considering the fiscal situation and the exchange control mechanisms, the Company utilized, for the purposes of the valuation, actual foreign currency exchange rates in effect as of 2004, plus at December 31, 2006 and 2005 a projected exchange rates over the remaining option term. 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

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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	\$ 2,379,116	\$ 385,302	\$ 513,353	\$ 3,277,771	\$ 3,122,879
Construction	206,156	613,760	-	819,916	595,368
Banks and other financial institutions	<u>8,830</u>	<u>33,695</u>	<u>307,332</u>	<u>349,857</u>	<u>284,292</u>
	<u>2,594,102</u>	<u>1,032,757</u>	<u>820,685</u>	<u>4,447,544</u>	<u>4,002,539</u>
Consumer credit					
Mortgages	283,091	881,442	4,674	1,169,207	770,917
Credit cards	442,648	-	-	442,648	201,739
Car loans	492,758	196	-	492,954	240,360
Other	<u>285,624</u>	<u>75,176</u>	<u>12,515</u>	<u>373,315</u>	<u>149,909</u>
	<u>1,504,121</u>	<u>956,814</u>	<u>17,189</u>	<u>2,478,124</u>	<u>1,362,925</u>
Gross loan portfolio	4,098,223	1,989,571	837,874	6,925,668	5,365,464
Interest collected in advance	(8,170)	(399)	-	(8,569)	(9,071)
Allowance for loan losses	<u>(79,570)</u>	<u>(26,262)</u>	<u>(5,646)</u>	<u>(111,478)</u>	<u>(86,982)</u>
	<u>\$ 4,010,483</u>	<u>\$ 1,962,910</u>	<u>\$ 832,228</u>	<u>\$ 6,805,621</u>	<u>\$ 5,269,411</u>

Impaired loans at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
<i>(In thousands of U.S. dollars)</i>		
Impaired loans with assigned allowance	\$ <u>38,332</u>	\$ <u>23,949</u>
Total impaired loans	\$ <u>50,470</u>	\$ <u>34,105</u>
Allowance for impaired loans	\$ <u>19,476</u>	\$ <u>8,668</u>
Average of impaired loans	\$ <u>42,329</u>	\$ <u>37,976</u>
Interest income from impaired loans recognized in the year	\$ <u>9,049</u>	\$ <u>2,548</u>

The interest income that would have been recorded for the impaired loans in accordance with the original contractual terms amounted to approximately US\$6.9 million and US\$4 million for the years ended December 31, 2006 and 2005, respectively.

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>	<u>2004</u>
Balance at the beginning of the year	\$ 86,982	\$ 99,525	\$ 143,906
Provision (release of allowance) for loan losses	5,532	(9,689)	(7,281)
Recoveries	33,960	29,412	19,769
Charge-offs	(15,085)	(25,363)	(42,593)
Effect of exchange rate changes	<u>89</u>	<u>(6,903)</u>	<u>(14,276)</u>
Balance at the end of the year	\$ <u>111,478</u>	\$ <u>86,982</u>	\$ <u>99,525</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>	Estimated useful lives (in years)
Land	\$ 10,576	\$ 14,991	-
Buildings and facilities	141,083	119,612	10-40
Computer equipment and software	158,455	118,472	3-10
Office furniture and equipment	32,128	25,522	4-10
Other property	<u>11,473</u>	<u>11,012</u>	4-10
	353,715	289,609	
Less: Accumulated depreciation and amortization	<u>(179,128)</u>	<u>(147,238)</u>	
	174,587	142,371	
Construction in progress	<u>21,358</u>	<u>15,549</u>	
	\$ <u>195,945</u>	\$ <u>157,920</u>	

For the year ended December 31, 2006, the Company recorded depreciation and amortization expense of US\$30 million (US\$24 million and US\$25 million for the years ended December 31, 2005 and 2004, respectively).

In June 2006, the Company 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 Company recognized a loss of US\$4 million included in "Other expenses" (Note 7).

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7. Other Assets

Other assets at December 31 comprise the following:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Receivable on sale of investments	\$ 124,051	\$ 110,307
Interest and commission receivables	78,678	66,636
Prepaid taxes and other prepaid expenses	55,500	42,288
Insurance premium receivable, net	52,470	32,886
Goodwill (a)	46,672	28,037
Securities lending (b) (Note 4)	39,541	-
Equity method investments (c)	19,277	13,539
Account receivable for granted guarantees	18,876	9,438
Rights to receive real state (Note 6)	18,274	-
Pending items and main office, branches and agencies	18,028	10,010
Intangible assets, net (a)	17,377	19,548
Commissions receivables	8,080	6,860
Foreclosed assets	2,796	216
Other	<u>34,573</u>	<u>21,680</u>
Total	<u>\$ 534,193</u>	<u>\$ 361,445</u>

a) Intangible assets and goodwill

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

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>			<u>2005</u>		
	<u>Intangibles</u>			<u>Intangibles</u>		
	<u>Goodwill</u>	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Goodwill</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Balance at the beginning of the year	\$ 28,037	\$ 38,003	\$ 18,455	\$ 30,778	\$ 42,556	\$ 16,422
Acquired during the year	18,635	1,788	170	-	-	-
Amortization expense	-	-	3,789	-	-	3,863
Effect of exchange rates changes	-	-	-	(2,741)	(4,553)	(1,830)
Balance at the end of the year	<u>\$ 46,672</u>	<u>\$ 39,791</u>	<u>\$ 22,414</u>	<u>\$ 28,037</u>	<u>\$ 38,003</u>	<u>\$ 18,455</u>

The following table presents the movement on goodwill by business segments for the fiscal years ended December 31:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>			
	<u>Personal & Comercial Banking</u>	<u>Corporate Banking</u>	<u>Insurance</u>	<u>Total</u>
	Balance at the beginning of the year	\$ 20,608	\$ 3,703	\$ 3,726
Acquired during the year	<u>18,635</u>	-	-	<u>18,635</u>
Balance at the end of the year	<u>\$ 39,243</u>	<u>\$ 3,703</u>	<u>\$ 3,726</u>	<u>\$ 46,672</u>

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	2005			
	<u>Personal & Commercial Banking</u>	<u>Corporate Banking</u>	<u>Insurance</u>	<u>Total</u>
<i>(In thousands of U.S. dollars)</i>				
Balance at the beginning of the year	\$ 22,316	\$ 4,146	\$ 4,316	\$ 30,778
Effect of exchange rates changes	(1,708)	(443)	(590)	(2,741)
Balance at the end of the year	\$ <u>20,608</u>	\$ <u>3,703</u>	\$ <u>3,726</u>	\$ <u>28,037</u>

In 2006 the Company acquired 100% of the equity interest in Florida Savings Bank, Inc. (effective on May 5, 2006), a commercial bank in the U.S., for approximately US\$27.9 million and recognized goodwill for the difference between the purchase price and the fair value of the net assets acquired. The acquired bank provided commercial and personal banking products and services through three offices in South Florida. Total fair value of assets acquired and liabilities assumed amounted to US\$131 million and US\$122 million, respectively. The acquired bank was later merged into Commercebank, N.A.

b) Securities lending

At December 31, 2006, the Company has securities loan agreements with third parties, represented by Treasury Notes of the Bolivarian Republic of Venezuela for US\$39.5 million (par value of US\$40 million) with yields between 3% and 12% and maturities as follows:

<i>(In thousands of U.S. dollars)</i>	
Up to 30 days	\$ 8,794
31 to 60 days	5,005
61 to 90 days	<u>25,742</u>
Total	\$ <u>39,541</u>

c) Equity method investments

Equity method investments at December 31 comprise the following:

	2006			2005		
	<u>Number of shares</u>	<u>Equity %</u>	<u>Carrying value (In thousands of U.S. dollars)</u>	<u>Number of shares</u>	<u>Equity %</u>	<u>Carrying value (In thousands of U.S. dollars)</u>
Cestaticket Accor Services, C.A.	279,500	43.00	\$ 13,827	279,500	43.00	\$ 10,794
Todo 1 Services, Inc.	26,187	47.00	4,483	21,823	38.80	2,038
Proyecto Conexus	343,334	33.00	845	343,334	33.33	673
Other			<u>122</u>			<u>34</u>
			\$ <u>19,277</u>			\$ <u>13,539</u>

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8. Deposits

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

	<u>2006</u>			<u>2005</u>	
	<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	\$ <u>1,942,643</u>	\$ <u>530,786</u>	\$ <u>1,320</u>	\$ <u>2,474,749</u>	\$ <u>1,646,606</u>
Interest-bearing deposits					
Interest-bearing checking accounts	2,001,990	529,131	8,489	2,539,610	1,925,328
Savings deposits	2,230,059	1,097,413	593	3,328,065	2,469,226
Time deposits	<u>418,933</u>	<u>1,310,337</u>	<u>349,907</u>	<u>2,079,177</u>	<u>1,486,050</u>
	<u>4,650,982</u>	<u>2,936,881</u>	<u>358,989</u>	<u>7,946,852</u>	<u>5,880,604</u>
	\$ <u>6,593,625</u>	\$ <u>3,467,667</u>	\$ <u>360,309</u>	\$ <u>10,421,601</u>	\$ <u>7,527,210</u>

(1) In bolivars.

