

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

**Report of Independent Accountants
and Consolidated Financial Statements
June 30, 2007 and December 31, 2006**

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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June 30, 2007 and December 31, 2006

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Report of Independent Accountants

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

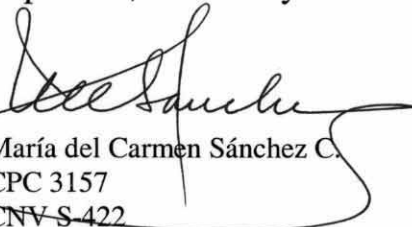
We have audited the consolidated balance sheets of Mercantil Servicios Financieros, C.A. and its subsidiaries at June 30, 2007 and December 31, 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the six-month periods then ended. The preparation of these financial 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 Venezuela. 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 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.

The accompanying consolidated financial statements have been prepared in accordance with the rules and instructions of the Venezuelan Securities and Exchange Commission (CNV). As described in Note 2, these rules differ in certain respects from accounting principles generally accepted in Venezuela.

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 June 30, 2007 and December 31, 2006, and the results of their operations and their cash flows for the six-month periods then ended, in conformity with the rules and instructions of the CNV.

Espiñeira, Sheldon y Asociados



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Caracas, Venezuela
August 21, 2007

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Balance Sheet
June 30, 2007 and December 31, 2006

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006 (•)
Assets		
Cash and due from banks (Note 3)		
Cash	334,739	346,024
Banco Central de Venezuela	3,378,296	2,911,146
Venezuelan banks and other financial institutions	6,826	2,867
Foreign banks and other financial institutions	83,212	60,277
Pending cash items	645,454	499,530
Provision for cash and due from banks	<u>(75)</u>	<u>(230)</u>
	<u>4,448,452</u>	<u>3,819,614</u>
Investment portfolio (Note 4)		
Investments in trading securities	641,244	398,438
Investments in available-for-sale securities	7,219,019	6,307,788
Investments in held-to-maturity securities	347,114	657,125
Share trading portfolio	37,581	16,294
Investments in time deposits and placements	4,137,192	4,305,053
Restricted investments and repurchase agreements	<u>127,217</u>	<u>274,523</u>
	<u>12,509,367</u>	<u>11,959,221</u>
Direct financial assets (Note 5)	<u>249,751</u>	<u>92,808</u>
Loan portfolio (Note 6)		
Current	17,284,169	14,726,303
Rescheduled	25,309	28,414
Overdue	108,097	103,767
In litigation	<u>3,028</u>	<u>7,283</u>
	17,420,603	14,865,767
Allowance for losses on loan portfolio	<u>(320,986)</u>	<u>(293,500)</u>
	<u>17,099,617</u>	<u>14,572,267</u>
Interest and commissions receivable (Note 7)	<u>189,514</u>	<u>186,174</u>
Long-term investments (Note 8)	<u>32,465</u>	<u>36,784</u>
Available-for-sale assets (Note 9)	<u>7,033</u>	<u>5,068</u>
Property and equipment (Note 10)	<u>376,711</u>	<u>319,368</u>
Other assets (Note 11)	<u>1,272,920</u>	<u>725,663</u>
Total assets	<u>36,185,830</u>	<u>31,716,967</u>
Memorandum accounts (Note 23)	<u>47,531,911</u>	<u>43,723,554</u>

The accompanying notes are an integral part of the consolidated financial statements
(•) Reclassified for comparative purposes

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Balance Sheet
June 30, 2007 and December 31, 2006

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006 (•)
Liabilities and Shareholders' Equity		
Liabilities		
Deposits (Note 12)		
Non-interest-bearing checking accounts	6,053,031	5,128,745
Interest-bearing checking accounts	7,512,770	6,221,425
Savings deposits	7,463,305	7,160,491
Time deposits	<u>7,903,657</u>	<u>6,736,211</u>
	<u>28,932,763</u>	<u>25,246,872</u>
Debt authorized by the Venezuelan Securities and Exchange Commission (Note 13)		
Publicly traded debt securities issued by MERCANTIL	<u>341,020</u>	<u>259,087</u>
Financial liabilities (Note 14)		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	219,690	267,726
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	100,000	100,000
Liabilities with foreign banks and savings and loan institutions, up to one year	3,968	163,367
Liabilities with foreign banks and savings and loan institutions, more than one year	190,740	83,711
Direct financial liabilities	279,234	395,286
Liabilities under repurchase agreements	572,608	581,313
Other liabilities, up to one year	175,986	140,046
Other liabilities, more than one year	<u>4,096</u>	<u>5,168</u>
	<u>1,546,322</u>	<u>1,736,617</u>
Interest and commissions payable	<u>42,936</u>	<u>37,130</u>
Other liabilities (Note 15)	<u>2,322,471</u>	<u>1,576,382</u>
Subordinated debt (Note 16)	<u>268,247</u>	<u>268,247</u>
Total liabilities	<u>33,453,759</u>	<u>29,124,335</u>
Minority interests in consolidated subsidiaries	<u>2,948</u>	<u>3,209</u>
Shareholders' Equity (Note 21)		
Capital stock	150,497	107,717
Capital inflation adjustment	191,709	191,709
Share premium	54,766	52,304
Capital reserves	166,715	166,715
Translation adjustment of net assets of subsidiaries abroad	267,576	267,820
Retained earnings	1,972,737	1,823,396
Repurchased shares held by subsidiaries	(21,294)	(13,950)
Repurchased shares restricted for employee stock option plan	(26,972)	(25,170)
Unrealized gain (loss) from adjustment of investments to market value	<u>(26,611)</u>	<u>18,882</u>
Total shareholders' equity	<u>2,729,123</u>	<u>2,589,423</u>
Total liabilities and shareholders' equity	<u>36,185,830</u>	<u>31,716,967</u>

The accompanying notes are an integral part of the consolidated financial statements
(•) Reclassified for comparative purposes

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Income
Six-month periods ended June 30, 2007 and December 31, 2006

<i>(Millions of bolivars, except net income per share)</i>	June 30, 2007	December 31, 2006 (•)
Interest income (Note 2)		
Income from cash and due from banks	4,131	8,711
Income from investment portfolio (Note 4)	378,643	352,287
Income from loan portfolio (Note 6)	1,025,575	881,775
Income from financial assets	<u>4,569</u>	<u>771</u>
Total interest income	<u>1,412,918</u>	<u>1,243,544</u>
Interest expense (Note 2)		
Interest on demand and savings deposits	224,175	196,021
Interest on time deposits	183,294	181,291
Interest on securities issued by MERCANTIL (Note 13)	30,344	16,096
Interest on financial liabilities	<u>56,217</u>	<u>44,371</u>
Total interest expense	<u>494,030</u>	<u>437,779</u>
Gross financial margin	918,888	805,765
Allowance for losses on loan portfolio (Notes 2 and 6)	<u>(69,768)</u>	<u>(76,204)</u>
Net financial margin	<u>849,120</u>	<u>729,561</u>
Commissions and other income		
Trust fund operations	20,489	19,955
Foreign currency operations (Note 22)	1,376	1,191
Commissions on customer account transactions	92,720	88,153
Commissions on letters of credit and guarantees granted	16,092	14,014
Equity in long-term investments (Note 8)	22,479	17,718
Exchange gain (loss) (Note 22)	2,118	(2,461)
Gain (loss) on sale of investment securities (Note 4)	(16,890)	33,050
Other income (Note 19)	<u>161,329</u>	<u>248,156</u>
Total commissions and other income	<u>299,713</u>	<u>419,776</u>
Insurance premiums, net of claims (Note 2-o)		
Premiums	492,911	382,078
Claims	<u>(418,425)</u>	<u>(317,749)</u>
Total insurance premiums, net of claims	<u>74,486</u>	<u>64,329</u>
	<u>1,223,319</u>	<u>1,213,666</u>
Operating expenses		
Salaries and employee benefits	426,766	366,676
Depreciation, property and equipment expenses, amortization of intangibles and other (Notes 10 and 11)	102,902	91,257
Fees paid to regulatory agencies	51,247	41,581
Other operating expenses (Note 20)	<u>325,256</u>	<u>361,680</u>
Total operating expenses	<u>906,171</u>	<u>861,194</u>
Operating income before tax and minority interests	<u>317,148</u>	<u>352,472</u>
Taxes (Note 17)		
Current	(81,329)	(65,275)
Deferred	<u>3,449</u>	<u>3,297</u>
Total taxes	<u>(77,880)</u>	<u>(61,978)</u>
Net income before minority interests	239,268	290,494
Minority interests	<u>(310)</u>	<u>(384)</u>
Net income	<u>238,958</u>	<u>290,110</u>
Net income per share (in bolivars)	<u>239.87</u>	<u>290.20</u>
Net income per share before minority interests (in bolivars)	<u>240.18</u>	<u>290.59</u>
Weighted average of outstanding shares	<u>996,182,127</u>	<u>999,675,005</u>

The accompanying notes are an integral part of the consolidated financial statements
(•) Reclassified for comparative purposes

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Shareholders' Equity
Six-month periods ended June 30, 2007 and December 31, 2006

<i>(Millions of bolivars)</i>	Capital stock	Capital inflation adjustment (Note 2-a)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad (Note 2-c)	Retained earnings	Repurchased shares held by subsidiaries (Note 21)	Repurchased shares restricted for employee stock option plan	Unrealized gain (loss) from adjustment of investments to market value (Note 2-d)	Total shareholders' equity
Balances at June 30, 2006	107,717	191,709	52,849	166,715	267,506	1,600,907	(4,745)	(22,120)	(11,936)	2,348,602
Net income for the period	-	-	-	-	-	290,110	-	-	-	290,110
Repurchased shares restricted for employee stock option plan	-	-	(545)	-	-	-	-	(3,050)	-	(3,595)
Repurchased shares	-	-	-	-	-	-	(9,205)	-	-	(9,205)
Cash dividends (Note 21)	-	-	-	-	-	(67,969)	-	-	-	(67,969)
Sale of shares held by subsidiaries	-	-	-	-	-	348	-	-	-	348
Unrealized gain on investments	-	-	-	-	-	-	-	-	30,818	30,818
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	314	-	-	-	-	314
Balances at December 31, 2006	107,717	191,709	52,304	166,715	267,820	1,823,396	(13,950)	(25,170)	18,882	2,589,423
Net income for the period	-	-	-	-	-	238,958	-	-	-	238,958
Repurchased shares	-	-	-	-	-	-	(13,467)	-	-	(13,467)
Repurchased shares restricted or employee stock option plan	-	-	2,462	-	-	-	-	(1,802)	-	660
Cash dividends (Note 21)	-	-	-	-	-	(47,073)	-	-	-	(47,073)
Stock dividends (Note 21)	42,780	-	-	-	-	(42,780)	-	-	-	-
Unrealized loss on investments	-	-	-	-	-	-	-	-	(45,493)	(45,493)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(244)	-	-	-	-	(244)
Sale of shares held by subsidiaries (Note 4)	-	-	-	-	-	236	6,123	-	-	6,359
Balances at June 30, 2007	<u>150,497</u>	<u>191,709</u>	<u>54,766</u>	<u>166,715</u>	<u>267,576</u>	<u>1,972,737</u>	<u>(21,294)</u>	<u>(26,972)</u>	<u>(26,611)</u>	<u>2,729,123</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
Six-month periods ended June 30, 2007 and December 31, 2006

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006 (•)
Cash flows from operating activities		
Net income for the period	238,958	290,110
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	46,237	37,533
Allowance for losses on loan portfolio	69,768	76,204
Decrease in allowance for losses on loan portfolio	(3,959)	(1,848)
Provision for available-for-sale assets	117	369
Provision for interest receivable and other assets	2,881	1,682
Gain on equity in long-term investments	(22,479)	(17,718)
Deferred income tax	(3,449)	(3,297)
Minority interests	310	384
Accrual for employee termination benefits	43,788	28,197
Payment of employee termination benefits	(39,900)	(31,775)
Net change in operating assets and liabilities		
Interest and commissions receivable	(3,340)	(36,713)
Interest and commissions payable	5,806	5,718
Available-for-sale and other assets	(724,552)	238,858
Other liabilities	<u>726,609</u>	<u>(125,850)</u>
Net cash provided by operating activities	<u>336,795</u>	<u>461,854</u>
Cash flows from investing activities		
Net change in investment portfolio	(739,303)	(821,552)
Loans granted	(31,936,890)	(64,764,169)
Loans collected	29,343,731	63,034,377
Additions to property and equipment, net	<u>(84,740)</u>	<u>(53,421)</u>
Net cash used in investing activities	<u>(3,417,202)</u>	<u>(2,604,765)</u>
Cash flows from financing activities		
Net change in deposits	3,685,891	3,806,133
Net change in short-term financial liabilities	(281,233)	715,866
New long-term financial liabilities	180,433	379,492
Long-term financial liabilities repaid	(74,475)	(412,279)
Net change in debt securities issued by MERCANTIL	81,933	78,420
Net change in subordinated debt	-	75,061
Cash dividends	(47,073)	(67,969)
Repurchased shares	(13,467)	(9,205)
Share premium	2,462	(545)
Repurchased shares restricted for employee stock option plan	(1,802)	(3,050)
Sale of shares held by subsidiaries	<u>6,359</u>	<u>348</u>
Net cash provided by financing activities	<u>3,539,028</u>	<u>4,562,272</u>
Cash and cash equivalents		
Net increase for the period	458,621	2,419,361
At the beginning of the period	<u>8,124,150</u>	<u>5,704,789</u>
At the end of the period	<u>8,582,771</u>	<u>8,124,150</u>
Supplementary information		
Taxes paid	<u>89,646</u>	<u>37,398</u>
Interest paid	<u>432,109</u>	<u>389,595</u>
Translation adjustment of net assets of subsidiaries abroad	<u>(244)</u>	<u>314</u>
Unrealized gain (loss) from adjustment of investments to market value	<u>(45,493)</u>	<u>30,818</u>

The accompanying notes are an integral part of the consolidated financial statements
(•) Reclassified for comparative purposes

Mercantil Servicios Financieros, C.A. and its Subsidiaries

Notes to the Consolidated Financial Statements

June 30, 2007 and December 31, 2006

1. Reporting Entity and Regulatory Environment

Mercantil Servicios Financieros, C.A. (MERCANTIL) was incorporated in the Bolivarian Republic of Venezuela in 1997 and its shares are listed on the Caracas Stock Exchange (BVC). In addition, MERCANTIL has an American Depository Receipts (ADR) program, Level 1, which is listed on the Over the Counter (OTC) market in the United States of America with Classes "A" and "B" shares. MERCANTIL is regulated by the Venezuelan Capital Markets Law and the Venezuelan Securities and Exchange Commission (CNV) and, therefore, must present its legal and statutory financial statements in accordance with the rules for the preparation of financial statements of entities regulated by the CNV.

The subsidiaries of MERCANTIL provide general banking services to corporate, middle market and retail customers. Third-party asset management services are provided both in Venezuela and the United States of America, as well as insurance services in Venezuela.

The main subsidiaries of MERCANTIL are Banco Mercantil, C.A. (Banco Universal) in Venezuela (Banco Mercantil), 99.86% owned; Commercebank, N.A., a U.S.-based wholly owned commercial bank; Seguros Mercantil, C.A. in Venezuela, a wholly owned insurance company, and Merinvest, C.A. and its subsidiaries, all wholly owned.

Other wholly owned consolidated subsidiaries of MERCANTIL include Holding Mercantil Internacional, C.A. and its subsidiaries Banco Mercantil Venezolano, N.V. (an off-shore bank domiciled in the Netherlands Antilles), Banco del Centro, S.A. (domiciled in Panama), Banco Mercantil Schweiz AG (domiciled in Switzerland) and its subsidiary BMC Bank & Trust Limited (domiciled in Grand Cayman, B.W.I.), and Mercantil Inversiones y Valores, C.A.

The financial statements of MERCANTIL at June 30, 2007 and December 31, 2006 were approved by the Board of Directors on July 12 and January 11, 2007, respectively.