Maturities of time deposits are as follows:

	<u>2006</u>	
	<u>In thousands of U.S. dollars</u>	<u>%</u>
2007	\$ 2,018,312	97
2008	24,532	1
2009	11,038	-
2010	12,257	1
2011	12,786	1
2012	50	-
2013 and beyond	<u>202</u>	<u>-</u>
Total	\$ <u>2,079,177</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\$1,403 million (US\$1,150 million as of December 31, 2005).

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

	<u>2006</u>				<u>2005</u>			
	<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>		<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>	
	<u>Minimum rate</u>	<u>Maximum rate</u>	<u>Minimum rate</u>	<u>Maximum rate</u>	<u>Minimum Rate</u>	<u>Maximum rate</u>	<u>Minimum rate</u>	<u>Maximum rate</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Interest-bearing checking accounts	0.50	5.00	0.10	5.60	1.00	2.50	0.10	2.70
Savings deposits	6.50	7.00	0.10	5.50	6.50	8.00	0.10	2.70
Time deposits	10.00	10.75	0.15	6.57	7.50	13.75	0.15	6.57

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9. Securities Sold Under Agreements to Repurchase

At December 31, 2006 and 2005, securities sold under agreements to repurchase amounted to approximately US\$1,957 million and US\$1,868 million, respectively with maturities of less than 13 months (Notes 3 and 4). At December 31, 2006 and 2005, securities sold but not yet purchased amounted to US\$138 and US\$61, respectively. The average interest rate paid was 4.56% in 2006 (2.0% in 2005) for the agreements in U.S. dollars, and 6.06% in 2006 (7.5% in 2005) for the agreements in bolivars.

10. Short-term Borrowings

Short-term borrowings at December 31 comprise the following:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Loans granted by Venezuelan financial institutions, with fixed annual interest between 7.13% and 12% (between 11.9% and 15% at December 31, 2005)	\$ 91,439	\$ 43,129
Liabilities in respect of letters of credit	63,984	28,474
Securities borrowing (Note 4)	38,962	-
Commercial paper, with fixed annual interest between 6.75% and 7,0%	37,303	20,451
Credit balances with correspondent banks	23,040	15,400
Other	<u>1,269</u>	<u>4,537</u>
	<u>\$ 255,997</u>	<u>\$ 111,991</u>

Maturities of short-term-borrowings are as follows:

	<u>2006</u>		<u>2005</u>	
	<u>In thousands of U.S. dollars</u>	<u>%</u>	<u>In thousands of U.S. dollars</u>	<u>%</u>
Up to 30 days	\$ 45,690	18	\$ 46,825	42
31 to 60 days	36,394	14	14,863	13
61 to 90 days	37,715	15	2,440	2
91 to 180 days	31,527	12	15,126	14
181 to 270 days	12,255	5	16,626	15
271 to 360 days	<u>92,416</u>	<u>36</u>	<u>16,111</u>	<u>14</u>
Total	<u>\$ 255,997</u>	<u>100</u>	<u>\$ 111,991</u>	<u>100</u>

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Commercial paper

The Company has issued the following commercial paper in bolivars:

<i>(In thousands of U.S. dollars)</i>	<u>Amount of issuance</u>	<u>Balance at December 31, 2006</u>	<u>Date of issue</u>	<u>Term (Days)</u>	<u>Zero coupon (discount) %</u>
Issue 2006-I					
Series I	\$ 4,663	\$ 4,663	September 2006	210	7.00
Series II	4,663	4,663	September 2006	210	7.00
Series III	4,663	4,663	September 2006	360	7.00
Series IV	9,326	9,326	October 2006	339	6.75
Series V	4,663	4,663	October 2006	311	6.75
Series VI	<u>9,325</u>	<u>9,325</u>	November 2006	279	6.75
	<u>\$ 37,303</u>	<u>\$ 37,303</u>			

11. Long-term Debt

Long-term debt at December 31 comprises the following:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>			<u>2005</u>
	<u>Up to one year</u>	<u>More than one year</u>	<u>Total</u>	<u>Total</u>
Subordinated debt, with annual variable interest between 7.11% and 10.60% (between 7.0% and 10.6% at December 31, 2005) (a)	\$ -	\$ 125,080	\$ 125,080	\$ 90,080
Advances from Federal Home Loan Bank, with annual fixed interest between 3.16% and 5.92% (between 2.42% and 5.58% at December 31, 2005) (b)	1,000	108,294	109,294	117,250
Debenture bonds, with annual variable interest between 8.25% and 13.89% (between 12.41% and 14% at December 31, 2005) (c)	-	82,928	82,928	59,090
Loans granted by Venezuelan financial institutions, with annual fixed interest between 8.00% and 14% (between 6.46% and 12.50% at December 31, 2005) (d)	10,491	46,628	57,119	44,771
Loans granted by foreign financial institutions, with annual fixed interest at 9.63% (between 4.28% and 9.63% at December 31, 2005)	-	5,784	5,784	14,056
Funds received for special financing programs, with annual variable interest between 18% and 22.29% at December 31, 2006 and 2005	719	1,349	2,068	2,841
Other	<u>298</u>	<u>-</u>	<u>298</u>	<u>-</u>
	<u>\$ 12,508</u>	<u>\$ 370,063</u>	<u>\$ 382,571</u>	<u>\$ 328,088</u>

Maturities of long-term debt are as follows:

	<u>2006</u>	
	<u>In thousands of U.S. Dollars</u>	<u>%</u>
2007	\$ 115,184	30
2008	75,827	20
2009	53,607	14
2010	2,314	1
2011	8,306	2
2012	3	-
2013 and beyond	<u>127,330</u>	<u>33</u>
Total	<u>\$ 382,571</u>	<u>100</u>

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a) Subordinated debt

The U.S. subsidiary, Commercebank Holding Corporation, has issued the following 30-year mandatorily redeemable subordinated debt:

(In thousand of U.S. dollars)

<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest %</u>	<u>Original amount</u>	<u>Balance at December 31, 2006</u>	<u>Balance at December 31, 2005</u>
June 1998	June 2028	8.90	\$ 40,000	\$ 27,830	\$ 27,830
September 2000	September 2030	10.60	15,000	15,000	15,000
March 2001	June 2031	10.18	10,000	10,000	10,000
November 2001	December 2031	LIBOR + 3.75	5,000	-	5,000
July 2002	July 2032	LIBOR + 3.65	10,000	10,000	10,000
December 2002	January 2033	LIBOR + 3.35	9,000	9,250	9,250
April 2003	April 2033	LIBOR + 3.25	8,000	8,000	8,000
March 2004	April 2034	LIBOR + 2.85	5,000	5,000	5,000
September 2006	December 2038	LIBOR + 1.75	25,000	25,000	-
December 2006	December 2036	LIBOR + 1.75	<u>25,000</u>	<u>15,000</u>	-
			\$ <u>152,000</u>	\$ <u>125,080</u>	\$ <u>90,080</u>

Commercebank Holding Corporation has the option of deferring interest payment on these liabilities for up to 10 six-month periods. In 2006 Commercebank Holding Corporation purchased back and retired US\$5 million of the Commercebank Capital Trust IV, Capital Securities (none in 2005).

b) Advances from the Federal Home Loan Bank

At December 31, 2006, the Company had outstanding advances from the Federal Home Loan Bank of Atlanta with the following maturities:

(In thousands of U.S. dollars)

<u>Maturity</u>	<u>Interest rate %</u>	<u>2006</u>
2007	4.79	\$ 1,000
2008	5.11	1,500
2010	5.92	2,044
2011	4.72 to 5.58	27,500
2012	3.16 to 4.52	75,000
2016	5.84	1,250
2018	5.35	<u>1,000</u>
		\$ <u>109,294</u>

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These advances are fully prepayable by the Company at any time, and US\$102,000 is callable by the Federal Home Loan Bank of Atlanta in the following dates:

<i>(In thousand of U.S. dollars)</i>	Balance at December 31, 2006
June 7, 2007	\$ 25,000
October 1, 2007	25,000
December 12, 2007	25,000
June 18, 2007 and every quarter until its maturity	2,000
March 23, 2009	<u>25,000</u>
Total	\$ <u>102,000</u>

c) Debenture bonds

The Company has issued the following bonds in bolivars:

<i>(In thousand of U.S. dollars)</i>	Amount of issuance	Balance at December 31, 2006	Date of issue	Term (Years)	Percentage of return on TAM (*) %
Issue 2004-II	\$ 11,657	\$ 6,971	May-September-October 2004 2005	2.5	90
Issue 2004-IV	13,989	10,867	November 2004-March and May 2005	3	91
Issue 2005-I	16,320	16,293	November-December 2005	3	88
Issue 2005-II	11,657	11,657	November-December 2005	1.5	84
Issue 2006-I	27,977	23,445	November 2006	2	8,25% fix rate
Issue 2006-II	<u>18,652</u>	<u>13,695</u>	November 2006	2	76
	<u>\$ 100,252</u>	<u>\$ 82,928</u>			

(*) The Market Lending Rate (TAM) is the weighted average annual interest rate for lending operations agreed by the main six commercial and universal banks in Venezuela according to information published by the BCV. The TAM as of December 31, 2006 and 2005 was 15.27% and 14.77%, respectively.