Below is a summary of operating locations and the main regulations that govern MERCANTIL and its subsidiaries:

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

The activities of Banco Mercantil are regulated by the General Law of Banks and Other Financial Institutions (General Bank Law) and the rules and instructions of the Superintendency of Banks and Other Financial Institutions (Superintendency of Banks), the Central Bank of Venezuela (Banco Central de Venezuela - BCV) and the Guarantee and Bank Protection Fund (FOGADE).

Regulations require the Bank to earmark at least 23% of its gross loan portfolio at June 30, 2007 to finance loans for agricultural, small business and tourism (31.5% at December 31, 2006, which includes 10% for mortgage loans) (Note 6).

In April 2005 BCV set maximum and minimum rates for deposit and lending operations based on interest rates applied by BCV to its discount, rediscount, repurchase, advance and absorption operations. In this regard, the annual interest rate for lending operations, including credit cards, may in no case exceed 28% plus an additional 3% a year on amounts overdue. As from September 2006, BCV depegged deposit rates from reference rates set by BCV. Annual interest rates for savings

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deposits could not fall below 6.5%. Annual interest rates on time deposits for 28 or more days and certificates of participation, regardless of the term, could not fall below 10%. As from July 2007, BCV increased these percentages to 8% for savings deposits and 11% for time deposits and certificates of participation.

b) Commercebank N.A.

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

Its head office, Commercebank Holding Co., is supervised by the Federal Reserve. It is also a member of the Federal Deposit Insurance Corporation (FDIC) under the Bank Insurance Fund (BIF) unit.

The wholly owned subsidiaries of Commercebank Holding Co. are Commercebank Investment Services Inc. and Mercantil Services Corporation.

c) Banco Mercantil Schweiz AG

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

d) Seguros Mercantil, C.A.

This company, incorporated in Venezuela, is regulated by the Law of Insurers and Reinsurers and its regulations, and by the accounting rules and instructions of the Venezuelan Superintendency of Insurance.

e) Merinvest, C.A.

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

In March 2007 the Venezuelan government established that as from January 1, 2008 the unit of the Venezuelan monetary system (Venezuelan bolivar) will be redenominated at a conversion rate of one thousand current bolivars to one new bolivar ("bolívar fuerte"). The Banco Central de Venezuela (BCV) drew up an activity schedule to be complied with by financial institutions.

2. Accounting Principles in Use

MERCANTIL complies with the rules set out in the Accounting Manual and Plan of Accounts of the CNV. When these rules contain no specific instructions, MERCANTIL follows accounting principles generally accepted in Venezuela. CNV rules differ from the aforementioned accounting principles in the following respects:

- a) Presentation of inflation-adjusted financial statements. According to CNV instructions, MERCANTIL should not include the effects of inflation in its financial statements as from 1999, but accounting principles generally accepted in Venezuela continue requiring inflation adjustment. The CNV has ruled that the methodology to be followed by MERCANTIL for preparation and presentation of its nominal financial statements is as set out in International Accounting Standard No. 29 (IAS 29). According to this standard, when an economy is no longer hyperinflationary and an entity ceases to prepare and present inflation-adjusted financial statements, it should then take into consideration the amounts expressed in terms of purchasing power at the end of the previous

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- b) reporting period as a basis for presentation of financial statements expressed in nominal bolivars. Therefore, MERCANTIL considered the amounts expressed in terms of purchasing power at December 31, 1999 as the basis for presenting its financial statements expressed in nominal bolivars for subsequent periods.
- c) Recognition of exchange gains or losses on investments in held-to-maturity securities in foreign currency. In accordance with CNV rules, exchange gains and losses are recognized in the statement of income, while according to the aforementioned accounting principles they are shown at amortized cost.
- c) Presentation of contracted amounts in transactions with derivative financial instruments. In accordance with CNV rules, these transactions are presented as memorandum accounts instead of on the balance sheet as required by the aforementioned accounting principles. In addition, differences between the fair value of spot agreements and the agreed-upon price are recorded as deferred charges with a credit to unrealized gain (loss) from adjustment of investments to market value, rather than to the results for the period, in accordance with accounting principles generally accepted in Venezuela.
- d) Recording of personal and real property received as payment and idle assets. Property received as payment is recorded at the lower of assigned value, book value and market value and amortized using the straight-line method over one and three years. Assets idle for more than 24 months are written out of asset accounts. In accordance with generally accepted accounting principles, available-for-sale assets and idle assets are recorded at the lower of cost and market value.
- e) Unrealized gains or losses resulting from exchange rate fluctuations on investments in debt securities, classified as investments in available-for-sale debt securities and investments in publicly traded shares denominated in foreign currency, are recorded in shareholders' equity; in conformity with accounting principles generally accepted in Venezuela they should be included in the statement of income.
- f) MERCANTIL computes deferred income tax in respect of temporary differences between income and expenses arising in different periods for accounting and tax purposes, provided that there is a reasonable expectation of realization or recovery over time. In accordance with accounting principles generally accepted in Venezuela, a deferred income tax asset or liability is recognized in respect of all temporary differences between the tax balance sheet and the accounting balance sheet.

Consolidated financial statements presented in accordance with accounting principles generally accepted in Venezuela are included as supplementary information (Note 33).

In December 2004 the CNV instructed companies that publicly trade securities to present their financial statements in accordance with International Financial Reporting Standards (IFRS) as from fiscal years beginning January 1, 2006. The CNV authorized MERCANTIL to continue presenting its financial statements in conformity with current accounting rules until the entities that regulate the subsidiaries forming MERCANTIL require presentation of financial information under IFRS. In December 2005 the CNV decided to postpone application of the aforementioned standards until they are adopted by the Venezuelan Federation of Public Accountants. In March 2007 the Venezuelan

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Federation of Public Accountants ratified that the timeframe for companies listed on the stock exchange to definitively adopt IFRS will be established by the CNV, the regulatory entity.

Below is a summary of the accounting principles in use:

a) Consolidation

The consolidated financial statements include the accounts of MERCANTIL and its more than 50%-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The accounting year-end of MERCANTIL and its subsidiaries is December 31, except for certain non-banking subsidiaries whose accounting year-end is November 30. Subsidiaries whose accounting year-end is November 30 are consolidated with the financial statements of MERCANTIL at December 31. 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 MERCANTIL.

Specific-purpose entities controlled by MERCANTIL or of which MERCANTIL is considered the main beneficiary are included in the consolidated financial statements.

b) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the balance sheet dates, the amounts of income, costs and expenses for the periods ended on those dates, and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

c) Translation of financial statements of subsidiaries abroad

Assets and liabilities are translated at the year-end exchange rate. Equity accounts are translated at the historic exchange rate and income statement accounts at the average exchange rate for the period. The effect from translation is recorded in shareholders' equity.

d) Investment portfolio

Investments are classified upon acquisition, based on their nature and intended use, into one of the following categories:

Trading securities

These investments are recorded at fair value and comprise investments in debt securities acquired for short-term trading. These debt securities may remain in this category for up to 90 days from their acquisition.

Unrealized gains or losses resulting from fluctuations in fair values are included in the results for the period.

Available-for-sale securities

Available-for-sale debt securities are recorded at fair value and include debt securities acquired for more than 90 days. Debt securities may remain in this category indefinitely. Unrealized gains or losses arising from differences in market values are included in shareholders' equity.

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Held-to-maturity securities

These are investments in debt securities that MERCANTIL has the firm intention and ability to hold until maturity; they are recorded at cost, adjusted for amortization of premiums or discounts. Discounts or premiums on acquisition are recorded in income over the term of the security.

Share trading portfolio

These consist of investments in shares to be publicly traded.

The fair value of investments in trading or available-for-sale debt securities not listed on stock exchanges is determined according to the present value of future cash flows of securities, purchase-sale operations on the secondary market or specific market prices of financial instruments with similar characteristics.

Decreases in the estimated fair value of held-to-maturity and available-for-sale securities are recorded in the results for the period when management considers that decreases are other than temporary. Permanent impairment in the value of securities is determined by considering the financial condition of the issuing entity and the period during which the fair value has remained below cost. During the six-month periods ended June 30, 2007 and December 31, 2006, MERCANTIL has identified no permanent losses.

Time deposits and placements

These investments are funds deposited with financial institutions and are recorded at cost, which is equivalent to par value.

Restricted investments and repurchase agreements

Restricted investments include repurchase operations and other investments whose property rights are restricted or pledged as loan guarantees. They are valued using the same criteria used to record those investments from which they are derived.

Long-term investments

Investments in 20%-50%-owned affiliates are recorded under the equity method (Note 8).

e) Investments in securities acquired under resale agreements

Investments in securities acquired under resale agreements are recorded as restricted investments for the amount of funds transacted. Differences between resale and book value are recorded under interest income, on the accrual basis (Note 4).

f) Direct financial assets and liabilities

Short sales securities loan agreements, whereby MERCANTIL is the lender and the client is the borrower, are recorded at the market value of the underlying asset, including any interest receivable on these assets. Gains or losses from adjustments to market value are included in the results for the period. When MERCANTIL is the borrower, the transaction is recorded as a financial liability.

g) Loan portfolio

Rescheduled loans are those whose original repayment schedule, term or other conditions have been modified, at the request of the debtor or according to certain other conditions.

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Loans are classified as overdue 30 days after maturity. Individual loan installments are shown as overdue if repayment is more than 30 days past due. When any installment is more than 90 days past due, the entire loan balance is classified as overdue.

In-litigation loans are those in the legal collection process.

h) Allowance for risk of uncollectibility of loan portfolio and contingent loans

The allowance for losses on the loan portfolio and contingent loans is determined based on a collectibility assessment aimed at quantifying the specific allowance to be set aside for each loan considering, among other things, economic conditions, client credit risk, credit history and guarantees received.

Loans for minor amounts and of similar nature are assessed as a whole to determine applicable allowances.

i) Property and equipment

Until December 31, 1999, property and equipment was recorded at inflation-adjusted cost, net of accumulated depreciation. From 2000 new additions are recorded at cost. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets. Fully depreciated property and equipment is included under memorandum accounts.

MERCANTIL assesses possible impairment in the value of its long-lived assets when events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability of an asset 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. If an asset is impaired, the amount to be recognized as impairment is measured by the amount by which the carrying amount of the asset exceeds fair value.

j) Available-for-sale and other assets

Available-for-sale assets other than personal and real property received as payment are recorded at the lower of cost and market value. Gains or losses from the realization of available-for-sale assets are included in the statement of income.

MERCANTIL assesses collectibility items under other assets using the same criteria, where applicable, as those applied to the loan portfolio. Provisions are set aside as required for those items based on their nature or aging.

k) Deferred and systems development expenses

Deferred expenses are mainly in respect of office installation and improvement expenses. These expenses, as well as those incurred for systems development, are recorded at cost, net of accumulated amortization. Amortization is calculated using the straight-line method over four years.

l) Goodwill

Goodwill is in respect of excess cost over book value of shares acquired and is amortized using the straight-line method over 20 years (Note 11).

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m) Deferred income tax

The tax provision is based on management's projection of tax results. MERCANTIL and its subsidiaries record a deferred income tax asset when, in the opinion of management, there is reasonable expectation that future tax results will allow it to be realized (Note 17).

n) Liabilities under repurchase agreements

Liabilities under repurchase agreements are treated as financing operations and recorded as liabilities in the amounts of the funds obtained from these transactions. The difference in respect of the repurchase price is recorded as interest expense over the term of the liability.

o) Reserves for insurance operations

The reserve for unearned premiums represents the unearned 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.

In determining the reserves for insurance policies and claims, MERCANTIL 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 smaller than those reserves. The effects of changes in estimated reserves are included in the results for the period in which they occur. Reserves for insurance operations are shown under other liabilities (Note 15).

Insurance premiums collected are recorded as income when earned. Insurance managed by the Company, including equity, accident and health insurance policies, qualify as short-term insurance agreements.

p) Labor-related benefits

Accrual for employee termination benefits

MERCANTIL and its Venezuelan subsidiaries accrue for their liabilities in respect of employee termination benefits, which are a vested right of employees, based on the provisions of the Venezuelan Labor Law, and deposit amounts accrued on a monthly basis in a trust fund on behalf of each employee. Under certain circumstances, the Law provides for an additional indemnity for unjustified dismissals. Based on experience, MERCANTIL and its Venezuelan subsidiaries have set aside an additional provision to cover this contingent liability.

Profit-sharing bonus and vacation leave

As established in its Collective Labor Agreement, MERCANTIL 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.

q) Employee benefit plans

Retirement pension plan

MERCANTIL has a long-term defined-benefit pension plan covering all eligible employees and which is managed by Fundación BMA. Related costs and liabilities are calculated using actuarial methods and are recorded in the results for the period. The net costs of the pension plan are based on actuarial assumptions which are revised annually and include service costs, interest expense and returns on plan assets, as well as deferral and amortization of certain components, such as actuarial gains or losses,

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which are amortized over four years. MERCANTIL uses an actuarial method known as the “Projected Unit Credit Method” to calculate the present value of the Defined Benefit Obligation (DBO). MERCANTIL makes annual contributions to the plan, except when the DBO is already covered by plan assets.

In addition, Commercebank, N.A. has a 401K benefits plan to which MERCANTIL contributes a fixed percentage of participating employees’ salaries.

Defined contribution scheme

During 2006 MERCANTIL implemented a defined contribution scheme called the MERCANTIL Supplementary Savings Plan to replace the Supplementary Retirement Pension Plan. Contributions to the plan are recorded in the results for the period.

Post-retirement benefits

The Supplementary Retirement Pension Plan and the Supplementary Savings Plan include certain post-retirement benefits, mainly medical insurance. The related costs and liabilities are determined based on actuarial methods and their effect is expensed over 10 years.

Stock option plan

MERCANTIL has a long-term stock option plan for certain key officers. MERCANTIL determines the fair value of these options and amortizes the related expense over the vesting period. The fair value of each option is determined at the option grant date using the Black-Scholes-Merton valuation model and does not take into consideration cash dividends that will not be received by the participants.

r) Derivative financial instruments

A derivative is a financial instrument or other agreement based on an underlying asset and recorded at contractual value. Gains and losses from fluctuations in market value of derivative financial instruments are included in the results for the period.

s) Recognition of revenue and expenses

Income, costs and expenses are recorded as earned or incurred, respectively. Interest on overdue or in-litigation loan portfolios or other credits classified as having high recoverability risk is recorded as income when collected. Interest collected in advance is recorded as income when earned. Income from financial lease contracts and amortization costs of leased property are shown as net interest income.

t) Fair value of financial instruments

MERCANTIL recognizes transactions with financial instruments at their transaction date. Financial instruments are recorded in the balance sheet as either assets or liabilities at their respective fair values. The carrying value of cash and due from banks, investment portfolio and interest and commissions receivable approximates their fair value due to the short-term maturities of these instruments. Since most loans, commercial paper and other financial liabilities of MERCANTIL bear interest at variable market rates, management considers their carrying amounts to approximate fair value.

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u) Foreign currency

Foreign currency transactions, mainly in U.S. dollars (US\$), Colombian pesos (Ps) and Swiss francs (CHF) are recorded at the exchange rate in effect at the transaction date. Foreign currency balances at June 30, 2007 are shown at the exchange rates of Bs 2,144.60/US\$1, Bs 1.0865/Ps1 and Bs 1,755.42/CHF1 (Bs 2,144.60/US\$1, Bs 0.9581/Ps1 and Bs 1,759.74/CHF1 at December 31, 2006), as established in the Exchange Agreements described in Note 22. Exchange gains and losses are included in the results for the period, except those in respect of investments in available-for-sale debt securities and investments in shares publicly traded denominated in foreign currency, which are included in shareholders' equity.

v) Net income per share

Net income per share is determined by dividing net income for the period by the weighted average of outstanding shares, excluding repurchased shares held by subsidiaries and available shares of the stock purchase plan, and considering stock dividends, which are included in the computation of both periods.

w) Assets received in trust

Assets received in trust, shown under memorandum accounts, are valued using the same parameters as those that MERCANTIL uses to value its own assets. Investments in securities are mainly valued using the same method as that used for investments in held-to-maturity securities (Note 2-d).

x) Cash equivalents

Cash equivalents comprise due from balances and the portion of investments in time deposits and placements maturing within 90 days.

y) Legal dividends

In accordance with the Capital Markets Law, MERCANTIL records as a liability the required minimum annual cash dividend (Note 21).

z) Reclassifications

At December 31, 2006, certain balances in the consolidated financial statements have been reclassified to conform their presentation to that at June 30, 2007.