The Company reserves the right to fully or partially redeem these bonds at par value as of one year of the issue date of each series and on the date coupons are paid. One or several series issued may be redeemed.

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d) Loans granted by Venezuelan Financial Institutions

The Company has the following outstanding loans granted by Venezuelan Financial Institutions:

(In thousands of U.S. dollars)

<u>Maturity date</u>	<u>Annual interest %</u>	<u>Original amount</u>	<u>Balance at December 31, 2006</u>	<u>Balance at December 31, 2005</u>
2009	11.50	\$ 27,977	\$ 27,977	\$ -
2008	8.00 to 11.00	18,651	18,651	-
2007	13.42 to 14.00	20,982	10,491	20,982
2006	6.46 to 12.50	<u>24,422</u>	-	<u>23,789</u>
		\$ <u>92,032</u>	\$ <u>57,119</u>	\$ <u>44,771</u>

12. Other Liabilities

Other liabilities al December 31 comprises the following:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Reserves for insurance policies and claims (Note 2)	\$ 211,725	\$ 136,793
Investment securities purchased	176,659	189,898
Provision for contingencies (a)	65,578	60,806
Taxes collected and withheld	42,588	18,601
Provisions for taxes payable	35,383	32,258
Labor contributions	36,799	30,952
Interest collected in advance	34,996	26,310
Reinsurance payable	32,725	18,647
Interest payable	17,218	18,688
Accrued expenses from occupancy and other services received	4,838	3,135
Other (b)	<u>99,727</u>	<u>62,962</u>
	\$ <u>758,236</u>	\$ <u>599,050</u>

- (a) US\$13 million in 2006 and US\$12 million in 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\$7 million in 2006 and 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.
- (b) As of December 31, 2006 includes: US\$4 million of mandatory dividends (Notes 2 and 13) and US\$4 million of Supplementary retirement pension and post-retirement benefit plan (Note 17).

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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>	<u>2004</u>
Balance at the beginning of the year	\$ 60,806	\$ 56,777	\$ 32,583
Provisions	36,184	35,031	38,613
Reversals of provisions	(28,172)	(7,428)	(2,310)
Settlements	(3,240)	(18,402)	(7,416)
Effect of exchange rate changes	<u>-</u>	<u>(5,172)</u>	<u>(4,693)</u>
Balance at the end of the year	\$ <u>65,578</u>	\$ <u>60,806</u>	\$ <u>56,777</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	417,003,636	301,108,533	718,112,169
Treasury stock			
Repurchase program (2)	(2,243,014)	(675,714)	(2,918,728)
Held by subsidiaries	<u>(742,084)</u>	<u>(1,260,315)</u>	<u>(2,002,399)</u>
Outstanding shares at year-end	<u>414,018,538</u>	<u>299,172,504</u>	<u>713,191,042</u>

- (1) Class "B" shares have limited voting rights, only to approve the financial statements and to designate the statutory auditors.
- (2) In May 2000, a repurchase program of the Company's shares was approved, within the limits set out by the Venezuelan Capital Markets Law (up to 15% of the subscribed capital and a maximum term of two years after acquisition to dispose of these shares). This Law sets out that repurchased shares have no voting rights. In February 2006, 37,571,129 of shares acquired based on this program were redeemed as it is presented in the consolidated statement of changes in shareholders' equity.

Authorized capital stock of the Company at December 31, 2006 and 2005 is Bs 226,705 million (US\$250 million), of which Bs 107,717 million (US\$195 million) was already issued (Note 27-c).

The Company's Board of Directors resolved to institute a price-stabilizing mechanism for its shares, independent from the repurchase program of the Company's shares. This mechanism is aimed at rendering the price-forming process of shares more efficient and to give most of the Company's shareholders the opportunity to participate in a market with greater liquidity and depth, and the ability to absorb higher volumes of supply and demand for shares.

The mechanism was approved by the Venezuelan Securities and Exchange Commission (CNV) and has to be implemented through the Caracas Stock Exchange (BVC). Transactions will be conducted at market prices and up to 5% of the Company's capital stock may be acquired. This mechanism was effective until January 28, 2007. An extension was requested on April 16, 2007. During the year ended December 31, 2006, 114,348 shares have been purchased through this price-stabilizing mechanism (199,585 shares in 2005).

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During the year ended December 31, 2006, certain subsidiaries sold Company's shares in cash at market value to third parties. A gain on sale of US\$10 million was recorded under Additional paid in capital.

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

The Company and the subsidiaries in Venezuela must set aside 5% of its net income each year to establish a legal reserve until such reserve reaches an amount equivalent to at least 10% of the capital stock; except Banco Mercantil which has to aside 20% of it net income until the reserve reaches 50% of the capital stock, then 10% until the reserve reaches 100% of the capital stock. At December 31, 2006 and 2005, the Company and its subsidiaries maintain legal reserves of Bs 166,715 million (equivalent to US\$235 million).

c) Dividends

In accordance with the Capital Markets Law, the Company is required to distribute to its shareholders at least 50% of its annual income, excluding equity in results of affiliates and including dividends collected. At least 25% of these dividends must be paid in cash (Note 1). At December 31, 2006, the Company recorded US\$4 million in other liabilities as mandatory dividends to be paid in cash; the remaining portion of the minimum mandatory dividend of US\$12 million can be settled either in cash or in shares and has not been reflected as a liability as this is subject to shareholder's approval (Note 27-d).

Retained earnings at December 31, 2006 include Bs 476 billion (US\$222 million) available for dividend distribution; the remaining retained earnings balance consists of retained earnings of subsidiaries which will be available for distribution once these subsidiaries declare and pay dividends to the Company.

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>	<u>2004</u>
Additional paid in capital	\$ 178,611	\$ 178,611	\$ 178,611
Employee stock option plan - equity settled award	9,232	4,984	10,026
Net effect on sales of treasury stock	<u>10,071</u>	<u>-</u>	<u>-</u>
	<u>\$ 197,914</u>	<u>\$ 183,595</u>	<u>\$ 188,637</u>

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14. Regulatory Capital Requirements

The Company and some subsidiaries are subject to various regulatory minimum capital requirements administered by their 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its subsidiaries must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

Below is the regulatory minimum capital requirements of the Company and its main banking subsidiaries:

	<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				
Mercantil Servicios Financieros, C.A.	16.34	8	17.01	8
Banco Mercantil, C.A.	13.91	12	13.91	12
Commercebanc, N.A.	12.53	8	14.60	8
Tier 1 capital ratio				
Mercantil Servicios Financieros, C.A.	13.59	4	14.37	4
Commercebanc, N.A.	11.73	4	13.60	4
Leverage ratio				
Banco Mercantil, C.A.	9.81	8	11.06	10
Commercebanc, N.A.	8.08	4	7.90	4

15. Income Taxes

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

(In thousands of U.S. dollars)

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Maturity			
2007	\$ 14,197	\$ 7,130	\$ 21,327
2008	352	23,525	23,877
2009	<u>26,243</u>	<u>-</u>	<u>26,243</u>
	\$ <u>40,792</u>	\$ <u>30,655</u>	\$ <u>71,447</u>

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a) Income tax expense for the years ended at December 31, 2006, 2005, and 2004 is as follows:

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current			
Venezuela	\$ (32,924)	\$ (18,602)	\$ (11,292)
United States of America	(28,013)	(19,325)	(16,260)
	<u>(60,937)</u>	<u>(37,927)</u>	<u>(27,552)</u>
Deferred			
Venezuela	30,784	11,166	(5,981)
United States of America	<u>1,054</u>	<u>(1,976)</u>	<u>1,368</u>
	<u>31,838</u>	<u>9,190</u>	<u>(4,613)</u>
Total income tax provision	\$ <u>(29,099)</u>	\$ <u>(28,737)</u>	\$ <u>(32,165)</u>