3. Cash and Due from Banks

The main banking subsidiaries must maintain minimum balances of cash and due from banks in foreign and local currencies as required by regulatory entities. These balances are determined based on deposits and other borrowings by subsidiaries.

Below are balances with Banco Central de Venezuela (BCV) included in cash and due from banks:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Demand deposits	55,760	23,157
Legal reserve in local currency	3,305,778	2,866,665
Legal reserve in U.S. dollars	<u>16,758</u>	<u>21,324</u>
	<u>3,378,296</u>	<u>2,911,146</u>

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Pending cash items are in respect of checks received and in process of collection from other financial institutions.

At June 30, 2007 and December 31, 2006, the legal reserve in Venezuela amounts to 15% of all deposits and other liabilities, except for liabilities with BCV, FOGADE and other financial institutions. BCV increased this percentage to 16% as from July 2007 and 17% as from October 2007. This reserve must be made in U.S. dollars when deposits or liabilities are in foreign currencies. As from July 2006, the marginal increase of deposits is subject to a legal reserve of 30%. Legal reserve funds do not earn interest for MERCANTIL.

4. Investment Portfolio

Investment portfolio comprises the following:

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Cost	Book value (equivalent to market value)	Cost	Book value (equivalent to market value)
<i>(Millions of bolivars)</i>				
Investments in trading securities				
Investments in securities issued by Venezuelan entities				
Securities issued or guaranteed by the Bolivarian Republic of Venezuela				
In foreign currency	<u>52,208</u>	<u>48,247</u>	<u>6,347</u>	<u>6,422</u>
Investments in securities issued by entities in the United States of America				
Debt in companies sponsored and supervised by the government of the United States of America				
	36,638	36,638	219,961	219,961
Securities issued by the National Treasury of the United States of America	1,547	1,547	2,137	2,137
Other investments	<u>554,812</u>	<u>554,812</u>	<u>168,823</u>	<u>168,878</u>
	<u>592,997</u>	<u>592,997</u>	<u>390,921</u>	<u>390,976</u>
Investments in securities issued by foreign entities				
Other investments	<u>-</u>	<u>-</u>	<u>1,025</u>	<u>1,040</u>
	<u>645,205</u>	<u>641,244</u>	<u>398,293</u>	<u>398,438</u>

	<u>June 30, 2007</u>				<u>December 31, 2006</u>			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
<i>(Millions of bolivars)</i>								
Investments in available-for-sale securities								
Investments in securities issued by Venezuelan entities								
Investments in securities issued by Venezuelan entities								
In local currency (1)	1,606,684	6,096	(12,496)	1,600,284	1,480,071	8,345	(1,579)	1,486,837
In foreign currency	<u>357,954</u>	<u>5,623</u>	<u>(24,646)</u>	<u>338,931</u>	<u>165,378</u>	<u>7,056</u>	<u>(29)</u>	<u>172,405</u>
	<u>1,964,638</u>	<u>11,719</u>	<u>(37,142)</u>	<u>1,939,215</u>	<u>1,645,449</u>	<u>15,401</u>	<u>(1,608)</u>	<u>1,659,242</u>
Other investments								
In local currency	37,466	1,280	(1,268)	37,478	21,446	-	(84)	21,362
In foreign currency	<u>101,651</u>	<u>185</u>	<u>(3,331)</u>	<u>98,505</u>	<u>9,862</u>	<u>141</u>	<u>(172)</u>	<u>9,831</u>
	<u>139,117</u>	<u>1,465</u>	<u>(4,599)</u>	<u>135,983</u>	<u>31,308</u>	<u>141</u>	<u>(256)</u>	<u>31,193</u>
	<u>2,103,755</u>	<u>13,184</u>	<u>(41,741)</u>	<u>2,075,198</u>	<u>1,676,757</u>	<u>15,542</u>	<u>(1,864)</u>	<u>1,690,435</u>

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<i>(Millions of bolivars)</i>	<u>June 30, 2007</u>				<u>December 31, 2006</u>			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Investments in securities issued by entities in the United States of America								
Securities issued or guaranteed by the government of the United of America (2)	453,917	137	(1,708)	452,346	1,617,627	8,915	(8,943)	1,617,599
Debt in companies sponsored and supervised by the government of the United States of America (3)	2,327,555	6,392	(15,699)	2,318,248	1,369,927	1,528	(11,381)	1,360,074
Securities issued by the National Treasury of the United States of America	184,875	45	(279)	184,641	224,717	453	(231)	224,939
Other investments	<u>1,510,602</u>	<u>5,627</u>	<u>(4,275)</u>	<u>1,511,954</u>	<u>1,018,262</u>	<u>1,568</u>	<u>(1,019)</u>	<u>1,018,811</u>
	<u>4,476,949</u>	<u>12,201</u>	<u>(21,961)</u>	<u>4,467,189</u>	<u>4,230,533</u>	<u>12,464</u>	<u>(21,574)</u>	<u>4,221,423</u>
Investments in other countries	<u>677,652</u>	<u>11</u>	<u>(1,031)</u>	<u>676,632</u>	<u>394,843</u>	<u>1,249</u>	<u>(162)</u>	<u>395,930</u>
	<u>7,258,356</u>	<u>25,396</u>	<u>(64,733)</u>	<u>7,219,019</u>	<u>6,302,133</u>	<u>29,255</u>	<u>(23,600)</u>	<u>6,307,788</u>

(1) Includes fixed interest securities issued by the Bolivarian Republic of Venezuela in May 2006.

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

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

Investments in available-for-sale securities include US\$92 million as collateral for advances received from the Federal Home Loan Bank (US\$123 million at December 31, 2006)

At June 30, 2007, investments in available-for-sale securities include securities of the Coral Gables agency with a market value of US\$12,608,161 (US\$16,281,904 at December 31, 2006), pledged to regulatory entities in compliance with state requirements in the United States of America.

At June 30, 2007, a net unrealized loss of Bs 26,611 million, shown in the consolidated statement of shareholders' equity includes net unrealized gains of Bs 11,920 million in respect of the share trading portfolio, Bs 806 million in restricted investments and net losses of Bs 39,337 million in available-for-sale investments.

<i>(Millions of bolivars)</i>	<u>June 30, 2007</u>			<u>December 31, 2006</u>		
	Amortized cost	Unrealized gain (loss)	Market value	Amortized cost	Unrealized gain (loss)	Market value
Investments in held-to-maturity securities						
Investments in securities issued by Venezuelan entities						
Securities issued or guaranteed by the Bolivarian Republic of Venezuela						
In local currency (1)	6,427	(67)	6,360	276,593	1,033	277,626
In foreign currency	224,713	6,740	231,453	222,885	(90)	222,795
Other investments	<u>670</u>	<u>(1)</u>	<u>669</u>	<u>417</u>	<u>(74)</u>	<u>343</u>
	<u>231,810</u>	<u>6,672</u>	<u>238,482</u>	<u>499,895</u>	<u>869</u>	<u>500,764</u>
Investments in securities issued by entities in the United States of America						
Securities issued or guaranteed by the government of the United States of America (2)	26,636	-	26,636	36,904	-	36,904
Mandatorily redeemable preferred stock (3)	1,457	-	1,457	47,932	(33)	47,899
Other investments	<u>81,019</u>	<u>-</u>	<u>81,019</u>	<u>64,797</u>	<u>63</u>	<u>64,860</u>
	<u>109,112</u>	<u>-</u>	<u>109,112</u>	<u>149,633</u>	<u>30</u>	<u>149,663</u>
Investments in other countries	<u>6,192</u>	<u>-</u>	<u>6,192</u>	<u>7,597</u>	<u>(2)</u>	<u>7,595</u>
	<u>347,114</u>	<u>6,672</u>	<u>353,786</u>	<u>657,125</u>	<u>897</u>	<u>658,022</u>

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(1) Includes fixed interest securities issued by the Bolivarian Republic of Venezuela in May 2006.

(2) Includes shares of the Federal National Mortgage Association.

(3) Includes shares of private companies.

<i>(Millions of bolivars)</i>	<u>June 30, 2007</u>				<u>December 31, 2006</u>			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Share trading portfolio								
Shares issued by Venezuelan companies	3,113	15,404	(4,143)	14,374	4,186	16,928	(5,780)	15,334
Shares issued by foreign companies	<u>22,548</u>	<u>659</u>	<u>-</u>	<u>23,207</u>	<u>375</u>	<u>585</u>	<u>-</u>	<u>960</u>
	<u>25,661</u>	<u>16,063</u>	<u>(4,143)</u>	<u>37,581</u>	<u>4,561</u>	<u>17,513</u>	<u>(5,780)</u>	<u>16,294</u>

During the six-month period ended June 30, 2007, certain subsidiaries sold MERCANTIL shares in cash at market value to third parties. A gain on sale of Bs 236 million (Bs 348 million at December 31, 2006) was recorded under retained earnings.

<i>(Millions of bolivars)</i>	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Cost	Market value	Cost	Market value
Investments in time deposits and placements				
Investments in securities issued by Venezuelan entities				
Time deposits				
Banco Central de Venezuela	3,400,000	3,400,000	3,783,000	3,783,000
Financial institutions	114,277	114,277	46,178	46,178
Overnight deposits	<u>-</u>	<u>-</u>	<u>63,100</u>	<u>63,100</u>
	<u>3,514,277</u>	<u>3,514,277</u>	<u>3,892,278</u>	<u>3,892,278</u>
Investments in securities issued by financial institutions in the United States of America				
Time deposits	244,262	244,262	255,475	255,475
Overnight deposits	<u>243,349</u>	<u>243,349</u>	<u>72,574</u>	<u>72,574</u>
	<u>487,611</u>	<u>487,611</u>	<u>328,049</u>	<u>328,049</u>
Investments in securities issued by foreign entities	<u>135,304</u>	<u>135,304</u>	<u>84,726</u>	<u>84,726</u>
	<u>4,137,192</u>	<u>4,137,192</u>	<u>4,305,053</u>	<u>4,305,053</u>

Investments in time deposits and placements include Bs 4,134,319 million, maturing within 90 days (Bs 4,304,536 million at December 31, 2006).

<i>(Millions of bolivars)</i>	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Cost	Market value	Cost	Market value
Restricted investments and repurchase agreements				
Securities issued by the Bolivarian Republic of Venezuela				
In local currency	33,385	33,424	15,238	15,262
In foreign currency	<u>942</u>	<u>942</u>	<u>7,808</u>	<u>7,808</u>
	<u>34,327</u>	<u>34,366</u>	<u>23,046</u>	<u>23,070</u>
Securities issued or guaranteed by the government of the United States of America	<u>87,183</u>	<u>87,950</u>	<u>245,369</u>	<u>246,986</u>
Investments in other countries	<u>4,901</u>	<u>4,901</u>	<u>4,467</u>	<u>4,467</u>
	<u>126,411</u>	<u>127,217</u>	<u>272,882</u>	<u>274,523</u>

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Below is a classification of investments by maturity at June 30, 2007:

<i>(Millions of bolivars)</i>	<u>Available-for-sale investments</u>			<u>Held-to-maturity investments</u>		
	Cost	Book value (equivalent to market value)	Yield	Cost	Amortized cost	Yield (1)
In bolivars						
Less than one year	496,199	497,635	5.44%	529	532	5.65%
From 1 to 5 years	1,013,041	1,006,662	4.59%	6,288	6,232	3.41%
Over five years	225,106	222,475	5.07%	335	333	5.18%
In U.S. dollars						
Less than one year	1,873,586	1,873,329	5.82%	4,616	4,736	6.36%
From 1 to 5 years	314,789	314,760	10.5%	171,688	179,532	5.71%
Over five years	<u>3,335,635</u>	<u>3,304,158</u>	5.68%	<u>154,284</u>	<u>155,749</u>	6.03%
	<u>7,258,356</u>	<u>7,219,019</u>		<u>337,740</u>	<u>347,114</u>	

(1) The yield of securities is based on amortized cost at period-end. Yield is calculated by dividing income from securities (including amortization of premiums or discounts) by amortized cost. The effect of changes in fair value is not recognized.

During the six-month period ended June 30, 2007, net loss of Bs 16,890 million (net income of Bs 33,050 million during the six-month period ended December 31, 2006) was recorded on the sale of securities and included in the consolidated statement of income under gain on sale of investment securities.

The control environment of MERCANTIL includes policies and procedures to determine investment risks by entity and economic sector. At June 30, 2007, MERCANTIL has investment securities issued or guaranteed by the Venezuelan government and investment securities with Banco Central de Venezuela (BCV), which represent 17.67% and 27.18%, respectively, of its investment securities portfolio (18.17% and 32.14%, respectively, at December 31, 2006). Furthermore, MERCANTIL has investments in bonds issued by the government and other government agencies of the United States of America representing 25.92% of its investment portfolio (30.36% at December 31, 2006).

5. Direct Financial Assets

At June 30, 2007, MERCANTIL has securities loan agreements with third parties, represented by Treasury Notes of the Bolivarian Republic of Venezuela and National Public Debt Bonds for Bs 249,751 million, par value of Bs 233,356 million, with yields between 2% and 6% (par value of Bs 93,560 million, with yields between 3% and 12% at December 31, 2006) and maturities as follows:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Up to 30 days	158,919	26,867
31 to 60 days	90,832	10,734
61 to 90 days	-	<u>55,207</u>
Total	<u>249,751</u>	<u>92,808</u>

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6. Loan Portfolio

The loan portfolio is classified as follows:

<i>(Millions of bolivars)</i>	<u>June 30, 2007</u>						<u>December 31, 2006</u>	
	<u>Current</u>	<u>Rescheduled</u>	<u>Overdue</u>	<u>In litigation</u>	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Economic activity								
Commercial	5,645,121	4,885	20,794	593	5,671,393	33	5,132,321	35
Construction	2,431,793	-	32,478	305	2,464,576	14	1,938,107	12
Industrial	1,469,946	6,111	844	129	1,477,030	8	996,465	7
Agriculture	1,806,161	5,648	5,094	36	1,816,939	10	1,182,278	8
Foreign trade	1,495,736	5,187	22,580	-	1,523,503	9	1,346,949	9
Car loans	1,163,430	-	8,483	-	1,171,913	7	1,029,293	7
Credit cards	1,194,985	-	731	-	1,195,716	7	956,734	6
Home purchase	850,314	3,198	7,085	1,638	862,235	5	829,030	6
Services	431,124	-	1,374	42	432,540	2	411,881	3
Other	795,559	280	8,634	285	804,758	5	1,042,709	7
	<u>17,284,169</u>	<u>25,309</u>	<u>108,097</u>	<u>3,028</u>	<u>17,420,603</u>	<u>100</u>	<u>14,865,767</u>	<u>100</u>

Below is the movement of the consolidated allowance for loan portfolio:

<i>(Millions of bolivars)</i>	<u>Periods ended</u>	
	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Balance at the beginning of the six-month period	293,500	237,426
Allowance for the six-month period	69,768	76,204
Effect of translation of allowances in foreign currency	6	15
Decrease in allowance (Note 19)	(3,959)	(1,848)
Write-off of uncollectible loans	(39,125)	(15,660)
Transfers from other reserves	796	(2,637)
Balance at the end of the six-month period	<u>320,986</u>	<u>293,500</u>

During the six-month period ended June 30, 2007, interest accrued but not recorded as income on overdue loans and in-litigation loans amounted to Bs 12,138 million (Bs 9,537 million during the six-month period ended December 31, 2006). Interest on loan portfolio for the six-month period ended June 30, 2007 includes Bs 12,519 million (Bs 6,034 million during the six-month period ended December 31, 2006) for interest collected on overdue loans and in-litigation loans deferred in previous six-month periods.

During the six-month period ended June 30, 2007, uncollectible loans written-off in previous six-month periods for Bs 17,281 million were collected (Bs 43,534 million during the six-month period ended December 31, 2006), and are included in the consolidated statement of income under other income (Note 19).

The control environment of MERCANTIL 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 June 30, 2007 and December 31, 2006, MERCANTIL does not have significant risk concentrations in its consolidated loan portfolio.

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7. Interest and Commissions Receivable

Interest and commissions receivable comprise the following:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Interest on		
Loan portfolio	112,735	102,262
Investment securities	<u>63,396</u>	<u>68,576</u>
	176,131	170,838
Commissions receivable	15,640	17,635
Provision for contingent losses	<u>(2,257)</u>	<u>(2,299)</u>
	<u>189,514</u>	<u>186,174</u>

8. Long-term Investments

Long-term investments recorded by the equity method comprise the following:

	June 30, 2007				December 31, 2006		
	Par value	Number of shares	Equity %	Millions of bolivars	Number of shares	Equity %	Millions of bolivars
Todo 1 Services, Inc. (Note 11)	2,144 (1)	26,187	47.04	12,051	26,187	47.00	9,349
Cestaticket Accor Services, C.A.	1,000	2,580,000	43.00	18,463	279,500	43.00	25,494
Proyectos Conexus	100	343,334	33.00	1,866	343,334	33.00	1,742
Other	-			<u>85</u>			<u>199</u>
				<u>32,465</u>			<u>36,784</u>

(1) Equivalent to a par value of US\$1 per share.

During the six-month period ended June 30, 2007, MERCANTIL increased capital stock of Cestaticket Accor Services, C.A. by Bs 2,301 million in cash.

During the six-month period ended June 30, 2007, MERCANTIL recorded income from equity participation of approximately Bs 22,479 million (Bs 17,718 million during the six-month period ended December 31, 2006), of which Bs 19,808 million relates to Cestaticket Accor Services, C.A. (Bs 14,048 million during the six-month period ended December 31, 2006), and received dividends of Bs 29,140 million (Bs 22,629 million at December 31, 2006).

Todo 1 Services, Inc., an entity incorporated and domiciled in the United States of America, began operations in February 2000 as part of an alliance with the financial institutions Bancolombia and CONAVI in Colombia. The alliance strives to combine the individual business skills of these companies to develop e-business in each of the aforementioned countries and Spanish-speaking markets in general. During the six-month period ended June 30, 2007, MERCANTIL recorded income from equity in long-term investments of Bs 2,702 million (Bs 2,620 million during the six-month period ended December 31, 2006).

In June 2007 the Board of Directors of the subsidiary of Banco Mercantil, C.A., Trillansa, S.A., resolved to sell a group of assets to a third party; therefore, at June 30, 2007, Bs 1,520 million was released from the related provision. Furthermore, the shareholders are assessing the termination of operations and liquidation of this subsidiary.

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9. Available-for-sale Assets

Available-for-sale assets comprise the following:

<i>(Millions of bolivars)</i>	December 31, 2006	Additions	Withdrawals	Fully depreciated write-offs	Other	Translation adjustment	June 30, 2007
Real property received as payment	3,370	-	(311)	(263)	(26)	342	3,112
Other available-for-sale assets	2,262	21,714	(19,927)	-	-	25	4,074
Accumulated amortization	<u>(564)</u>	<u>(117)</u>	<u>274</u>	<u>263</u>	<u>-</u>	<u>(9)</u>	<u>(153)</u>
	<u>5,068</u>	<u>21,597</u>	<u>(19,964)</u>	<u>=</u>	<u>(26)</u>	<u>358</u>	<u>7,033</u>

During the six-month period ended June 30, 2007, MERCANTIL recorded amortization expense in respect of available-for-sale assets of Bs 117 million (Bs 369 million during the six-month period ended December 31, 2006). Fully amortized personal and real property is shown under memorandum accounts (Note 2-i).

During the six-month period ended June 30, 2007, MERCANTIL and certain subsidiaries sold assets received as payment and idle assets, resulting in a gain on sale of Bs 5,583 million (Bs 8,634 million during the six-month period ended December 31, 2006), shown in the consolidated statement of income under other income (Note 19).

10. Property and Equipment

Property and equipment comprises the following:

<i>(Millions of bolivars)</i>	Costs			Fully depreciated write-offs	Other	Translation adjustment	Balances at June 30, 2007
	Balances at December 31, 2006	Additions	Withdrawals				
Buildings and facilities	246,774	69	(167)	-	(1,333)	86	245,429
Office furniture and equipment	290,598	31,214	(6)	(7,249)	(1,496)	2	313,063
Vehicles	4,377	528	(88)	-	-	-	4,817
Land	17,634	-	(342)	-	-	22	17,314
Construction in progress	29,782	25,872	(3,338)	-	(2)	-	52,314
Other property	<u>16,562</u>	<u>31,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,087</u>
Total	<u>605,727</u>	<u>89,208</u>	<u>(3,941)</u>	<u>(7,249)</u>	<u>(2,831)</u>	<u>110</u>	<u>681,024</u>

<i>(Millions of bolivars)</i>	Accumulated depreciation			Fully depreciated write-offs	Other	Translation adjustment	Balances at June 30, 2007
	Balances at December 31, 2006	Additions	Withdrawals				
Buildings and facilities	(103,531)	(6,911)	70	-	2,059	(6)	(108,319)
Office furniture and equipment	(181,054)	(19,288)	1	7,249	35	2	(193,055)
Vehicles	(1,774)	(489)	35	-	(2)	-	(2,230)
Other property	<u>-</u>	<u>(709)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(709)</u>
Total	<u>(286,359)</u>	<u>(27,397)</u>	<u>106</u>	<u>7,249</u>	<u>2,092</u>	<u>(4)</u>	<u>(304,313)</u>

At June 30, 2007, property and equipment and other assets include Bs 31,525 million and Bs 7,508 million, respectively, related to the acquisition of a corporate airplane (Note 11). The useful life assigned to this asset is 10 years.

During the six-month period ended June 30, 2007, MERCANTIL recorded depreciation expense of Bs 27,397 million (Bs 22,936 million during the six-month period ended December 31, 2006), shown in the consolidated statement of income under operating expenses.

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At June 30, 2007, buildings, facilities and land for Bs 154,424 million have an estimated market value of Bs 724,036 million, based on valuations performed by independent appraisers in December 2005.

Below is a summary of the useful lives assigned to property and equipment:

	Useful life (Years)	Remaining useful life (Years)
Buildings and facilities	40	24
Office furniture and equipment	4-10	2
Other property	10	10

11. Other Assets

Other assets comprise the following:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Goodwill		
Interbank, C.A. (Banco Universal), net of accumulated amortization of Bs 42,648 million (Bs 39,367 million at December 31, 2006)	88,575	91,856
Florida Savings Bank, net of accumulated amortization of Bs 2,201 million (Bs 1,181 million at December 31, 2006)	38,443	39,337
C.A. Seguros Orinoco, net of accumulated amortization of Bs 5,835 million (Bs 5,304 million at December 31, 2006)	13,768	14,298
Seguros Mercantil, C.A., net of accumulated amortization of Bs 1,397 million (Bs 1,296 million at December 31, 2006)	2,593	2,693
Todo 1 Services, Inc., net of accumulated amortization of Bs 3,291 million (Bs 123 million at December 31, 2006)	—	<u>3,168</u>
	143,379	151,352
Transactions with securities in process of settlement	664,461	117,802
Insurance premiums receivable	123,218	105,160
Deferred expenses, net of accumulated amortization of Bs 73,611 million (Bs 61,077 million at December 31, 2006)	72,240	61,628
Prepaid expenses	43,979	25,411
Deferred income tax (Note 17)	40,667	41,128
Shopping mall rights	39,191	39,191
Pending items	33,273	38,225
Advances for acquisition of personal and real property (Note 10)	21,283	2,612
Systems development, net of accumulated amortization of Bs 86,717 million (Bs 83,081 million at December 31, 2006)	18,330	15,798
Prepaid taxes, insurance and other prepaid expenses	14,254	40,504
Premiums receivable from the Venezuelan government	7,786	7,367
Prepaid advertising	7,905	4,964
Accounts receivable from other credit card issuing institutions	6,541	18,054
Adjustment to market value of securities under spot agreements (Note 23)	(5,147)	189
Stationery and office supplies	2,798	4,385
Cross Currency Swap valuation (Notes 15 and 23)	642	30
Other	<u>48,323</u>	<u>59,831</u>
	1,283,123	733,631
Allowance for estimated losses on other assets	<u>(10,203)</u>	<u>(7,968)</u>
	<u>1,272,920</u>	<u>725,663</u>

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In 2000, 2001 and 2006, MERCANTIL acquired a majority shareholding in a commercial bank in Venezuela (Interbank, C.A.), an insurance company (C.A. Seguros Orinoco) and a bank in Florida, U.S.A. (Florida Savings Bank), giving rise to goodwill of Bs 131,223 million, Bs 19,600 million and Bs 40,170 million, respectively. These three companies were later merged into Banco Mercantil, Seguros Mercantil and Commercebank, respectively. To acquire Seguros Orinoco, former shareholders provided guarantees covering a 10-year period for recovery of certain assets and resolution of certain contingencies.

During the six-month period ended June 30, 2007, amortization of goodwill in respect of equity acquired in Todo 1 Services, Inc. was completed.

The balance receivable from the Venezuelan government is mainly in respect of April, May and June 2007 premiums on medical insurance policies (hospitalization, surgery and maternity), included under income from insurance premiums for the six-month period.

In June 2006 the subsidiary Banco Mercantil sold land to a third party at a market value of Bs 39,191 million. This land will be developed into a shopping mall within approximately three years. MERCANTIL simultaneously acquired 20% of the premises at the same price to be used as its main office and other facilities.

The balance of pending items includes mainly operations conducted in the normal course of business during the last days of the month that are being identified and have not yet been definitively recorded. Most of these operations clear during the first few days of the following month. Deposits with these same characteristics are included under other liabilities (Note 15).

During the six-month period ended June 30, 2007, MERCANTIL recorded amortization expense of Bs 18,840 million (Bs 14,597 million during the six-month period ended December 31, 2006), shown in the consolidated statement of income under operating expenses.

12. Deposits

Deposits comprise the following:

Type of deposit

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
Non-interest-bearing checking accounts	6,053,031	21	5,128,745	20
Interest-bearing checking accounts	7,512,770	26	6,221,425	25
Savings accounts	7,463,305	26	7,160,491	28
Time deposits	<u>7,903,657</u>	<u>27</u>	<u>6,736,211</u>	<u>27</u>
	<u>28,932,763</u>	<u>100</u>	<u>25,246,872</u>	<u>100</u>

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Time deposits by maturity

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
Up to 30 days	3,559,776	45	3,233,495	48
31 to 60 days	879,532	11	759,052	11
61 to 90 days	577,807	7	568,934	8
91 to 180 days	758,760	10	530,802	8
181 to 360 days	399,772	5	458,104	7
Over 360 days	<u>1,728,010</u>	<u>22</u>	<u>1,185,824</u>	<u>18</u>
	<u>7,903,657</u>	<u>100</u>	<u>6,736,211</u>	<u>100</u>

Deposits bear interest at the rates shown below:

	<u>June 30, 2007</u>				<u>December 31, 2006</u>			
	Deposits in bolivars		Deposits in U.S. dollars		Deposits in bolivars		Deposits in U.S. dollars	
	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate
	%	%	%	%	%	%	%	%
Interest-bearing checking accounts	0.50	5.00	0.10	5.60	0.50	5.00	0.10	5.60
Savings deposits	6.50	7.00	0.10	5.50	6.50	7.00	0.10	5.50
Time deposits	10.00	10.75	0.15	6.57	10.00	10.75	0.15	6.57

At June 30, 2007, deposits include Bs 1,229,399 million (Bs 828,885 million at December 31, 2006) from the Venezuelan government and other government entities, equivalent to 4.2% of total deposits (3.3% at December 31, 2006).

13. Debt Authorized by the Venezuelan Securities and Exchange Commission

At June 30, 2007, MERCANTIL has issued by public offering debenture bonds and commercial paper with the following characteristics:

a) Debenture bonds

(Millions of bolivars)	Amount of issue	Pending issuance (Note 23)	Amount placed	Date of issue	Term (Years)	Percentage of return on TAM (*)
						%
Issue 2004-IV	30,000	-	28,871	November 2004, March and May 2005	3	91
Issue 2005-I	35,000	-	35,000	November and December 2005	3	88
Issue 2006-I	60,000	-	60,000	November 2006	2	8.25 fixed rate
Issue 2006-II	40,000	-	40,000	November 2006	4	76
Issue 2007-I	<u>100,000</u>	<u>1,803</u>	<u>98,197</u>	May and June 2007	4	72.50
	<u>265,000</u>	<u>1,803</u>	262,068			
Bonds acquired by subsidiaries			<u>(41,048)</u>			
			<u>221,020</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 Banco Central de Venezuela (BCV).

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b) Commercial paper

<i>(Millions of bolivars)</i>	Amount of issue	Pending issuance (Note 23)	Amount placed	Date of issue	Term (Days)	Discount %
Issue 2006-I						
Series III	10,000	-	10,000	September 2006	360	7.00
Series IV	20,000	-	20,000	October 2006	339	6.75
Series V	10,000	-	10,000	October 2006	311	6.75
Series VI	20,000	-	20,000	November 2006	279	6.75
Series VII	20,000	-	20,000	February 2007	233	6.75
Series VIII	20,000	-	20,000	April 2007	120	6.75
Issue 2007-I						
Series I	<u>100,000</u>	<u>80,000</u>	<u>20,000</u>	May 2007	360	7.25
	<u>200,000</u>	<u>80,000</u>	<u>120,000</u>			

MERCANTIL 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.

14. Financial Liabilities

Financial liabilities are classified by type and maturity as follows:

<i>(Millions of bolivars)</i>	June 30, 2007			December 31, 2006		
	Up to one year	More than one year	Total	Up to one year	More than one year	Total
Liabilities with Venezuelan banks and savings and loan institutions						
Credit balances with correspondent banks	60,849	-	60,849	49,127	-	49,127
Loans granted by Venezuelan financial institutions, with annual interest at between 8% and 14.42% (between 8% and 13.59% at December 31, 2006)	<u>158,841</u>	<u>100,000</u>	<u>258,841</u>	<u>218,599</u>	<u>100,000</u>	<u>318,599</u>
	<u>219,690</u>	<u>100,000</u>	<u>319,690</u>	<u>267,726</u>	<u>100,000</u>	<u>367,726</u>
Liabilities with foreign banks and savings and loan institutions						
New York office mortgage loan of US\$5,783,610, with 9.63% fixed annual interest	-	12,202	12,202	-	12,403	12,403
Federal Home Loan Bank, with a par value of US\$84,317,769, with annual interest at between 3.10% and 5.90% (US\$109,250,000 and annual interest at between 3.10% and 5.90% at December 31, 2006)	2,290	178,538	180,828	162,990	71,308	234,298
Other	<u>1,678</u>	<u>-</u>	<u>1,678</u>	<u>377</u>	<u>-</u>	<u>377</u>
	<u>3,968</u>	<u>190,740</u>	<u>194,708</u>	<u>163,367</u>	<u>83,711</u>	<u>247,078</u>
Direct financial liabilities						
Short sale of securities at par value of US\$42,670,338, with annual interest at between 4.57% and 6.47% (par value of US\$138,354,240, with annual interest at between 4.44% and 5.94% at December 31, 2006)	-	91,511	91,511	-	296,714	296,714
Securities loan agreement	<u>187,723</u>	<u>-</u>	<u>187,723</u>	<u>98,572</u>	<u>-</u>	<u>98,572</u>
	<u>187,723</u>	<u>91,511</u>	<u>279,234</u>	<u>98,572</u>	<u>296,714</u>	<u>395,286</u>
Liabilities under repurchase agreements						
Liabilities under repurchase agreements, with a par value of US\$267,000,000, and annual interest at between 3.66% and 5.51% (US\$271,059,000, with annual interest at between 3.66% and 5.51% at December 31, 2006)	-	572,608	572,608	-	581,313	581,313
Other liabilities						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	3,756	3,756	-	4,434	4,434
Liabilities with credit card points of sale	483	-	483	2,549	-	2,549
Liabilities in respect of letters of credit	175,236	-	175,236	137,231	-	137,231
Other	<u>267</u>	<u>340</u>	<u>607</u>	<u>266</u>	<u>734</u>	<u>1,000</u>
	<u>175,986</u>	<u>4,096</u>	<u>180,082</u>	<u>140,046</u>	<u>5,168</u>	<u>145,214</u>
	<u>587,367</u>	<u>958,955</u>	<u>1,546,322</u>	<u>669,711</u>	<u>1,066,906</u>	<u>1,736,617</u>

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Maturities of financial liabilities are as follows:

Up to one year

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
Up to 30 days	290,084	49	228,729	33
31 to 60 days	151,575	26	68,225	10
61 to 90 days	31,531	5	21,103	3
91 to 180 days	104,177	18	91,918	14
181 to 270 days	10,000	2	30,000	5
271 to 360 days	-	-	<u>229,736</u>	<u>35</u>
Total	<u>587,367</u>	<u>100</u>	<u>669,711</u>	<u>100</u>

More than one year

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
2007	-	-	203,999	19
2008	99,886	10	65,475	6
2009	82,720	9	136,410	13
2010 and beyond	<u>776,349</u>	<u>81</u>	<u>661,022</u>	<u>62</u>
Total	<u>958,955</u>	<u>100</u>	<u>1,066,906</u>	<u>100</u>

At June 30, 2007, MERCANTIL has securities loan agreements, represented by National Public Debt Bonds of the Bolivarian Republic of Venezuela with yields between 1% and 3% (Treasury Notes of the Bolivarian Republic of Venezuela with yields between 1% and 5% at December 31, 2006).