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

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
Assets		
Fixed assets	\$ 56,246	\$ 44,725
Allowance for loan losses	36,109	28,023
Contingencies and others allowances	27,563	12,842
Tax loss carryforwards	24,292	19,211
Unrealized loss on valuation of investments available for sale	2,642	5,335
Deferred commissions for granted loans	1,652	2,375
Pension plan	1,461	-
Others	<u>15,833</u>	<u>17,901</u>
	165,798	130,412
Valuation allowance for tax loss carryforwards	<u>(23,595)</u>	<u>(17,507)</u>
Deferred income tax assets	<u>142,203</u>	<u>112,905</u>
Liabilities		
Interest collected in advance	(929)	(950)
Accounts payable	(1,060)	(3,209)
Others	<u>(902)</u>	<u>(40)</u>
	<u>(2,891)</u>	<u>(4,199)</u>
Net deferred income tax asset	\$ <u>139,312</u>	\$ <u>108,706</u>

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

	<u>2006</u> %	<u>2005</u> %	<u>2004</u> %
Tax expense based on book income computed at the statutory tax rate in effect	34.0	34.0	34.0
Difference between statutory tax expense and actual tax expense			
Effect of the annual inflation adjustment	(14.8)	(13.0)	(13.3)
Tax exempt National Public Debt Bonds	(4.8)	(2.5)	(10.0)
Tax exempt sale of shares (Note 4)	(2.9)	(13.0)	-
Equity method	(0.8)	(2.1)	(1.2)
Effect of different statutory foreign tax rates for foreign sourced income	0.7	2.4	3.1
Others	<u>(1.1)</u>	<u>1.8</u>	<u>(0.5)</u>
Effect of applying tax rate to local taxable income plus foreign taxable income	<u>10.3</u>	<u>7.6</u>	<u>12.1</u>

16. Earnings per Share

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

(In thousands of U.S. dollars, except number of shares)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net income per common share			
Net income	\$ 253,530	\$ 349,108	\$ 234,038
Common shares issued	718,112,169	755,683,298	549,933,890
Weighted average number of common shares outstanding	689,756,974	678,191,588	717,543,592
Basic earnings per share	\$ 0.37	\$ 0.51	\$ 0.33
Net income per diluted common share			
Net income	\$ 253,530	\$ 349,108	\$ 234,038
Weighted average number of common shares outstanding	689,756,974	678,191,588	717,543,592
Dilutive potential common share	7,229,457	11,585,074	17,605,703
Total diluted average common shares issued and outstanding	696,986,431	689,776,662	735,149,294
Diluted earnings per share	\$ 0.36	\$ 0.51	\$ 0.32

17. Employee Benefit Plans

Sponsoring entities and financial aspects of the plans

a) Supplementary Savings Plan

In 2006 the Company implemented, for its employees and Venezuelan subsidiaries, 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 Company doubles this amount up to a maximum of 10%. Both contributions are recorded in individual accounts on behalf of each employee.

The Company made an initial contribution of \$48 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 Company contributions. US\$23 million was contributed by the Company and recorded as personnel expense in June 2006. The difference represents transfers of employee balances. The Company has agreed to contribute an additional US\$16 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 Company has recorded a total expense in the consolidated statement of income of US\$29 million relating to this plan.

Commercebank, N.A. and its subsidiary (Commercebank Investment Services and Commercebank Trust Co. N.A.) have a defined contribution plan which is regulated by the 401k tax rules of the United States of America. Employees with more than 6 months of service and over 21 years of age may contribute a percentage of their salaries and the employer contributes a similar amount of up to 5% of their annual salary. After one year of service, employees receive another annual contribution of 5% of their salary. Employer contributions are assigned progressively to employees based on seniority, between the second and the sixth year of service.

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

The supplementary retirement pension plan and other benefits to 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:

	Supplementary pension plan		Post-retirement benefits	
	2006	2005	2006	2005
<i>(In thousands of U.S. dollars)</i>				
Variation of projected benefit obligation				
Benefit obligation at January 1	\$ 32,444	\$ 25,001	\$ 3,855	\$ 2,530
Service cost	561	1,555	339	53
Interest cost	2,500	2,675	729	291
Actuarial gain (loss)	7,820	7,107	(702)	1,275
Plan reduction (gain)	(4,159)	-	-	-
Payment of obligation for transfer of assets	(4,057)	-	-	-
Transfer of obligations	(18,549)	-	-	-
Exchange rate	-	(2,882)	-	(303)
Plan modification	-	-	4,556	-
Paid benefits	<u>(1,557)</u>	<u>(1,093)</u>	<u>(423)</u>	<u>-</u>
Projected benefit obligation	<u>15,003</u>	<u>32,363</u>	<u>8,354</u>	<u>3,846</u>

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<i>(In thousands of U.S. dollars)</i>	Supplementary pension plan		Post-retirement benefits	
	2006	2005	2006	2005
Variation in plan assets				
Fair value of assets at the beginning of the period	24,749	24,301	3,855	2,530
Yield on assets	2,504	2,714	421	948
Company contribution	4,214	1,915	2,578	671
Payment of obligation for transfer of assets	(3,475)	-	-	-
Transfer of obligations	(11,404)	-	(2,374)	-
Exchange rate	-	(2,671)	-	(303)
Paid benefits	<u>(1,557)</u>	<u>(1,093)</u>	<u>(423)</u>	<u>-</u>
Fair value of plan assets at year-end	<u>15,031</u>	<u>25,166</u>	<u>4,057</u>	<u>3,846</u>
Financial position at year-end				
Projected benefit obligations	(15,003)	(32,363)	(8,354)	(3,846)
Assets of external fund supporting the plan	<u>15,031</u>	<u>25,166</u>	<u>4,057</u>	<u>3,846</u>
Projected obligation (less assets)	28	(7,197)	(4,297)	-
Unrecognized actuarial gain (loss)	11,651	10,197	(779)	495
Unrecognized prior service cost	<u>-</u>	<u>-</u>	<u>4,297</u>	<u>-</u>
	<u>\$ 11,679</u>	<u>\$ 3,000</u>	<u>\$ (779)</u>	<u>\$ 495</u>

	Supplementary pension plan			Post-retirement benefits		
	2006	2005	2004	2006	2005	2004
Components of net benefit cost for the year						
Service cost	\$ 561	\$ 1,555	\$ 636	\$ 339	\$ 53	\$ 76
Interest cost	2,500	2,675	2,144	729	291	294
Expected yield from plan assets	(1,905)	(2,660)	(2,348)	(290)	(253)	(261)
Effect of decrease and payment	(2,498)	-	-	-	-	-
Amortization of unrecognized past service cost	-	-	-	259	-	-
Amortization of actuarial gain (loss)	<u>1,847</u>	<u>1,119</u>	<u>-</u>	<u>-</u>	<u>(24)</u>	<u>-</u>
Net benefit cost for the year	<u>\$ 505</u>	<u>\$ 2,689</u>	<u>\$ 432</u>	<u>\$ 1,037</u>	<u>\$ 67</u>	<u>\$ 109</u>

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

	Supplementary pension plan			Post-retirement benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	11.0%	11.5%	12.0%	11.0%	11.5%	12.0%
Salary increase	12.0%	12.5%	10.5%	12.0%	12.5%	10.5%
Yield on assets						
Bolivars	15.0%	16.0%	17.0%	15.0%	16.0%	17.0%
U.S. dollars	6.5%	6.0%	6.0%	6.5%	6.0%	6.0%
Initial healthcare trend rate	-	-	-	-	13.8%	12.5%
Ultimate healthcare trend rate	-	-	-	-	13.8%	12.5%
Increase of medical expense for the year	13.5%	13.5%	-	13.5%	12.5%	-

The Company'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.

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Distribution of assets

	<u>Supplementary pension plan</u>			<u>Post-retirement benefits</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt (bolivars)	26.3%	26.5%	31.0%	26.3%	26.5%	31.0%
Debt (US\$)	0.0%	0.0%	15.6%	0.0%	0.0%	15.6%
Time deposits (bolivars)	47.6%	19.3%	13.0%	47.6%	19.3%	13.0%
Time deposits (US\$)	<u>26.1%</u>	<u>54.2%</u>	<u>40.4%</u>	<u>26.1%</u>	<u>54.2%</u>	<u>40.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
				<u>2006</u>	<u>2005</u>	<u>2004</u>
Effect of 1% increase of medical expense						
Services cost + Interest cost				\$ <u>-</u>	\$ <u>-</u>	\$ <u>34</u>
Effect on obligation projected by benefits				\$ <u>757</u>	\$ <u>699</u>	\$ <u>506</u>
Effect of 1% decrease of medical expense						
Service cost + Interest cost				\$ <u>-</u>	\$ <u>-</u>	\$ <u>(32)</u>
Effect on obligation projected by benefits				\$ <u>(606)</u>	\$ <u>(559)</u>	\$ <u>(405)</u>

Supplementary pension plan and other post-retirement benefits cost for 2007 are estimated at US\$5.4 million and US\$1.3 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	\$ 1,970	\$ 552
2008	\$ 2,256	\$ 646
2009	\$ 2,515	\$ 762
2010	\$ 2,677	\$ 890
2011	\$ 2,876	\$ 1,041
Years 2012 - 2015	\$ 15,929	\$ 9,226

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)." SFAS 158 requires, as of December 31, 2006, the Company to recognize the overfunded or underfunded status of a defined benefit postretirement 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 Company 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.