Liabilities under repurchase agreements

Below is a summary of liabilities under repurchase agreements:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Balance at period-end	572,608	581,313
Fair value of financial instruments (1)	572,608	581,313
Total maximum balance outstanding at the end of any month of the period	572,608	581,313
Average balance for the six-month period	488,611	427,530

(1) Based on present value of estimated future cash flows.

Weighted average interest rate

	%
For the six-month period	
In foreign currency	4.70
Interest rate at period-end	
In foreign currency	4.75

Liabilities under repurchase agreements are mainly in respect of investments assigned by the subsidiary Commercebank, N.A. during the normal course of business.

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15. Other Liabilities

Other liabilities comprise the following:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Pending items	641,576	205,942
Reserves for insurance operations (Note 2-o)	548,841	415,348
Cashier's checks issued to clients	293,843	178,657
Provision for contingencies and other (Note 31)	178,033	174,689
Personnel profit sharing and bonuses	109,889	26,501
Accrued expenses	100,774	136,793
Taxes collected and withheld	99,725	82,767
Other demand liabilities	86,259	59,918
Provisions for taxes payable (Note 17)	58,092	69,858
Deferred interest	45,645	44,553
Provision for operating risks	35,995	41,982
Labor contributions	21,781	18,612
Accounts payable to suppliers	17,252	12,557
Law on Narcotic and Psychotropic Substances	10,524	9,909
Science, Technology and Innovation Law	4,690	8,555
Supplementary Savings Plan (Note 18-a)	8,002	4,007
Unrealized gains	668	838
Cross Currency Swap valuation (Notes 11 and 23)	5,677	7
Other	<u>55,205</u>	<u>84,889</u>
	<u>2,322,471</u>	<u>1,576,382</u>

Pending items mainly include commitments acquired by Commercebank, N.A. in respect of security transactions pending settlement at period-end, which clear during the first days of July 2007.

At June 30, 2007, MERCANTIL maintains provisions for operating risks of Bs 35,995 million (Bs 41,982 million at December 31, 2006) determined on the basis of methodologies for risk management assessment, measurement and control. Provisions for contingencies and other operating risks are recorded in the consolidated statement of income under other operating expenses (Note 20).

A provision of Bs 4,690 million (Bs 8,555 million at December 31, 2006) has been set aside in respect of the 0.5% contribution of gross income obtained in the country during the preceding year required by the Law on Science, Technology and Innovation.

At a Special Shareholders' Meeting of the subsidiary Holding de Inversión Mercantil de Colombia, S.A. held in December 2006, approval was granted to liquidate this subsidiary and distribute the remainder among shareholders. The amount to cover certain administrative and labor contingencies was calculated at Bs 2,301 million. A reserve of Bs 470 million under a trust fund agreement was provided for to cover undetermined contingencies and liquidator fees, among others.

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16. Subordinated Debt

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

Issue date	Maturity date	Annual interest %	Original amount in millions of US\$	Balance at June 30, 2007 in millions of US\$	June 30, 2007 and December 31, 2006, equivalent in millions of bolivars
June 1998	June 2028	8.90	40	28	59,684
September 2000	September 2030	10.60	15	15	32,169
March 2001	June 2031	10.18	10	10	21,446
July 2002	July 2032	LIBOR + 3.65	10	10	21,446
December 2002	January 2033	LIBOR + 3.35	9	9	19,838
April 2003	April 2033	LIBOR + 3.25	8	8	17,157
March 2004	April 2034	LIBOR + 2.85	5	5	10,723
September 2006	December 2038	LIBOR + 1.75	25	25	53,615
December 2006	December 2036	LIBOR + 1.75	15	15	<u>32,169</u>
					<u>268,247</u>

Commercebank Holding Corporation has the option of deferring interest payment on these liabilities for up to 10 six-month periods.

17. Taxes

Tax expense comprises the following:

<i>(Millions of bolivars)</i>	<u>Six-month periods ended</u>	
	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Taxes		
Current		
In Venezuela	56,697	38,027
Abroad	<u>24,632</u>	<u>27,248</u>
	<u>81,329</u>	<u>65,275</u>
Deferred		
In Venezuela	3,387	(1,377)
Abroad	<u>62</u>	<u>4,674</u>
	<u>3,449</u>	<u>3,297</u>

Taxes in Venezuela

Venezuelan Income Tax Law

This Law contemplates, among other things, regulations concerning a proportional tax on dividends, annual inflation adjustment, worldwide income taxation, fiscal transparency regulations and transfer pricing.

The tax year of MERCANTIL ends on December 31. For the six-month period ended June 30, 2007, the main differences between book income and taxable income arise from the net effect of the annual inflation adjustment, income from shareholdings, provisions and accruals, nontaxable income and the

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net effect of tax-exempt income from National Public Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela.

At December 31, 2006, MERCANTIL and its subsidiaries have tax loss carryforwards of Bs 99,458 million, with sources and maturities as shown below:

<i>(Millions of bolivars)</i>	Territorial	Extraterritorial	Total global
Tax loss	37,952	61,506	99,458
Maturities			
2007	20,240	5,366	25,606
2008	721	39,979	40,700
2009	16,991	16,161	33,152

The aforementioned amount mainly comprises tax losses of MERCANTIL (Bs 36,093 million), Inversiones y Valores Mercantil V, C.A. (Bs 49,031 million), Holding Mercantil Internacional, C.A. (Bs 6,314 million) and Merinvest, C.A. (Bs 6,097 million).

The subsidiary Banco Mercantil computed taxable income for the year ended December 31, 2006, giving rise to a tax expense of Bs 59,748 million. The following is a reconciliation between book expense and tax expense for Banco Mercantil:

	Year ended December 31, 2006
Statutory tax rate	<u>34%</u>
<i>(Millions of bolivars)</i>	
Notional tax expense based on book income computed at the tax rate in effect	152,976
Difference between notional tax expense and actual tax expense	
Net effect of shareholdings	(28,663)
Effect of the annual inflation adjustment	(75,870)
Net effect of National Public Debt Bonds exemption	(19,364)
Net effect of sale of shares	(3,179)
Nondeductible provisions	
Loan portfolio, net	20,281
Other provisions	2,269
Other	<u>(496)</u>
Effect of applying tax rate to taxable income in Venezuela	47,954
Effect of applying tax rate to foreign-earned taxable income	<u>11,794</u>
Effect of applying tax rate to taxable income in Venezuela, plus foreign-earned taxable income	<u>59,748</u>

Business assets tax

Business assets tax was a minimum tax, complementary to income tax. It was calculated as 1% of the simple average of assets, based on amounts at the beginning and end of the year. In August 2004 the Business Assets Tax Law was repealed. At December 31, 2006, MERCANTIL and its subsidiaries have excess business assets tax of Bs 238 million, available for offsetting against income tax, which may be used until the year ending December 31, 2007 (Bs 490 million at December 31, 2006).

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Transfer pricing

Income tax regulations in Venezuela and the United States of America set out the rules applicable to transfer pricing. According to these rules, taxpayers that conduct transactions with related parties abroad are required to calculate income, costs and deductions applying certain methodologies set out in each country's regulations. MERCANTIL and the subsidiaries to which these rules apply are required to keep supporting documentation and information related to transfer pricing calculation for these transactions.

Taxes in the United States of America

Federal taxes

Federal tax legislation in the United States of America establishes, among other things, tax on dividends, worldwide income taxation and transfer pricing.

State taxes

Companies in the United States of America must pay taxes in the state where they operate. In 2006 these companies paid taxes in Florida, New York, Texas and Delaware. Tax computation depends on laws in each state. Payments of state tax are considered credits against federal tax.

18. Employee Benefit Plan

a) Supplementary Savings Plan (Plan de Ahorro Previsional Complementario Mercantil)

In 2006 MERCANTIL implemented a plan for its employees and those of its Venezuelan subsidiaries corresponding to a defined contribution plan entitled "Plan de Ahorro Previsional Complementario Mercantil" (Supplementary Savings Plan) which replaced the defined benefit plan entitled "Plan Complementario de Pensiones de Jubilación" (Supplementary Defined Benefit Pension Plan). Active employees have the option of subscribing to the new plan or remaining in the existing defined benefit plan.

In the Supplementary Savings Plan, employees contribute between 1% and 5% of their basic monthly salary and MERCANTIL doubles this amount up to a maximum of 10%. Both contributions are recorded in individual accounts on behalf of each employee. For the six-month period ended June 30, 2007, MERCANTIL and its subsidiaries recorded an expense of Bs 11 billion (Bs 12 billion for the six-month period ended December 31, 2006) in respect of this plan.

b) Supplementary retirement pension plan

The supplementary retirement pension plan is 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.

c) Post-retirement benefits

The Supplementary Retirement Pension plan and the Supplementary Savings Plan include certain additional post-retirement benefits for employees, mainly medical insurance, with costs and obligations determined based on actuarial methods and recorded in the statement of income for the period.

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At June 30, 2007 and December 31, 2006, assets, obligations and results of the supplementary pension and post-retirement benefit plans, as well as long-term assumptions used, are as follows:

<i>(Millions of bolivars)</i>	<u>Supplementary pension plan</u>	<u>Post-retirement benefits</u>	
	December 31, 2006	June 30, 2007	December 31, 2006
Variation of projected benefit obligation			
Benefit obligation at January 1	69,580	8,267	8,267
Service cost	1,202	727	727
Interest cost	5,362	1,564	1,564
Actuarial gain (loss)	16,772	1,475	(1,505)
Plan reduction (gain)	(8,919)	-	-
Payment of obligation for transfer of assets	(8,701)	-	-
Transfer of obligations	(39,780)	-	-
Plan modification	-	9,770	9,770
Paid benefits	<u>(3,340)</u>	<u>(908)</u>	<u>(908)</u>
Projected benefit obligation	<u>32,176</u>	<u>20,895</u>	<u>17,915</u>
Variation in plan assets			
Fair value of assets at the beginning	53,077	8,267	8,267
Yield on assets	5,369	904	904
Company contribution	9,038	5,529	5,529
Payment of obligation for transfer of assets	(7,453)	-	-
Transfer of obligations	(24,456)	(5,092)	(5,092)
Paid benefits	<u>(3,340)</u>	<u>(908)</u>	<u>(908)</u>
Fair value of plan assets at the end	<u>32,235</u>	<u>8,700</u>	<u>8,700</u>
Financial position at period-end			
Present value of obligations (DBO)	(32,176)	(20,895)	(17,915)
Assets of external fund supporting the plan	<u>32,235</u>	<u>8,700</u>	<u>8,700</u>
Projected obligation (less assets)	59	(12,195)	(9,215)
Unrecognized past service cost	-	9,215	9,215
Unrecognized actuarial gain (loss)	<u>24,986</u>	<u>1,310</u>	<u>(1,670)</u>
	<u>25,045</u>	<u>(1,670)</u>	<u>(1,670)</u>
Components of net benefit cost for the period			
Service cost	1,202	727	727
Interest cost	5,362	1,564	1,564
Expected yield from plan assets	(4,086)	(622)	(621)
Effect of decrease and payment	(5,357)	-	-
Amortization of unrecognized past service cost	-	555	555
Amortization of actuarial gain	<u>3,962</u>	<u>-</u>	<u>-</u>
Net benefit cost for the period	<u>1,083</u>	<u>2,224</u>	<u>2,225</u>

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Assumptions used to determine benefit obligations for the six-month periods ended:

	<u>Supplementary</u> <u>pension plan</u>	<u>Post-retirement</u> <u>benefits</u>	
	December 31, 2006 %	June 30, 2007 %	December 31, 2006 %
Discount rate	11.00	11.00	11.00
Salary increase	12.00	12.00	12.00
Yield on assets			
Bolivars	15.00	15.00	15.00
U.S. dollars	6.50	6.50	6.50
Increase of medical expense for the six-month period	13.50	13.50	13.50

Plan costs for 2007 are estimated at Bs 14,384 million.

d) Long-term stock option plan

MERCANTIL 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 awarded 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 MERCANTIL in order to exercise their purchase options within the time periods established. If they are not, or if the allotted shares are not purchased within the established time periods, the entitlements are cancelled. At June 30, 2007, 208 employees are participating in this plan. For the six-month period ended June 30, 2007, Bs 3,500 million (Bs 1,400 million during the six-month period ended December 31, 2006) was contributed for this plan.

Below is a breakdown of shares included in the plan at June 30, 2007, which are deposited in the Seguros Mercantil, C.A. trust fund:

Phase	Approval date	<u>Number of shares (4)</u>		<u>Option price</u>		End of term for option exercise
		Class "A"	Class "B"	Class "A"	Class "B"	
(In bolivars)						
III	2001	1,931,349 (1)	1,616,615 (1)	700	600	2006, 2007 and 2008
IV	2004	8,466,674 (2)	7,057,990 (2)	2,500	2,500	2009 and 2010
V	2007	3,088,236 (3)	5,408,328 (3)	4,765	4,765	2010
Available shares		<u>748,302 (4)</u>	<u>502,476 (4)</u>			
Total shares in trust fund		<u>14,234,561 (5)</u>	<u>14,585,409 (5)</u>			

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

(2) Phase announced to employees in March 2007. This Phase includes two groups of options for eligible employees. In the first group, 3,540,534 Class "A" shares and 2,951,466 Class "B" shares were granted to be exercisable over a nine-month vested period. In the second group, 779,312 Class "A" shares and 649,688 Class "B" shares were granted to be exercisable over a one year and nine months vested period. Once exercised, the sale of 50% of these options will be restricted while the employees are working at MERCANTIL.

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(3) Phase approved by the Board of Directors' Compensation Committee in January 2007. Under development.

(4) Available shares.

(5) Includes stock dividends.

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

	<u>Shares awarded</u>		
	Class "A"	Class "B"	Total
Balance at June 30, 2006	4,242,225	3,465,595	7,707,820
Options exercised	<u>(1,022,740)</u>	<u>(857,179)</u>	<u>(1,879,919)</u>
Balance at December 31, 2006	3,219,485	2,608,416	5,827,901
Options awarded	6,047,690	5,041,497	11,089,187
Stock dividends	3,291,734	2,747,020	6,038,754
Options exercised	<u>(2,160,886)</u>	<u>(1,722,328)</u>	<u>(3,883,214)</u>
Balance at June 30, 2007	<u>10,398,023</u>	<u>8,674,605</u>	<u>19,072,628</u>

Of the options in effect at June 30, 2007, a total of 3,547,964 options were available to be exercised (5,827,901 options at December 31, 2006).

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

<i>(In bolivars)</i>	Share volatility %	Risk-free rate %	Time (Years)	Option value
Phase I	78.6	28.6	7.8	7,721
Phase II	68.7	21.0	6	386
Phase III	35.8	26.9	7.5	1,458
Phase IV	31.4	8.3	2.4	3,095

In connection with the options awarded during the six-month period ended June 30, 2007, MERCANTIL recognized expenses of Bs 7,371 million in the statement of income based on the market value of options at the award date.

In January 2007 the terms and characteristics of the General Stock Purchase Plan were defined, whereby employees of MERCANTIL and its subsidiaries in Venezuela, excluding employees eligible for the long-term stock option plan, may purchase stock of MERCANTIL. In December 2006 MERCANTIL contributed Bs 3,600 million for the purchase of shares. This plan was implemented in February 2007 and MERCANTIL is preferentially entitled to purchase those shares at market value when the employee decides to sell them. Employees have certain sales restrictions during a defined period.

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19. Other Income

Other income comprises the following:

<i>(Millions of bolivars)</i>	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Commissions on banking services	25,609	35,595
Interest on financing of insurance policies	20,387	20,561
Decrease in allowances	19,164	54,192
Recovery of loans recorded as uncollectible (Note 6)	17,281	43,534
Commissions on administration of housing savings fund	12,388	13,745
Commissions for foreign currency administration	15,202	12,785
Commissions on advisory services	8,585	6,709
Commissions on drafts and transfers	9,420	9,145
Gain on sale of available-for-sale assets (Note 9)	5,583	8,634
Income from other accounts receivable	2,930	2,998
Decrease in allowance for losses on loan portfolio (Note 6)	3,959	1,848
Commissions on administration of investment portfolio	190	1,331
Income (loss) from transactions with derivative instruments (Note 23)	(5,614)	1,111
Other	<u>26,245</u>	<u>35,968</u>
	<u>161,329</u>	<u>248,156</u>

20. Other Operating Expenses

Other operating expenses comprise the following:

<i>(Millions of bolivars)</i>	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Professional fees and other external services	66,229	66,542
Advertising and marketing	44,784	52,775
Communications	48,171	45,133
Taxes and contributions	36,015	24,888
Service commissions	34,456	35,869
Robbery, assault and fraud	14,572	7,966
Provisions for other assets	13,760	25,899
Office supplies	11,144	11,163
Donations	3,190	10,029
Transportation and security	8,235	9,299
Public relations and representation expenses	6,153	5,996
Provision for Law on Science, Technology and Innovation (Note 15)	774	2,490
Insurance expenses	3,038	2,489
Provisions for operating risks and other contingencies	2,200	38,102
Provision for available-for-sale assets (Note 9)	117	369
Cross Currency Swap Valuation (Note 23)	5,689	-
Other	<u>26,729</u>	<u>22,671</u>
	<u>325,256</u>	<u>361,680</u>

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21. Shareholders' Equity

a) Capital stock and authorized capital

At June 30, 2007, the subscribed and paid-in capital of MERCANTIL amounts to Bs 150,497 million, represented by 1,003,310,338 shares divided into 582,459,224 Class "A" common shares and 420,851,114 Class "B" common shares, with limited voting rights (approval of financial statements and appointment of statutory auditors), with a par value of Bs 150 each. Of these shares, 3,689,652 Class "A" common shares and 2,015,092 Class "B" common shares constitute treasury stock in connection with the current repurchase program of MERCANTIL shares. There are 997,605,594 shares outstanding, 578,769,572 Class "A" shares and 418,836,022 Class "B" common shares (at December 31, 2006, 718,112,169 shares, divided into 417,003,636 Class "A" common shares and 301,108,533 Class "B" common shares with limited voting rights. Of these shares 2,243,014 Class "A" common shares and 675,714 Class "B" common shares constitute treasury stock in connection with the current repurchase program of MERCANTIL shares. Outstanding shares amount to 414,760,622 Class "A" and 300,432,819 Class "B", with a par value of Bs 150 each).

Authorized capital stock of MERCANTIL at June 30, 2007 is Bs 300,993 million (Note 23).

b) Public offering of MERCANTIL shares

At a Shareholders' Meeting held in March 2007, it was resolved to increase subscribed and paid-in capital stock to Bs 215,434 million through the issue of a maximum of 718 million Class "A" or "B" common shares with a par value of Bs 150 each. Within this limit, the Board of Directors approved a public offering of up to 45 million shares (4.5% of capital stock) at Bs 3,350 each, which was authorized by the Venezuelan Securities and Exchange Commission. On July 25, 2007, MERCANTIL opened the Public Offering of Shares which concluded on August 7, 2007 and the issue was fully placed. Transfer of shares will terminate on August 31, 2007. Funds obtained will be used to broaden bank business, insurance and investment banking (Note 23).

c) Stock repurchase program

In May 2000 a repurchase program of MERCANTIL shares was approved, within the limits set out by the 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.

The repurchase program has been implemented in 15 six-month phases. Below is a summary of the applicable conditions for the current phases:

<i>(In bolivars)</i>	Date of approval at Shareholders' Meetings	Maximum authorized purchase price per share	Average purchase price	Repurchased and unredeemed shares
Phases				
Twelfth	September 2005	6,500	2,943.76	1,091,647
Thirteenth	March 2006	7,500	3,639.90	1,454,941
Fourteenth	September 2006	9,000	5,279.16	2,570,156
Fifteenth	March 2007	10,000	3,620.96	<u>588,000</u>
Repurchased and unredeemed shares (0.57% of capital stock)				<u>5,704,744</u>

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In October 2001, January 2003, February 2004 and October 2005, approval was given to redeem 75,268,318 shares for Bs 164,789 million; these were acquired up to the eleventh phase of the aforementioned repurchase program and were held as treasury stock in conformity with the Capital Markets Law. These shares were redeemed in December 2001, February 2003, June 2004 and February 2006. The redemption performed in February 2006 resulted in a reduction of Bs 5,635 million in MERCANTIL's paid-in capital; at June 30, 2006, the remaining balance is Bs 107,717 million. Consequently, all treasury stock acquired during the eighth, ninth, tenth, and eleventh phases of this program was redeemed.

d) Dividends declared

In cash

Type of dividend	Date of approval at Shareholders' Meeting	Amount per share Bs	Frequency or payment date
Ordinary	March 2006	12	August 2006
Special	March 2006	71	September 2006
Ordinary	March 2006	12	November 2006
Ordinary	August 2006	12	February 2007
Ordinary	March 2007	12	May 2007
Special	March 2007	30	May 2007
Ordinary	March 2007	12	August 2007
Ordinary	March 2007	12	November 2007

In shares

Date of approval at Shareholders' Meeting	Dividend date	Number of shares issued	Amount in millions Bs	Dividend proportion
March 2007	May 2007	285,198,170	42,780	2 shares for every 5 held

In accordance with the Capital Markets Law, MERCANTIL is required to pay dividends to shareholders of at least 50% of its base annual income, of which at least 25% must be paid in cash each year. The minimum annual cash dividend is recorded as a liability

Below is the calculation method used to determine the basis for dividend distribution to shareholders in accordance with CNV rules:

	Year ended December 31, 2006
<i>(Millions of bolivars)</i>	
Consolidated net income	555,734
Less	
Equity in the results of subsidiaries	611,720
Add	
Dividends collected	<u>122,743</u>
Base income for dividend distribution	<u><u>66,757</u></u>

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Retained earnings at June 30, 2007 include Bs 454,883 million available for dividend distribution; the remaining balance derives from retained earnings of subsidiaries and will be available for distribution once these subsidiaries declare and pay dividends.

e) Pre-stabilizing mechanism of MERCANTIL shares

MERCANTIL kept a price-stabilizing mechanism for its shares. This mechanism is aimed at rendering the price-forming process of shares more efficient and giving most MERCANTIL shareholders the opportunity to participate in a market of greater liquidity and depth capable of absorbing higher levels of supply and demand for shares.

The mechanism approved by the Venezuelan Securities and Exchange Commission (CNV), in effect until January 28, 2007, was implemented through the Caracas Stock Exchange (BVC). Transactions were conducted at market prices; up to 5% of MERCANTIL capital stock was acquired. All shares acquired under this mechanism must be sold during their term. During the six-month period ended December 31, 2006, 114,348 shares were acquired.

f) Other

The statutes include a shareholders' rights plan, which stipulates that, under certain circumstances, shareholders holding shares for more than 180 days are entitled to subscribe shares at par value (Bs 150 per share). This measure follows the defensive corporate best practices in use by companies in developed nations to maximize the value available to shareholders in case of a non-negotiated purchase offer and thus, strengthen their negotiating position in an event of this nature.

In addition, as part of these corporate best practices, the shareholders resolved to hold elections of members of the Board of Directors in phases and establish a qualified voting system for certain matters at Shareholders' Meetings.

A Foundation was incorporated abroad in 1986 with MERCANTIL and/or its shareholders as beneficiaries. The Foundation's Board of Directors decides, at its convenience, whether to transfer all or part of the Foundation's equity to MERCANTIL or its shareholders. At June 30, 2007, the Foundation has net equity of US\$756,100 (US\$754,259 at December 31, 2006), represented by securities at market value.

22. Financial Assets and Liabilities in Foreign Currency

The Venezuelan government established an exchange control regime in February 2003, coordinated, administered and controlled by the Commission for the Administration of Foreign Currency (CADIVI).

In July 2003 Exchange Agreement No. 4 was published regulating purchases in bolivars of securities issued by the Venezuelan government in foreign currency for which trading had been suspended until then. This regulation lays down: a) the exchange rate applicable to the purchase in bolivars of these securities on the primary market, as established in a previous regulation (Exchange Agreement No. 2), and b) that secondary trading of these securities in bolivars is not permitted until the Banco Central de Venezuela. (BCV) establishes the related regulations.

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On March 2, 2005, the Ministry of Finance and BCV established new official exchange rates, as from that date, of Bs 2,144.60/US\$1 (purchase) and Bs 2,150/US\$1 (sale) (formerly Bs 1915.20/US\$1 and Bs 1,920/US\$1, respectively).

MERCANTIL is currently applying to CADIVI to obtain currency for conversion to U.S. dollars at the official exchange rate for payment of dividends in respect of ADRs in circulation. At June 30, 2007, Bs 39,970 million (Bs 29,108 million at December 31, 2006) has been received in respect of 2006 and the six-month period ended June 30, 2007, shown under other liabilities (Note 15). Foreign currency in respect of dividends for 2006 was received in July 2007.

The consolidated balance sheet of MERCANTIL includes the following balances of financial assets and liabilities in foreign currency, denominated mainly in U.S. dollars, stated at the exchange rates described in Note 2-u:

<i>(Thousands of U.S. dollars)</i>	June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	56,921	57,753
Investment portfolio	3,363,275	2,908,496
Loan portfolio	3,123,215	3,002,974
Other assets	<u>365,498</u>	<u>105,395</u>
	<u>6,908,909</u>	<u>6,074,618</u>
Liabilities		
Deposits	4,824,640	4,123,289
Financial liabilities	482,300	587,721
Other liabilities	305,203	90,598
Subordinated debt	<u>125,080</u>	<u>125,080</u>
	<u>5,737,223</u>	<u>4,926,688</u>

During the six-month period ended June 30, 2007, net exchange gains resulting from foreign currency positions amounted to Bs 2,118 million (net losses of Bs 2,461 million during the six-month period ended December 31, 2006, mainly from the effect of translation of net assets of the Colombian subsidiaries under liquidation). Furthermore, during the six-month period ended June 30, 2007, gains from intermediation in foreign currency sales and purchases amounted to Bs 1,376 million (Bs 1,191 million during the six-month period ended December 31, 2006).

The estimated effect of the increase of every Bs 100/US\$1 in the exchange rate of Bs 2,144.60/US\$1 at June 30, 2007 would be an increase of Bs 690,891 million in assets and Bs 117,169 million in shareholders' equity.

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23. Memorandum Accounts

Memorandum accounts comprise the following:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Contingent debtor accounts		
Guarantees granted	543,791	540,802
Letters of credit	774,885	707,720
Lines of credit (Note 24)	1,668,156	1,685,870
Transactions with derivative instruments	790,203	698,393
Cross Currency Swap Contract (Notes 11 and 15)	83,121	21,369
Tourist industry sector loan commitments	106,263	122,428
Other contingencies	<u>537,355</u>	<u>355,240</u>
	<u>4,503,774</u>	<u>4,131,822</u>
Assets received in trust	<u>7,783,213</u>	<u>7,897,496</u>
Special trust services	<u>798,030</u>	<u>529,154</u>
Debtor accounts for other special trust services (Housing Mutual Fund)	<u>1,122,483</u>	<u>995,226</u>
Other debtor memorandum accounts		
Custody of values received	6,529,398	6,672,978
Collections	86,429	55,282
Guarantees received	16,593,067	13,585,917
Unused lines of credit	3,693,689	3,717,412
Publicly traded shares (Note 21)	150,497	118,988
Commercial paper pending issue (Note 13-b)	80,000	20,000
Debenture bonds pending issue (Note 13-a)	1,803	-
Other control accounts	<u>6,189,528</u>	<u>5,999,279</u>
	<u>33,324,411</u>	<u>30,169,856</u>
	<u>47,531,911</u>	<u>43,723,554</u>

Assets received in trust

Trust fund accounts include the following balances, according to the combined financial statements of the trust:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	106,787	185,695
Investment portfolio	4,951,493	5,200,836
Loan portfolio	2,250,021	2,035,246
Interest and commissions receivable	22,739	28,582
Assets received for administration	9,308	11,006
Other assets	<u>442,865</u>	<u>436,131</u>
Total assets	<u>7,783,213</u>	<u>7,897,496</u>
Liabilities		
Other accounts payable	13,620	16,303
Other liabilities	<u>70,832</u>	<u>68,224</u>
Total liabilities	84,452	84,527
Shareholders' equity	<u>7,698,761</u>	<u>7,812,969</u>
Total liabilities and shareholders' equity	<u>7,783,213</u>	<u>7,897,496</u>

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Debtor accounts from other special trust services (Housing Mutual Fund)

The Venezuelan Housing Policy Law stipulates that contributions made to the fund by employees and employers, deposited in financial or savings institutions legally authorized to grant mortgages, be used to build, remodel or purchase homes.

Securities under spot agreements

MERCANTIL purchases and sells securities under spot agreements at an established price. For the six-month period ended June 30, 2007, net losses from adjustment to market value of Bs 5,147 million (net gains of Bs 189 million for the six-month period ended December 31, 2006) are recorded in other assets and shareholders' equity. Spot transactions were settled within seven business days of the date of origin. Securities under spot agreements comprise the following:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Securities		
Purchase rights	316,023	112,597
Sale rights	<u>327,733</u>	<u>98,842</u>
	<u>643,756</u>	<u>211,439</u>

Derivative financial instruments

MERCANTIL enters into non-hedging futures contracts for the purchase and sale of securities at a fixed price. Net losses resulting from these contracts for the six-month period ended June 30, 2007 amounted to Bs 5,614 million (net gains of Bs 1,111 million during the six-month period ended December 31, 2006), shown under other income (Note 19).

MERCANTIL also enters into non-hedging futures contracts to purchase currency at a fixed price.

The status of open transactions with negotiable instruments is as follows:

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	Maturity	Millions of bolivars	Maturity
Futures contracts				
Exchange rates (foreign currency)				
Purchases	33,589	July and December 2007	11,661	January and November 2007
Securities				
Purchases	14,839	July 2007	162,076	January and February 2007
Sales	<u>62,714</u>	July and August 2007	<u>12,973</u>	January 2007
	<u>111,142</u>		<u>186,710</u>	

In December 2006 MERCANTIL exchanged securities worth US\$10 million denominated in U.S. dollars with a third party for securities denominated in bolivars for Bs 21,446 million. Simultaneously, MERCANTIL entered into a Cross Currency Swap Contract with the same institution that allows MERCANTIL to acquire US\$10 million at Bs 21,446 million in December 2007. At June 30, 2007, the difference between economic values of securities included in the contract resulted in a gain for MERCANTIL of approximately Bs 174 million and a loss of approximately Bs 5 million (gain of Bs 23 million at December 31, 2006), shown under other income. In addition, income and expenses of Bs 143 million and Bs 88 million, respectively, were recorded for interest coupons in respect of this contract.