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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>	Before application of SFAS 158	Adjustments	After application of SFAS 158
Consolidated balance sheet data			
Deferred income tax	\$ <u>137,851</u>	\$ <u>1,461</u>	\$ <u>139,312</u>
Total assets	\$ <u>15,103,341</u>	\$ <u>1,461</u>	\$ <u>15,104,802</u>
Other liabilities	\$ <u>753,939</u>	\$ <u>4,297</u>	\$ <u>758,236</u>
Total liabilities	\$ <u>13,771,181</u>	\$ <u>4,297</u>	\$ <u>13,775,478</u>
Minority interest	\$ <u>1,547</u>	\$ <u>(7)</u>	\$ <u>1,540</u>
Accumulated other comprehensive loss, net of deferred income taxes	\$ <u>(708,985)</u>	\$ <u>(2,836)</u>	\$ <u>(706,149)</u>
Total shareholders' equity	\$ <u>1,330,620</u>	\$ <u>(2,836)</u>	\$ <u>1,327,784</u>

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

(In thousands of U.S. dollars)

Net gain net of income tax	\$ 1,461
Prior service cost	(4,297)
	\$ <u>(2,836)</u>

18. Long-term Stock Option Plan

The Company and certain subsidiaries offer a long-term stock option plan to eligible officers approved by the Board of Directors' Compensation Committee. These shares are allotted over three-year periods and awarded annually. Fundación 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 Fundación BMA and stock dividends by the participants. According to the long-term incentive nature of the plan, officers must be active employees of the Company 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. The compensation expense recorded for this plan during 2006 amounted to US\$2 million (US\$1.3 million in 2005 and US\$1 million in 2004). 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.

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

Phase	Grant date	Approval date	Number of shares (4)		Option price		End of term for option exercise
			Class "A"	Class "B"	Class "A"	Class "B"	
<u>Granted</u>							
III	January 2001	2001	3,219,485 (1)	2,608,416 (1)	700	600	2006, 2007 y 2008
<u>Approved but not yet granted</u>							
IV	March 2007	2004 (5)	5,888,235 (2)	4,905,292 (2)	2,500	2,500	2009
V	-	2006 (5)	2,205,883 (3)	3,863,092 (3)	4,765	4,765	2010
Total shares			<u>11,313,603</u> (4)	<u>11,376,800</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 27).

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

	Shares granted		
	Class "A"	Class "B"	Total
Balance at December 31, 2004	10,762,495	8,788,046	19,550,541
Stock dividends	2,063,755	1,676,472	3,740,227
Options exercised	<u>(6,512,266)</u>	<u>(5,369,541)</u>	<u>(11,881,807)</u>
Balance at December 31, 2005	6,313,984	5,094,977	11,408,961
Options exercised	(3,093,386)	(2,485,629)	(5,579,015)
Options recovered	<u>(1,113)</u>	<u>(932)</u>	<u>(2,045)</u>
Balance at December 31, 2006	<u>3,219,485</u>	<u>2,608,416</u>	<u>5,827,901</u>

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

	Expected share volatility	Risk-free rate	Expected term (Years)	Option fair value
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 was 2 years and US\$14.6 million, respectively, at December 31, 2006.

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19. Commitments and Contingencies

In the normal course of business, certain subsidiaries of the Company are defendants in various legal proceedings. Other than the tax assessments mentioned below, the Company 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 Company's future minimum annual lease payments are not significant.

The Company 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 Company'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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company 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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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\$911 million (US\$749 million in 2005).

Standby letters of credit are conditional commitments issued by the Company 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 Company 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 Company 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 Company was notified of a court judgment delivered against it in relation to a trial initiated by a Company client. This judgment orders the Company to pay around US\$17 million for consequential damages and damages for loss of profit, plus a monetary indexation. In November 2006,

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the Company's legal counsel appealed against this judgment due to operational defects and lawbreaking. In the opinion of management, in consultation with the Company's legal counsels, the judgment has many legal defects that will be considered invalidate and therefore a new judgment has to be notified.

Various Company subsidiaries in Venezuela and their merged institutions have received additional income tax assessments from the Tax Authorities amounting to approximately US\$22 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, a Venezuelan subsidiary was subject to assessments of approximately US\$1,6 million in respect of unwithheld and/or late payments of value added tax (VAT). The Company subsidiaries 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 Company subsidiaries were appealed by the National Treasury and rulings are pending. The Company management identified a risk of US\$11 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, a Colombian subsidiary of Banco Mercantil was subjected to a special requirement by the Colombian Tax and Customs Administration (DIAN) resulting from its interpretation of the treatment of certain assets. The requirement implied payment of taxes and a penalty payable by the subsidiary of approximately US\$22 million, which was appealed by legal advisors. In the opinion of management and the legal advisors of the subsidiary, this penalty is not well grounded in law.

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

	<u>2006</u>		<u>2005</u>	
	<u>Notional value</u>	<u>Market value</u>	<u>Notional value</u>	<u>Market value</u>
<i>(In thousands of U.S. dollars)</i>				
Standby letters of credit	\$ 330,001	\$ 6,688	\$ 200,362	\$ 5,340
Other financial guarantees (1)	<u>252,169</u>	<u>9,460</u>	<u>234,975</u>	<u>9,933</u>
	<u>\$ 582,170</u>	<u>\$ 16,148</u>	<u>\$ 435,337</u>	<u>\$ 15,273</u>

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

The market value includes amounts deferred and recognized in income over the life of the contracts.

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

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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 Company 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.

Other assets - Securities lending

These transactions are short-term in nature, therefore, their book value approximate their fair value.

Other assets - Derivatives

The estimated fair values of derivative financial instruments are the amounts the Company 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

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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, advances from the Federal Home Loan Bank and junior subordinated debentures 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.

Securities borrowing

These transactions are short-term in nature, therefore, their book value approximate their fair value.

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	\$ 3,789,083	\$ 3,789,083	\$ 2,345,734	\$ 2,345,734
Trading securities	185,919	185,919	65,709	65,709
Available for sale securities	3,180,332	3,180,332	2,929,367	2,929,367
Held to maturity securities	274,397	274,345	307,446	317,720
Loan portfolio	6,805,621	6,782,807	5,269,411	5,206,597
Other assets - Securities lending (Note 7)	39,541	39,541	-	-
Other assets - Derivatives (Notes 4 and 22)	11	11	3	3
	<u>\$ 14,274,904</u>	<u>\$ 14,252,038</u>	<u>\$ 10,917,670</u>	<u>\$ 10,865,130</u>
Liabilities				
Deposits	\$ 10,421,601	\$ 10,422,813	\$ 7,527,210	\$ 7,527,362
Securities sold under agreement to repurchase	1,957,073	1,957,073	1,867,942	1,867,942
Short-term borrowings	255,997	255,997	111,991	111,991
Long-term debt	382,571	384,683	328,088	329,476
	<u>\$ 13,017,242</u>	<u>\$ 13,020,566</u>	<u>\$ 9,835,231</u>	<u>\$ 9,836,771</u>

21. Risk Management

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

Credit risk

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

The control environment of the Company 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 Company 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.

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

The Company'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 Company 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 Company 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.

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)	12	11
Government agencies of Venezuela	7	9
Government agencies of the United States of America	6	7

22. Derivative Financial Instruments

In December 2006, the Company exchanged available for sale securities for an amount of US\$10 million denominated in U.S. dollars with a third party for securities denominated in bolivars for Bs 21,446 million. Simultaneously, the Company entered into a Cross Currency Swap contract (CCS) with the same institution that allows the Company to acquire US\$10 million at Bs 21,446 million in December 2007. At December 31, 2006, the fair value of the CCS amounted to US\$11 and is recorded through a credit to "(Loss) gain on derivatives".

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Commercebanc, N.A. uses derivative financial instruments (caps and swaps) to better manage interest rate risks. Although these derivative transactions or contracts are aimed at mitigating risks, in certain cases, they do not qualify for hedge accounting. Consequently, changes in fair value of these contracts are computed and included in the consolidated statement of income.