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During the six-month period ended June 30, 2007, the subsidiary Banco del Centro, S.A. exchanged securities worth US\$29.7 million denominated in U.S. dollars with a third party for securities denominated in bolivars for Bs 63,750 million. Simultaneously, Banco del Centro, S.A. entered into a Cross Currency Swap Contract with the same institution that allows it to acquire US\$29.7 million at Bs 63,750 million in March 2012. At June 30, 2007, the difference between economic values of securities included in the contract resulted in a loss of Bs 5,601 million, shown under other operating expenses (Note 20).

Commercebank, N.A. uses derivative financial instruments (caps and swaps) to better manage interest rate risk. Although these derivative transactions or contracts are aimed at mitigating risks, in certain cases, they are not always accounted for with this purpose in mind. Consequently, changes in fair value of these contracts are computed and included in the consolidated statement of income.

In 1998 Commercebank, N.A. entered into a cap contract for a nominal amount of US\$18 million. This contract is for 10 years and requires the counterparty to pay Commercebank, 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 6.50% when LIBOR exceeds 6.50% in exchange for a single payment from the bank. At June 30, 2007 and December 31, 2006, the current amount of the contract was US\$8 million, maintaining assets of US\$0, representing the fair value of the contract.

Commercebank, N.A. entered into certain interest rate swap agreements during 2006. At June 30, 2007, Commercebank, N.A. has three swap agreements for US\$17 million, US\$10 million and US\$88 million.

MERCANTIL's exposure to credit loss is related to noncompliance by other parties with the terms laid down in the contracts, as well as variations in the price of securities and interest rates. MERCANTIL has a control environment that includes policies and procedures for rating exchange and interest rate risks and monitoring derivative financial instruments, as well as assessing credit risks of clients.

24. Credit-related Commitments

MERCANTIL has significant outstanding commitments related to letters of credit, guarantees granted, lines of credit and credit card limits to meet the needs of its clients and to manage its own risk resulting from interest rate variations. Since many of its credit limits may expire without being used, aggregate liabilities do not necessarily represent future cash requirements. Commitments to extend credit, letters of credit and guarantees granted by MERCANTIL are recorded under memorandum accounts.

Guarantees granted

After conducting a credit risk analysis, MERCANTIL provides guarantees to certain customers within their line of credit. These guarantees are issued to a beneficiary and may be executed if the customer fails to comply with the terms of the agreement. These guarantees earn annual commissions between 0.125% and 2% of their value. Commissions are recorded monthly while the guarantees remain in force.

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Letters of credit

Letters of credit usually mature within 90 days and are renewable. They are generally issued to finance a trade agreement for the shipment of goods from a seller to a buyer. MERCANTIL charges a fee of between 0.1% and 2% of the amount of the letter of credit and records the latter under assets once it is used by the customer. Unused letters of credit and other similar liabilities are included under memorandum accounts.

Lines of credit

MERCANTIL grants lines of credit to clients subject to prior credit risk assessment and obtention of any guarantees required by MERCANTIL. These agreements are for a specific period, provided that clients do not default on the terms set forth therein. However, MERCANTIL may exercise its option to cancel a credit commitment with a particular client at any time.

MERCANTIL issues renewable credit cards with limits for up to three years. However, it may exercise its option to cancel a credit commitment with a particular client at any time. Nominal credit card interest rates are variable for transactions in Venezuela and fixed for transactions in the United States of America.

MERCANTIL's exposure to credit loss in the event of noncompliance by clients with terms for credit extension, letters of credit and guarantees is represented by the notional contractual amounts of these credit-related instruments. Credit policies applied by MERCANTIL for these commitments are the same as those for granting loans.

MERCANTIL assesses individual customer eligibility before granting credit. The amount of collateral provided, if required by MERCANTIL, is based on customer credit assessment. The type of collateral varies, but may include accounts receivable, inventories, property and equipment, and investment securities.

25. Maturity of Financial Assets and Liabilities

Financial assets and liabilities at June 30, 2007 are classified as follows according to maturity:

<i>(Millions of bolivars)</i>	30 days	60 days	90 days	180 days	360 days	Over 360 days	Total
Assets							
Cash and due from banks	4,458,452	-	-	-	-	-	4,458,452
Investment portfolio	6,177,434	453,046	54,604	90,886	221,742	5,511,655	12,509,367
Loan portfolio	3,794,906	1,698,668	2,134,447	2,076,250	1,106,252	6,610,080	17,420,603
Interest and commissions receivable	189,514	-	-	-	-	-	189,514
Long-term investments	-	-	-	-	-	32,465	32,465
Total financial assets	<u>14,620,306</u>	<u>2,151,714</u>	<u>2,189,051</u>	<u>2,167,136</u>	<u>1,327,994</u>	<u>12,154,200</u>	<u>34,610,401</u>
Liabilities							
Deposits	24,588,882	879,532	577,807	758,760	399,772	1,728,010	28,932,763
Debt authorized by the Venezuelan Securities and Exchange Commission	341,020	-	-	-	-	-	341,020
Financial liabilities	290,084	151,575	31,531	104,176	10,000	958,956	1,546,322
Interest and commissions payable	42,936	-	-	-	-	-	42,936
Subordinated debt	-	-	-	-	-	268,247	268,247
Total financial liabilities	<u>25,262,922</u>	<u>1,031,107</u>	<u>609,338</u>	<u>862,936</u>	<u>409,772</u>	<u>2,955,213</u>	<u>31,131,288</u>

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26. Fair Value of Financial Instruments

Below are book and fair values of financial instruments maintained by MERCANTIL:

	June 30, 2007		December 31, 2006	
	Book value	Fair value	Book value	Fair value
<i>(Millions of bolivars)</i>				
Assets				
Cash and due from banks	4,448,452	4,448,452	3,819,614	3,819,614
Investment portfolio	12,509,367	12,516,039	11,959,221	11,960,118
Loan portfolio, net of provision	17,099,617	17,099,617	14,572,267	14,572,267
Interest and commissions receivable, net of provision	189,514	189,514	186,174	186,174
	<u>34,246,950</u>	<u>34,253,622</u>	<u>30,537,276</u>	<u>30,538,173</u>
Liabilities				
Deposits	28,932,763	28,932,763	25,246,872	25,246,872
Debt authorized by the Venezuelan Securities and Exchange Commission	341,020	341,020	259,087	259,087
Financial liabilities	1,546,322	1,546,322	1,736,617	1,736,617
Interest and commissions payable	42,936	42,936	37,130	37,130
Subordinated debt	268,247	268,247	268,247	268,247
	<u>31,131,288</u>	<u>31,131,288</u>	<u>27,547,953</u>	<u>27,547,953</u>
Memorandum accounts				
Contingent debtor accounts	2,835,619	2,835,619	2,445,952	2,445,952

The fair value of a financial instrument is defined as the amount for which a financial instrument could be exchanged between two knowledgeable, willing parties, other than in a forced transaction, involuntary liquidation or distress sale. Fair values for financial instruments with no available quoted market prices have been estimated using the present value of future cash flows of these financial instruments or other valuation techniques and assumptions. These techniques are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows, and the expectation of payments in advance. In addition, fair values presented do not purport to reflect the value of other income-generating activities or future business activities; that is, they do not represent the value of MERCANTIL as a going concern.

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

Short-term financial instruments

Short-term financial instruments, both assets and liabilities, are shown in the balance sheet at book value, which does not significantly differ from fair market value given their short-term maturity. These instruments include cash equivalents, interest-bearing deposits with other banks and commissions and interest receivable and payable, short-term interest-bearing deposits and short-term financial liabilities.

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. Investments in affiliates are shown at equity value (Note 8).

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Loan portfolio

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. Allowances are made for loans with some risk of recovery. Therefore, in management's opinion, the net book value of this loan portfolio approximates its fair value.

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. Certain time deposits and interest-bearing accounts, particularly variable-rate deposits, have also been valued at their carrying amounts due to their short-term maturity. Other fixed-rate deposits were not considered significant. The value of long-term relationships with depositors is not taken into account when estimating the fair values disclosed.

Financial liabilities

Short-term financial liabilities are shown at book value since they 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. Long-term financial liabilities are also shown at book value since most of them bear interest at variable rates.

Risk-based financial instruments recorded in memorandum accounts

The fair value of derivatives was calculated using their specific market prices, based on trading operations on the secondary market.

27. Geographic Segment Information

MERCANTIL's operations are distributed geographically as follows:

<i>(Millions of bolivars)</i>	<u>Six-month periods ended</u>	
	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Gross financial margin		
Venezuela	700,567	607,299
United States of America	205,212	188,408
Other	<u>13,109</u>	<u>10,058</u>
Total	<u>918,888</u>	<u>805,765</u>
Net financial margin, commissions and other income		
Venezuela	924,227	945,764
United States of America	220,358	198,517
Other	<u>4,248</u>	<u>5,056</u>
Total	<u>1,148,833</u>	<u>1,149,337</u>
Income before taxes and minority interests		
Venezuela	252,537	289,141
United States of America	78,045	73,549
Other	<u>(13,434)</u>	<u>(10,218)</u>
Total	<u>317,148</u>	<u>352,472</u>

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	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
Assets				
Venezuela	22,423,698	62	19,755,589	62
United States of America	12,816,244	35	10,908,283	34
Other	<u>945,888</u>	<u>3</u>	<u>1,053,095</u>	<u>4</u>
Total	<u>36,185,830</u>	<u>100</u>	<u>31,716,967</u>	<u>100</u>
Liabilities				
Venezuela	21,225,987	63	18,587,239	64
United States of America	11,436,285	34	9,741,702	33
Other	<u>794,435</u>	<u>3</u>	<u>798,603</u>	<u>3</u>
Total	<u>33,456,707</u>	<u>100</u>	<u>29,127,544</u>	<u>100</u>

28. Financial Information by Subsidiary

Below is a summary of the financial information by subsidiary at June 30, 2007. This information includes the effect of elimination adjustments normally made during consolidation:

<i>(Billions of bolivars)</i>	Banco Mercantil	Commercebank Holding Corporation	Holding Mercantil Internacional (1)	Seguros Mercantil	Merinvest	Mercantil Inversiones y Valores and others	Consolidated total
Total assets	21,338,041	12,675,135	793,784	821,143	280,490	277,238	36,185,831
Investment portfolio	5,440,922	5,900,333	337,831	568,953	96,766	164,563	12,509,368
Loan portfolio, net	10,891,223	5,785,148	423,246	-	-	-	17,099,617
Deposits	18,695,256	9,529,743	707,764	-	-	-	28,932,763
Gross income (loss) before taxes	260,229	74,795	(21,465)	18,733	1,215	(16,669)	316,838
Net income (loss) for the period	197,894	39,863	(20,292)	18,412	3,949	(868)	238,958
Number of employees	7,419	907	51	1,226	51	73	9,727

(1) Holding Company of Banco Mercantil Venezolano, N.V. and its subsidiary Banco del Centro, S.A. and Banco Mercantil (Schweiz) AG and its subsidiary BMC Bank & Trust Limited.

29. Risk Management

MERCANTIL is mainly exposed to credit, market and operational risks. Below is the risk policy used by MERCANTIL for each type of risk:

Credit risk

MERCANTIL considers exposure to credit risk when one of the parties is unable to pay off its debts at maturity.

MERCANTIL monitors credit risk exposure by regularly analyzing payment capabilities of its borrowers. MERCANTIL structures the level of credit risk by establishing limits for single or group borrowers.

In certain cases, MERCANTIL requests fiduciary or mortgage guarantees, collateral, or certificates of deposit, after assessing specific borrower characteristics.

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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 mainly comprise two types of risk: 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 shown in the balance sheet. Differences resulting from adverse changes in interest rates have a potential impact on financial margins of institutions.

Exchange rate risks arise from fluctuations in the value of financial instruments due to changes in foreign currency exchange rates. MERCANTIL transactions are mainly in bolivars. However, when the Treasury identifies short or medium-term market opportunities, investments might be made in foreign currency instruments, mainly in U.S. dollars within regulatory limitations.

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

MERCANTIL'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 Banco Central de Venezuela (BCV). In addition, a large portion of the investment portfolio includes securities issued by the Bolivarian Republic of Venezuela and other highly liquid financial obligations.

Operational risk

MERCANTIL 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 MERCANTIL 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.

Fiduciary activities

MERCANTIL acts as custodian, administrator and manager of third-party investments. Trust fund assets are not included in MERCANTIL's assets. At June 30, 2007 and December 31, 2006, trust fund assets amount to Bs 7,783,213 million and Bs 7,897,496 million, respectively, and are shown under memorandum accounts (Note 23).

30. Regulatory Capital Requirements

MERCANTIL and some subsidiaries are subject to various regulatory minimum capital requirements imposed by their supervisors (Note 1). Failure to meet capital requirements can initiate certain actions by regulators that, if undertaken, could have a material effect on MERCANTIL's financial statements. Under capital adequacy guidelines, MERCANTIL 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.

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Below are the regulatory minimum capital requirements of MERCANTIL and its main banking subsidiaries:

	2007		2006	
	Current %	Minimum required %	Current %	Minimum required %
Equity to risk-weighted assets and contingent operations				
Mercantil Servicios Financieros, C.A.	14.43	8	16.34	8
Banco Mercantil, C.A.	12.23	12	13.91	12
Commercebanc, N.A.	11.29	8	12.53	8
Tier I equity to risk-weighted assets and contingent operations				
Mercantil Servicios Financieros, C.A.	11.97	4	13.59	4
Commercebanc, N.A.	10.62	4	11.73	4
Equity to total assets				
Banco Mercantil, C.A.	9.36	10	9.81	10
Commercebanc, N.A.	8.07	4	8.08	4

31. Commitments and Contingencies

In the normal course of business, certain MERCANTIL subsidiaries are defendants in various legal proceedings. Other than the tax assessments mentioned below, MERCANTIL 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.

Various subsidiaries of MERCANTIL in Venezuela and their merged institutions have received additional income tax assessments from the Tax Authorities amounting to approximately Bs 23,066 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 and rejection of tax loss carryforwards. Additionally, the subsidiary Banco Mercantil was subject to assessments of approximately Bs 3,341 million in respect of unwithheld and/or late payments of value added tax (VAT). MERCANTIL 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 MERCANTIL subsidiaries were appealed by the National Treasury and rulings are pending.

Banco Mercantil also received additional bank debit tax assessments amounting to Bs 23,508 million, which were appealed. In the opinion of its legal advisors, these assessments are not well grounded in law.

MERCANTIL management identified a maximum risk of Bs 22,195 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 15).

In June 2006 a subsidiary of Banco Mercantil in Colombia was notified of a lawsuit against it of approximately Bs 9,200 million. A settlement with the plaintiff was reached during the six-month period ended December 31, 2006.

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In July 2006 the subsidiary Banco Mercantil was notified of an unfavorable ruling in connection with a claim filed by a client. The Bank has been ordered to pay approximately Bs 36,458 million for general damage and loss of profits, plus monetary indexation. In November 2006 the Bank's legal advisors filed for annulment of the ruling which includes allegations for nonfeasance and law infringement. In December 2006 the plaintiff appealed the legal action taken by the Bank and the substantiation process was completed on February 7, 2007. In the opinion of Bank management and its legal advisors, this ruling contains legal vices and, therefore, it is expected to be annulled and a new ruling issued.

In September 2006 a subsidiary of 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 for the purpose of tax payments. Although MERCANTIL legal advisors appealed this decision, in June 2007 DIAN requested official settlement of the tax review, through which the 2005 income tax return was modified involving a higher income tax payment of approximately Ps 33 billion (Bs 36 billion) and a penalty of approximately Ps 53 billion (Bs 57 billion). This decision was appealed again in August 2007. In the opinion of management and the legal advisors of MERCANTIL, the likelihood of this decision finally prevailing is remote both in connection with a higher income tax payment and the penalty, since according to Decision 578 of the Andean Community of Nations assets originating the highest tax may not be taxed in Colombia.