In 1998 Commercebanc, N.A. entered into a Cap contract for a nominal amount of US\$18 million. This contract is for ten years and requires the counterparty to pay Commercebanc, N.A. interest on the basis of the nominal amount of the contract and the difference between the London Interbank Offering Rate (LIBOR) for one month and 6.5% when LIBOR exceeds 6.5% in exchange for a single payment from the bank. At December 31, 2006, the outstanding notional amount of the contract was US\$8 million (US\$9 million at December 31, 2005). As of December 31, 2006, the fair market value of the contract was US\$0 (US\$3 at December 31, 2005) and has recognized in earnings approximately US\$3 of unrealized losses (US\$19 and US\$100 of unrealized losses for the years ended December 31, 2005 and 2004, respectively) related to the changes in the fair value of the contract for the year ended December 31, 2006.

During 2006, the Company entered into certain interest rate swap agreements, for the purpose of hedging changes in fair value of certain financial instruments related to interest rate risk. The outstanding notional amount exposure as of December 31, 2006 amounted to US\$132 million. As of December 31, 2006, the fair market value of the contracts was approximately US\$133 and has recognized in earnings approximately US\$461 of unrealized losses related to the changes in the fair value of these contracts for the year ended December 31, 2006.

In addition, Banco Mercantil holds embedded derivatives which are described in Note 4.

23. Related Party

Under the Company's employees general benefit program for the subsidiaries in Venezuela, during 2006 and 2005, Company's executives received mortgage loans amounting to US\$263 and US\$741, respectively. At December 31, 2006 and 2005, the outstanding amount of these loans were US\$1,229 (8 loans) and US\$1,062 (8 loans), respectively.

24. Foreign Currency Activities

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

	<u>2006</u>		<u>2005</u>		<u>2004</u>	
	<u>In thousands of U.S. dollars</u>	<u>%</u>	<u>In thousands of U.S. dollars</u>	<u>%</u>	<u>In thousands of U.S. dollars</u>	<u>%</u>
Assets						
Bolivars	\$ 8,962,182	59	\$ 6,441,223	56	\$ 4,576,096	50
U.S. dollars	6,138,714	41	5,092,335	44	4,478,156	49
Other	<u>3,906</u>	<u>-</u>	<u>12,180</u>	<u>-</u>	<u>52,108</u>	<u>1</u>
Total	\$ <u>15,104,802</u>	<u>100</u>	\$ <u>11,545,738</u>	<u>100</u>	\$ <u>9,106,360</u>	<u>100</u>
Liabilities						
Bolivars	\$ 8,701,700	63	\$ 6,198,461	59	\$ 4,274,872	53
U.S. dollars	5,071,490	37	4,232,990	41	3,849,436	47
Other	<u>2,288</u>	<u>-</u>	<u>2,830</u>	<u>-</u>	<u>903</u>	<u>-</u>
Total	\$ <u>13,775,478</u>	<u>100</u>	\$ <u>10,434,281</u>	<u>100</u>	\$ <u>8,125,211</u>	<u>100</u>

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	<u>2006</u>		<u>2005</u>		<u>2004</u>	
	<u>In thousands of U.S. dollars</u>	<u>%</u>	<u>In thousands of U.S. dollars</u>	<u>%</u>	<u>In thousands of U.S. dollars</u>	<u>%</u>
Income						
Bolivars	\$ 1,397,378	81	\$ 1,165,465	84	\$ 858,567	84
U.S. dollars	<u>318,967</u>	<u>19</u>	<u>224,893</u>	<u>16</u>	<u>167,240</u>	<u>16</u>
Total	\$ <u>1,716,345</u>	<u>100</u>	\$ <u>1,390,358</u>	<u>100</u>	\$ <u>1,025,807</u>	<u>100</u>
Net income before taxes						
Bolivars	\$ 214,058	76	\$ 318,553	84	\$ 225,325	85
U.S. dollars	<u>68,571</u>	<u>24</u>	<u>59,292</u>	<u>16</u>	<u>40,878</u>	<u>15</u>
Total	\$ <u>282,629</u>	<u>100</u>	\$ <u>377,845</u>	<u>100</u>	\$ <u>266,203</u>	<u>100</u>
Net income						
Bolivars	\$ 207,726	82	\$ 311,229	89	\$ 208,052	89
U.S. dollars	<u>45,804</u>	<u>18</u>	<u>37,879</u>	<u>11</u>	<u>25,986</u>	<u>11</u>
Total	\$ <u>253,530</u>	<u>100</u>	\$ <u>349,108</u>	<u>100</u>	\$ <u>234,038</u>	<u>100</u>

25. Business Segment

The business segment information, set forth below, is derived from internal financial information prepared in accordance with the rules for the preparation of financial statements of each reporting unit along with internal management consideration of the accounting practices; this information is used to measure the performance of the group business segments. Accordingly, the format and information is presented primarily following the rules for preparation of entities regulated by CNV and is not consistent with the consolidated financial statements prepared on the basis of U.S. GAAP. Eliminations include all the concepts derived from transactions between reportable segments, and the required adjustments to reconcile such balances to financial statements under U.S. GAAP.

The following summarizes the Company's reportable segments:

- Personal and commercial banking: provides banking products and services to individual customers and some small and medium-sized companies in Venezuela and the United States of America.
- Corporate banking: provides banking products and services to large corporations in Venezuela and the United States of America. Additionally it includes small banks in Curacao, Grand Cayman, Switzerland and Panama.
- Investment services: provides advisory and other investment activities and asset management and trust products and services mainly to high net worth individuals, branch customers and corporate clients in Venezuela and the United States of America.
- Insurance: includes the unit income of the insurance company.
- Treasury: conducts the Company's asset and liability management and liquidity management and the internal transfer pricing system administration, based on current market rates. This unit controls the banking business' market risk, and the credit risk is controlled by each reportable segment.

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- Head office: includes the income and expenses of the Holding Company or subsidiaries, not attributable to its operating segments.

Management uses the information of loans, deposits and investments to allocate resources and assess performance on segments. The financial performance of the Company's major reportable segments are summarized below:

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December 31, 2006

<i>(In thousands of U.S. dollars)</i>	Personal and commercial banking	Corporate banking	Investment services	Insurance	Treasury	Head office	Eliminations	U.S. GAAP adjustments	Total
Net interest income	\$ 404,581	\$ 129,282	\$ 1,413	\$ 413	\$ 60,619	\$ 70,462	\$ 1,947	\$ (14,049)	\$ 654,668
(Provision) release of provision for loan losses	(16,972)	10,028	-	-	(20)	(4,630)	4,486	1,576	(5,532)
Other expenses	(395,249)	(83,956)	(11,329)	(63,898)	(44,260)	(178,441)	92,580	(346,732)	(1,031,285)
Amortization of goodwill	(3,580)	(31)	-	(495)	-	(1,597)	-	5,703	-
Commissions and other income	163,982	46,152	17,337	91,164	22,087	133,815	(63,846)	254,087	664,778
Income taxes	(35,206)	(13,291)	31	-	(6,406)	(2,176)	1,688	26,261	(29,099)
Net income	<u>\$ 117,556</u>	<u>\$ 88,184</u>	<u>\$ 7,452</u>	<u>\$ 27,184</u>	<u>\$ 32,020</u>	<u>\$ 17,433</u>	<u>\$ 36,855</u>	<u>\$ (73,154)</u>	<u>\$ 253,530</u>
Volumes (Average)									
Loans	<u>\$ 3,803,744</u>	<u>\$ 1,968,284</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,772,028</u>
Deposits	<u>\$ 6,848,700</u>	<u>\$ 1,835,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,684,690</u>
Investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,887,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,887,076</u>

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December 31, 2005

<i>(In thousands of U.S. dollars)</i>	<u>Personal and commercial banking</u>	<u>Corporate banking</u>	<u>Investment services</u>	<u>Insurance</u>	<u>Treasury</u>	<u>Head office</u>	<u>Eliminations</u>	<u>U.S. GAAP adjustments</u>	<u>Total</u>
Net interest income	\$ 306,787	\$ 116,095	\$ 1,863	\$ 173	\$ 67,327	\$ 3,631	\$ (1,864)	\$ (18,118)	\$ 475,894
(Provision) release of provision for loan losses	(16,346)	103	-	-	(96)	6,742	8,841	10,445	9,689
Other expenses	(318,143)	(68,496)	(7,840)	(52,176)	(19,084)	(127,914)	22,988	(160,725)	(731,390)
Amortization of goodwill	(3,084)	(31)	-	(504)	-	(483)	-	4,102	-
Commissions and other income	103,290	45,853	16,614	77,405	13,124	280,593	(84,836)	171,609	623,652
Income taxes	(22,067)	(7,346)	(243)	(7)	(9,114)	(1,662)	1,189	10,513	(28,737)
Net income	<u>\$ 50,437</u>	<u>\$ 86,178</u>	<u>\$ 10,394</u>	<u>\$ 24,891</u>	<u>\$ 52,157</u>	<u>\$ 160,907</u>	<u>\$ (53,682)</u>	<u>\$ 17,826</u>	<u>\$ 349,108</u>
Volumes (Average)									
Loans	\$ <u>2,556,513</u>	\$ <u>1,446,704</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,003,217</u>
Deposits	\$ <u>5,240,587</u>	\$ <u>1,887,472</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,128,059</u>
Investments	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,545,551</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,545,551</u>

December 31, 2004

<i>(In thousands of U.S. dollars)</i>	<u>Personal and commercial banking</u>	<u>Corporate banking</u>	<u>Investment services</u>	<u>Insurance</u>	<u>Treasury</u>	<u>Head office</u>	<u>Eliminations</u>	<u>U.S. GAAP adjustments</u>	<u>Total</u>
Net interest income	\$ 303,054	\$ 86,923	\$ 1,826	\$ 104	\$ 95,575	\$ (24,130)	\$ (13,009)	\$ 5,103	\$ 455,446
(Provision) release of provision for loan losses	(6,096)	3,035	-	-	(133)	3,306	(7,117)	14,286	7,281
Other expenses	(319,308)	(59,192)	(6,288)	(44,516)	(13,884)	(50,433)	2,882	(120,119)	(610,858)
Amortization of goodwill	(3,446)	(35)	-	(563)	-	(2,754)	-	6,798	-
Commissions and other income	83,640	24,841	15,574	61,440	15,641	111,929	(21,088)	122,357	414,334
Income taxes	(14,048)	(1,867)	(807)	(231)	(5,688)	(3,474)	(69)	(5,981)	(32,165)
Net income	<u>\$ 43,796</u>	<u>\$ 53,705</u>	<u>\$ 10,305</u>	<u>\$ 16,234</u>	<u>\$ 91,511</u>	<u>\$ 34,444</u>	<u>\$ (38,401)</u>	<u>\$ 22,444</u>	<u>\$ 234,038</u>
Volumes (Average)									
Loans	\$ <u>1,872,024</u>	\$ <u>1,089,022</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,961,046</u>
Deposits	\$ <u>4,267,889</u>	\$ <u>1,372,757</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,640,646</u>
Investment	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,864,807</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,864,807</u>

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Management measures performance of each business unit by “net income”, which includes profits or losses of the Group subsidiaries. Financial information of each of the Group’s subsidiaries is assigned to only one business unit, based on its major products or services provided and its major type of customers.

The financial performance of the Company’s major reportable segments by geography is summarized below:

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Year ended December 31, 2006

	<u>Venezuela</u>	<u>USA</u>	<u>Other</u>	<u>CNV GAAP eliminations</u>	<u>U.S. GAAP adjustments</u>	<u>Total</u>
Interest income	\$ 696,226	\$ 261,427	\$ 30,079	\$ (14,745)	\$ 78,580	\$ 1,051,567
Interest expense	<u>(206,948)</u>	<u>(97,611)</u>	<u>(16,403)</u>	<u>16,692</u>	<u>(92,629)</u>	<u>(396,899)</u>
Net interest income	489,278	163,816	13,676	1,947	(14,049)	654,668
(Provision) release of provision for loan losses	(8,855)	(7,126)	4,387	4,486	1,576	(5,532)
Other expenses	(658,564)	(107,330)	(11,239)	92,580	(346,732)	(1,031,285)
Amortization of goodwill	(5,152)	(551)	-	-	5,703	-
Commissions and other income	439,003	24,725	10,809	(63,846)	254,087	664,778
Income taxes	<u>(29,629)</u>	<u>(26,963)</u>	<u>(456)</u>	<u>1,688</u>	<u>26,261</u>	<u>(29,099)</u>
Net income	\$ <u>226,081</u>	\$ <u>46,571</u>	\$ <u>17,177</u>	\$ <u>36,855</u>	\$ <u>(73,154)</u>	\$ <u>253,530</u>
Volumes (Average)						
Loans	\$ <u>3,554,531</u>	\$ <u>2,217,497</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,772,028</u>
Deposits	\$ <u>5,288,939</u>	\$ <u>3,395,751</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,684,690</u>
Investment	\$ <u>1,846,201</u>	\$ <u>2,040,875</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,887,076</u>
Total assets	\$ <u>10,673,482</u>	\$ <u>5,018,737</u>	\$ <u>473,141</u>	\$ <u>(1,429,517)</u>	\$ <u>368,959</u>	\$ <u>15,104,802</u>

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Year ended December 31, 2005

	<u>Venezuela</u>	<u>USA</u>	<u>Other</u>	<u>CNV GAAP eliminations</u>	<u>U.S. GAAP adjustments</u>	<u>Total</u>
Interest income	\$ 557,474	\$ 183,919	\$ 20,540	\$ 15,347	\$ (10,574)	\$ 766,706
Interest expense	<u>(201,690)</u>	<u>(52,905)</u>	<u>(11,462)</u>	<u>(17,211)</u>	<u>(7,544)</u>	<u>(290,812)</u>
Net interest income	355,784	131,014	9,078	(1,864)	(18,118)	475,894
(Provision) release of provision for loan losses	(15,524)	(1,092)	7,019	8,841	10,445	9,689
Other expenses	(498,764)	(85,770)	(9,119)	22,988	(160,725)	(731,390)
Amortization of goodwill	(4,102)	-	-	-	4,102	-
Commissions and other income	506,916	19,687	10,276	(84,836)	171,609	623,652
Income taxes	<u>(17,888)</u>	<u>(22,392)</u>	<u>(159)</u>	<u>1,189</u>	<u>10,513</u>	<u>(28,737)</u>
Net income	\$ <u>326,422</u>	\$ <u>41,447</u>	\$ <u>17,095</u>	\$ <u>(53,682)</u>	\$ <u>17,826</u>	\$ <u>349,108</u>
Volumes (Average)						
Loans	\$ <u>2,256,377</u>	\$ <u>1,746,840</u>	\$ <u>-----</u>	\$ <u>-----</u>	\$ <u>-----</u>	\$ <u>4,003,217</u>
Deposits	\$ <u>3,955,316</u>	\$ <u>3,172,743</u>	\$ <u>-----</u>	\$ <u>-----</u>	\$ <u>-----</u>	\$ <u>7,128,059</u>
Investment	\$ <u>1,479,969</u>	\$ <u>2,065,582</u>	\$ <u>-----</u>	\$ <u>-----</u>	\$ <u>-----</u>	\$ <u>3,545,551</u>
Total assets	\$ <u>6,612,326</u>	\$ <u>4,303,713</u>	\$ <u>388,282</u>	\$ <u>15,394</u>	\$ <u>226,023</u>	\$ <u>11,545,738</u>

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Year ended December 31, 2004

	<u>Venezuela</u>	<u>USA</u>	<u>Other</u>	<u>CNV GAAP eliminations</u>	<u>U.S.GAAP adjustments</u>	<u>Total</u>
Interest income	\$ 471,390	\$ 131,680	\$ 13,844	\$ (10,536)	\$ 5,095	\$ 611,473
Interest expense	<u>(116,141)</u>	<u>(30,079)</u>	<u>(7,342)</u>	<u>(2,473)</u>	<u>8</u>	<u>(156,027)</u>
Net interest income	355,249	101,601	6,502	(13,009)	5,103	455,446
(Provision) release of provision for loan losses	(2,623)	(3,619)	6,354	(7,117)	14,286	7,281
Other expenses	(408,490)	(76,894)	(8,237)	2,882	(120,119)	(610,858)
Amortization of goodwill	(6,798)	-	-	-	6,798	-
Commissions and other income	289,578	20,062	3,425	(21,088)	122,357	414,334
Income taxes	<u>(11,165)</u>	<u>(14,906)</u>	<u>(44)</u>	<u>(69)</u>	<u>(5,981)</u>	<u>(32,165)</u>
Net income	<u>\$ 215,751</u>	<u>\$ 26,244</u>	<u>\$ 8,000</u>	<u>\$ (38,401)</u>	<u>\$ 22,444</u>	<u>\$ 234,038</u>
Volumes (Average)						
Loans	<u>\$ 1,332,903</u>	<u>\$ 1,628,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,961,046</u>
Deposits	<u>\$ 3,097,240</u>	<u>\$ 2,543,406</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,640,646</u>
Treasury	<u>\$ 1,369,163</u>	<u>\$ 1,495,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,864,807</u>
Total assets	<u>\$ 5,468,546</u>	<u>\$ 3,751,664</u>	<u>\$ 380,375</u>	<u>\$ (760,802)</u>	<u>\$ 266,577</u>	<u>\$ 9,106,360</u>

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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(Thousands of U.S. dollars)

26. Parent Company

The following are the condensed unconsolidated balance sheets of Mercantil Servicios Financieros, C.A. at December 31, 2006 and 2005 and the related condensed unconsolidated statements of income, and cash flows for the fiscal years ended December 31, 2006, 2005 and 2004.

Balance Sheet
December 31, 2006 and 2005

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 53,368	\$ 42,737
Investment securities	<u>186,536</u>	<u>76,895</u>
	239,904	119,632
Investments in affiliates	1,345,624	1,146,952
Other assets, net	<u>23,771</u>	<u>7,201</u>
Total assets	<u><u>1,609,299</u></u>	<u><u>1,273,785</u></u>
Short-term borrowings	117,738	79,670
Long-term debt	141,691	82,481
Other liabilities	<u>22,086</u>	<u>6,973</u>
Total liabilities	<u>281,515</u>	<u>169,124</u>
Total shareholders' equity	<u>1,327,784</u>	<u>1,104,661</u>
Total liabilities and shareholders' equity	<u>\$ 1,609,299</u>	<u>\$ 1,273,785</u>

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2006, 2005 and 2004
(Thousands of U.S. dollars)

Statement of Income
Years ended December 31, 2006, 2005 and 2004

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest income			
Investment securities	\$ 276	\$ 2,291	\$ 1,613
Deposits with BCV and other banks	<u>8,410</u>	<u>41</u>	<u>1</u>
	<u>8,686</u>	<u>2,332</u>	<u>1,614</u>
Interest expense			
Short-term borrowings	9,542	9,275	1,529
Long-term debt	<u>10,439</u>	<u>8,162</u>	<u>8,391</u>
	<u>19,981</u>	<u>17,437</u>	<u>9,920</u>
Net interest loss	<u>(11,295)</u>	<u>(15,105)</u>	<u>(8,306)</u>
Commissions and other income			
Equity in earnings of affiliates	267,352	341,989	254,018
Gain (loss) on sale of investments, net	396	6,067	(1,356)
Loss on derivatives	(8,270)	-	-
Foreign exchange (loss) gains, net	(8)	16,076	(4,468)
Other income	<u>18,802</u>	<u>8,491</u>	<u>980</u>
	<u>278,272</u>	<u>372,623</u>	<u>249,174</u>
Other expenses			
IT and other services	5,983	3,224	3,626
Salaries and employee benefits	3,213	1,140	1,365
Amortization	2,012	118	156
State and other taxes	337	566	345
Advertising and marketing	140	255	190
Communications	17	9	138
Occupancy	14	16	17
Other expenses	<u>1,731</u>	<u>3,035</u>	<u>964</u>
	<u>13,447</u>	<u>8,363</u>	<u>6,801</u>
Income before income taxes	253,530	349,155	234,067
Income taxes	<u>-</u>	<u>47</u>	<u>29</u>
Net income	<u>\$ 253,530</u>	<u>\$ 349,108</u>	<u>\$ 234,038</u>

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Statement of Cash Flows
Years ended December 31, 2006, 2005 and 2004

<i>(In thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities			
Net income	\$ 253,530	\$ 349,108	\$ 234,038
Adjustments to reconcile net income to net cash used in operating activities			
Amortization	2,012	118	156
(Gain) loss on sales of investments, net	(396)	(6,067)	1,356
Equity in earnings of affiliates	(267,352)	(341,989)	(254,018)
Foreign exchange (gains) loss, net	8	(16,076)	4,468
Net change in operating assets and liabilities			
Other assets	(18,582)	(4,983)	(407)
Other liabilities	<u>15,113</u>	<u>(7,484)</u>	<u>7,913</u>
Net cash used in operating activities	<u>(15,667)</u>	<u>(27,373)</u>	<u>(6,494)</u>
Cash flows from investing activities			
Investment securities	(87,545)	(105,837)	75,863
Investments in affiliates	<u>88,715</u>	<u>129,686</u>	<u>(37,710)</u>
Net cash provided by investing activities	<u>1,170</u>	<u>23,849</u>	<u>38,153</u>
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings	38,068	42,027	36,694
Proceeds from issuance of long-term debt	59,210	13,915	26,577
Cash dividends	(67,352)	(36,213)	(16,986)
Repurchase of treasury stock	<u>(4,798)</u>	<u>(3,208)</u>	<u>(50,658)</u>
Net cash provided by (used in) financing activities	<u>25,128</u>	<u>16,521</u>	<u>(4,373)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>-</u>	<u>(3,821)</u>	<u>(1,772)</u>
Net increase in cash and cash equivalents	10,631	9,176	25,514
Cash and cash equivalents at the beginning of the year	<u>42,737</u>	<u>33,561</u>	<u>8,047</u>
Cash and cash equivalents at the end of the year	\$ <u>53,368</u>	\$ <u>42,737</u>	\$ <u>33,561</u>

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a) Basis of presentation

The accompanying condensed financial statements have been prepared in accordance with U.S. GAAP. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The Company's majority-owned subsidiaries are recorded using the equity method of accounting. The footnotes disclosures contain supplemental information relating to the operations of Mercantil Servicios Financieros, C.A., as such, these financial statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

b) Commitments and contingencies

In the normal course of business, certain of the Company are defendants in various legal proceedings. The Company is not aware of any pending legal proceedings which could have a significant effect on its financial position or the results of its operations.

c) Long-term debt

Long-term debt at December 31 comprises the following:

(In thousands of U.S. dollars)

	<u>2006</u>	<u>2005</u>
Debenture bonds, with annual variable interest between 8.25% and 13.89% (between 12.41% and 13.44% at December 31, 2005)	\$ 95,062	\$ 61,498
Loans granted by Venezuelan financial institutions, with annual fixed interest between 8.00% and 14% (between 6.46% and 12.5% at December 31, 2005)	<u>46,629</u>	<u>20,983</u>
	\$ <u>141,691</u>	\$ <u>82,841</u>

Maturities of long-term debt are as follows:

	<u>2006</u>	
	<u>In thousands</u>	
	<u>of U.S.</u>	
	<u>dollars</u>	<u>%</u>
2007	\$ 18,651	13
2008	95,062	67
2009	<u>27,978</u>	<u>20</u>
Total	\$ <u>141,691</u>	<u>100</u>

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27. Subsequent Events

a) Employee Stock Purchase Plan

In February 2007, the Company implemented an Employee Stock Purchase Plan (“ESPP”) whereby employees may purchase the Company’s stock. 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 Company and its subsidiaries in Venezuela, excluding eligible officers for the stock option plan (Note 18), are eligible to participate in this plan. The 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 Company granted to the employees’ stock options related to the Phase IV of the aforementioned plan. 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 (Note 18). 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 3,540,534 of Class “A” shares and 2,951,466 of Class “B” shares to be exercisable over a 0.75 year vested period and the second one, which granted 779,312 of Class “A” shares and 649,688 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 an average requisite service period of 1.25 years.

c) Capital contributions

The Ordinary Meeting of Shareholders in March 2007 approved the increase of the subscribed and paid capital up to of Bs 215,434 million (US\$245 million) (Note 13).

d) Dividends

On March 30, 2007, the shareholders approved a cash dividend of Bs 12.00 for every outstanding share of Classes “A” and “B” common stock which will be paid during 2007. The total estimated amount of the cash dividend is Bs 32,513 million (equivalent to US\$15 million) based on outstanding share at March 30, 2007. In addition, the shareholders approved a special cash dividend of Bs 30.00 per outstanding share of Classes “A” and “B” common stock, totaling Bs 29,946 million (equivalent to US\$14 million).

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Approval was also given for a stock distribution effected in the form of a stock split of two new shares of Classes "A" and/or "B" common stock for every five shares held, to be issued before May 31, 2007, an estimated totaling Bs 42,780 million (equivalent to US\$20 million) based on outstanding shares at March 30, 2007.

The pro forma earnings per share calculation set forth below presents the Company's net income per share for the years ended December 31, 2006, 2005 and 2004, after giving effect to the stock distribution effected in the form of a stock split, as if it had occurred on January 1, 2004 (Note 16).

<i>(In thousands of U.S. dollars, except number of shares)</i>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Weighted average number of common shares outstanding - as reported	689,756,974	678,191,588	717,543,592
Weighted average number of common shares outstanding - pro forma ("Unaudited")	974,231,197	962,665,811	1,002,017,815
Weighted average common shares for diluted computation - as reported	696,986,431	689,776,662	735,149,294
Weighted average common shares for diluted computation - pro forma ("Unaudited")	981,460,654	974,250,885	1,019,623,517
Net income per share - as reported			
Basic	\$ 0,37	\$ 0,51	\$ 0,33
Diluted	\$ 0,36	\$ 0,51	\$ 0,32
Net income per share - pro forma ("Unaudited")			
Basic	\$ 0,26	\$ 0,36	\$ 0,23
Diluted	\$ 0,26	\$ 0,36	\$ 0,23