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32. Financial Statements of Mercantil Servicios Financieros, C.A. (Holding)

The financial statements of Mercantil Servicios Financieros, C.A. (Holding) under the equity method are shown below:

<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	1,048	148
Investment portfolio		
Banco Mercantil, C.A. (Banco Universal)	1,702,646	1,538,146
Commercebank Holding Corporation	728,711	622,954
Inversiones y Valores Mercantil VI, C.A.	175,395	180,750
Holding Mercantil Internacional, C.A.	148,560	124,852
Mercantil Inversiones y Valores, C.A.	66,923	66,459
Merinvest, C.A.	70,882	47,529
Cestaticket Accor Services, C.A.	18,463	25,494
Other	433,026	523,711
Property and equipment	30,816	-
Other assets	<u>47,629</u>	<u>54,482</u>
Total assets	<u>3,424,099</u>	<u>3,184,525</u>
Liabilities		
Debenture bonds and commercial paper	382,068	283,871
Other liabilities	<u>312,908</u>	<u>311,231</u>
Total liabilities	694,976	595,102
Shareholders' equity	<u>2,729,123</u>	<u>2,589,423</u>
Total liabilities and shareholders' equity	<u>3,424,099</u>	<u>3,184,525</u>
	<u>Six-month periods ended</u>	
<i>(Millions of bolivars)</i>	June 30, 2007	December 31, 2006
Income		
Interest income	11,306	10,574
Equity in subsidiaries, affiliates and other entities	304,480	323,046
Expenses		
Operating	46,663	21,591
Interest	<u>30,165</u>	<u>21,919</u>
Net income	<u>238,958</u>	<u>290,110</u>

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33. Supplementary Information - Consolidated Financial Statements Presented in Accordance with Accounting Principles Generally Accepted in Venezuela

CNV rules stipulate that inflation-adjusted financial statements must be presented as supplementary information.

For purposes of additional analysis, MERCANTIL has prepared supplementary consolidated financial statements in conformity with accounting principles generally accepted in Venezuela, incorporating in these supplementary consolidated financial statements the effect of differences from CNV accounting rules (Note 2).

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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Below are the consolidated balance sheet, and the consolidated statements of income, shareholders' equity and cash flows of Mercantil Servicios Financieros, C.A. and its subsidiaries, presented in accordance with accounting principles generally accepted in Venezuela:

Supplementary Consolidated Balance Sheet
June 30, 2007 and December 31, 2006

<i>(Millions of constant bolivars at June 30, 2007)</i>	June 30, 2007	December 31, 2006 (•)
Assets		
Cash and due from banks		
Cash	334,739	372,875
Banco Central de Venezuela	3,378,296	3,137,051
Venezuelan banks and other financial institutions	6,826	3,089
Foreign banks and other financial institutions	83,212	64,954
Pending cash items	645,454	538,294
Provision for cash and due from banks	<u>(75)</u>	<u>(248)</u>
	<u>4,448,452</u>	<u>4,116,015</u>
Investment portfolio		
Investments in trading securities	602,979	82,711
Investments in available-for-sale securities	7,107,656	7,108,490
Investments in held-to-maturity securities	347,114	708,118
Share trading portfolio	50,949	29,890
Investments in time deposits and placements	4,137,192	4,639,125
Restricted investments and repurchase agreements	<u>366,615</u>	<u>520,567</u>
	<u>12,612,505</u>	<u>13,088,901</u>
Direct financial assets	<u>249,751</u>	<u>100,010</u>
Loan portfolio		
Current	17,284,169	15,869,064
Rescheduled	25,309	30,619
Overdue	108,097	111,819
In litigation	<u>3,028</u>	<u>7,848</u>
	17,420,603	16,019,350
Allowance for losses on loan portfolio	<u>(320,986)</u>	<u>(316,276)</u>
	<u>17,099,617</u>	<u>15,703,074</u>
Interest and commissions receivable	<u>189,514</u>	<u>200,621</u>
Long-term investments	<u>38,275</u>	<u>49,772</u>
Available-for-sale assets	<u>6,975</u>	<u>5,461</u>
Property and equipment	<u>688,906</u>	<u>650,679</u>
Other assets	<u>1,736,380</u>	<u>1,141,042</u>
Total assets	<u>37,070,375</u>	<u>35,055,575</u>

(•) Reclassified for comparative purposes

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Supplementary Consolidated Balance Sheet
June 30, 2007 and December 31, 2006

*(Millions of constant bolivars
at June 30, 2007)*

	June 30, 2007	December 31, 2006 (•)
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Non-interest-bearing checking accounts	6,053,031	5,526,736
Interest-bearing checking accounts	7,512,770	6,704,208
Savings deposits	7,463,905	7,716,145
Time deposits	<u>7,903,657</u>	<u>7,258,941</u>
	<u>28,933,363</u>	<u>27,206,030</u>
Debt authorized by the Venezuelan Securities and Exchange Commission		
Publicly traded debt securities issued by MERCANTIL	<u>341,020</u>	<u>279,192</u>
Financial liabilities		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	219,690	288,502
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	100,000	107,760
Liabilities with foreign banks and savings and loan institutions, up to one year	3,968	176,044
Liabilities with foreign banks and savings and loan institutions, more than one year	190,740	90,207
Direct financial liabilities	279,234	425,961
Liabilities under repurchase agreements	572,608	626,423
Other liabilities, up to one year	363,012	411,446
Other liabilities, more than one year	<u>4,096</u>	<u>5,569</u>
	<u>1,733,348</u>	<u>2,131,912</u>
Interest and commissions payable	<u>42,936</u>	<u>40,011</u>
Other liabilities	<u>2,464,676</u>	<u>1,764,126</u>
Subordinated debt	<u>268,247</u>	<u>289,063</u>
Total liabilities	<u>33,783,590</u>	<u>31,710,334</u>
Minority interests in consolidated subsidiaries	<u>3,788</u>	<u>4,431</u>
Shareholders' Equity		
Capital stock	150,497	107,717
Capital inflation adjustment	883,205	882,443
Share premium	219,101	219,611
Capital reserves	596,176	596,176
Translation adjustment of net assets of subsidiaries abroad	(138,156)	(74,417)
Retained earnings	1,705,834	1,689,927
Repurchased shares held by subsidiaries	(32,018)	(24,636)
Repurchased shares restricted for employee stock option plan	(42,069)	(43,133)
Unrealized loss from adjustment of investments in available-for-sale securities to market value	<u>(59,573)</u>	<u>(12,878)</u>
Total shareholders' equity	<u>3,282,997</u>	<u>3,340,810</u>
Total liabilities and shareholders' equity	<u>37,070,375</u>	<u>35,055,575</u>

(•) Reclassified for comparative purposes

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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Supplementary Consolidated Statement of Income
Six-month periods ended June 30, 2007 and December 31, 2006

*(Millions of constant bolivars
at June 30, 2007)*

	June 30, 2007	December 31, 2006 (•)
Interest income		
Income from cash and due from banks	5,227	14,426
Income from investment portfolio	386,188	384,601
Income from loan portfolio	1,049,108	977,024
Income from financial assets	<u>6,592</u>	<u>849</u>
Total interest income	<u>1,447,115</u>	<u>1,376,900</u>
Interest expense		
Interest on demand and savings deposits	230,285	217,477
Interest on time deposits	186,693	200,667
Interest on securities issued by MERCANTIL	31,572	17,779
Interest on financial liabilities	<u>56,785</u>	<u>48,460</u>
Total interest expense	<u>505,335</u>	<u>484,383</u>
Gross financial margin	941,780	892,517
Allowance for losses on loan portfolio	<u>(71,422)</u>	<u>(83,810)</u>
Net financial margin	<u>870,358</u>	<u>808,707</u>
Commissions and other income		
Trust fund operations	21,107	22,240
Foreign currency operations	1,380	1,286
Commissions on customer account transactions	95,635	98,345
Commissions on letters of credit and guarantees granted	16,465	15,527
Equity in long-term investments	17,032	21,469
Exchange gain (loss)	1,582	(15,265)
Gain (loss) on sale of investment securities	(16,920)	41,094
Other income	<u>167,253</u>	<u>262,287</u>
Total commissions and other income	<u>303,534</u>	<u>446,983</u>
Insurance premiums, net of claims		
Premiums	507,203	426,247
Claims	<u>(430,483)</u>	<u>(359,703)</u>
Total insurance premiums, net of claims	<u>76,720</u>	<u>66,544</u>
Operating expenses		
Salaries and employee benefits	438,321	408,490
Depreciation, property and equipment expenses, amortization of intangibles and other	134,814	129,168
Fees paid to regulatory agencies	52,924	46,501
Other operating expenses	<u>346,298</u>	<u>396,623</u>
Total operating expenses	<u>972,357</u>	<u>980,782</u>
Loss from net monetary position	<u>(87,535)</u>	<u>(125,507)</u>
Operating income before taxes and minority interests	<u>190,720</u>	<u>215,945</u>
Taxes		
Current	(82,899)	(73,947)
Deferred	<u>(363)</u>	<u>(11,742)</u>
Total taxes	<u>(83,262)</u>	<u>(85,689)</u>
Net income before minority interests	107,458	130,256
Minority interests	<u>(148)</u>	<u>(176)</u>
Net income	<u>107,310</u>	<u>130,080</u>

(•) Reclassified for comparative purposes

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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Supplementary Consolidated Statement of Shareholders' Equity
Six-month periods ended June 30, 2007 and December 31, 2006

<i>(Millions of constant bolivars at June 30, 2007)</i>	Capital stock	Capital inflation adjustment (Note 2-a)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad	Retained earnings	Repurchased shares held by subsidiaries	Repurchased shares restricted for employee stock option plan	Unrealized gain (loss) from adjustment of investments to market value	Total shareholders' equity
Balances at June 30, 2006	107,717	882,443	221,468	596,176	2,643	1,635,590	(14,738)	(40,851)	(40,047)	3,350,401
Net income for the period	-	-	-	-	-	130,080	-	-	-	130,080
Repurchased shares restricted for employee stock option plan	-	-	(1,857)	-	-	-	-	(2,282)	-	(4,139)
Repurchased shares	-	-	-	-	-	-	(9,898)	-	-	(9,898)
Cash dividends	-	-	-	-	-	(76,118)	-	-	-	(76,118)
Sale of shares held by subsidiaries	-	-	-	-	-	375	-	-	-	375
Unrealized gain on investments	-	-	-	-	-	-	-	-	27,169	27,169
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(77,060)	-	-	-	-	(77,060)
Balances at December 31, 2006	107,717	882,443	219,611	596,176	(74,417)	1,689,927	(24,636)	(43,133)	(12,878)	3,340,810
Net income for the period	-	-	-	-	-	107,310	-	-	-	107,310
Repurchased shares	-	-	-	-	-	-	(13,973)	-	-	(13,973)
Repurchased shares restricted for employee stock option plan	-	-	(510)	-	-	-	-	1,064	-	554
Cash dividends	-	-	-	-	-	(48,111)	-	-	-	(48,111)
Stock dividends	42,780	762	-	-	-	(43,542)	-	-	-	-
Unrealized loss on investments	-	-	-	-	-	-	-	-	(46,695)	(46,695)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(63,739)	-	-	-	-	(63,739)
Sale of shares held by subsidiaries	-	-	-	-	-	250	6,591	-	-	6,841
Balances at June 30, 2007	<u>150,497</u>	<u>883,205</u>	<u>219,101</u>	<u>596,176</u>	<u>(138,156)</u>	<u>1,705,834</u>	<u>(32,018)</u>	<u>(42,069)</u>	<u>(59,573)</u>	<u>3,282,997</u>

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Supplementary Consolidated Statement of Cash Flows
Six-month periods ended June 30, 2007 and December 31, 2006

*(Millions of constant bolivars
at June 30, 2007)*

	June 30, 2007	December 31, 2006 (•)
Cash flows from operating activities		
Net income for the period	107,310	130,080
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	76,275	68,313
Allowance for losses on loan portfolio	71,422	83,810
Decrease in allowance for losses on loan portfolio	(3,959)	(1,991)
Provision for available-for-sale assets	173	731
Provision for interest receivable and other assets	3,400	5,891
Gain on equity in long-term investments	(17,032)	(21,469)
Deferred income tax	363	11,742
Minority interests	(148)	176
Accrual for employee termination benefits	45,327	31,562
Payment of employee termination benefits	(41,702)	(35,417)
Net change in operating assets and liabilities		
Interest and commissions receivable	11,107	(22,143)
Interest and commissions payable	2,925	2,272
Available-for-sale and other assets	(781,994)	345,453
Other liabilities	<u>696,430</u>	<u>(522,109)</u>
Net cash provided by operating activities	<u>169,897</u>	<u>76,901</u>
Cash flows from investing activities		
Net change in investment portfolio	(109,758)	(94,814)
Loans granted	(30,807,737)	(68,304,008)
Loans collected	29,343,731	67,925,656
Additions to property and equipment, net	<u>(83,038)</u>	<u>(50,677)</u>
Net cash used in investing activities	<u>(1,656,802)</u>	<u>(523,843)</u>
Cash flows from financing activities		
Net change in deposits	1,727,333	1,599,267
Net change in short-term financial liabilities	(489,864)	818,222
New long-term financial liabilities	165,776	383,072
Long-term financial liabilities repaid	(74,476)	(444,272)
Net change in debt securities issued by MERCANTIL	61,828	63,420
Net change in subordinated debt	(20,816)	58,341
Cash dividends	(48,111)	(76,118)
Repurchased shares	(13,973)	(9,898)
Repurchased shares restricted for employee stock option plan	1,064	(2,282)
Share premium	(510)	(1,857)
Sale of shares held by subsidiaries	<u>6,841</u>	<u>375</u>
Net cash provided by financing activities	<u>1,315,092</u>	<u>2,388,270</u>
Cash and cash equivalents		
Net increase for the period	(171,813)	1,941,328
At the beginning of the period	<u>8,754,584</u>	<u>6,813,256</u>
At the end of the period	<u>8,582,771</u>	<u>8,754,584</u>
Supplementary information		
Taxes paid	<u>97,686</u>	<u>116,731</u>
Interest paid	<u>445,406</u>	<u>448,729</u>
Translation adjustment of net assets of subsidiaries abroad	<u>(63,739)</u>	<u>(77,060)</u>
Unrealized gain (loss) from adjustment of investments to market value	<u>(46,695)</u>	<u>27,169</u>

(•) Reclassified for comparative purposes

Mercantil Servicios Financieros, C.A. and its Subsidiaries

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Below is a summary of the main bases used in the preparation of the consolidated inflation-adjusted financial statements:

Supplementary inflation-adjusted financial information has been prepared based on Revised Statement of Accounting Principles No. 10 (DPC 10) "Rules for the preparation of financial statements adjusted for the effects of inflation." The purpose of this restatement using the General Price Level (GPL) method is to present financial statements in currency of uniform purchasing power to take account of changes in the Consumer Price Index (CPI) for the Metropolitan Area of Caracas published by BCV. Consequently, the accompanying supplementary financial statements do not purport to reflect market or realizable values of nonmonetary assets, which will normally differ from amounts adjusted on the basis of the CPI.

Inflation indices and rates

CPI indices and inflation rates for the six-month periods ended June 30, 2007 and December 31, 2006, according to the information published by BCV, are as follows:

Six-month periods ended	CPI base for 1997 =100	Inflation rate
June 2007	662.52	7.76
December 2006	614.83	10.83

Monetary assets and liabilities and result from monetary position

Monetary assets and liabilities at June 30, 2007, including amounts in foreign currency are, by their nature, shown in terms of purchasing power at that date. For comparative purposes, monetary assets and liabilities at December 31, 2006 have been restated to express them in terms of purchasing power at June 30, 2007.

The result from monetary position reflects the loss or gain resulting from maintaining a net monetary asset or net monetary liability position during an inflationary period and is shown in the consolidated statement of income under loss from net monetary position.

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An analysis of the consolidated monetary result for the period is provided below:

<i>(Millions of constant bolivars at June 30, 2007)</i>	<u>Six-month periods ended</u>	
	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Net monetary asset (liability) position at the beginning of the period	2,242,101	2,207,738
Transactions that increased net monetary position		
Gain on sale of shares held by subsidiaries	6,841	375
Net change in securities	1,269	6,689
Net change in available-for-sale assets	-	1,681
Net change in subsidiaries	11,497	7,283
Net change in other assets	-	21,400
Unrealized gain on investments	-	27,168
Shares purchased by employees, net	1,064	-
Net change in other liabilities	2,308	-
Income	<u>1,827,369</u>	<u>1,888,050</u>
Subtotal	<u>1,850,348</u>	<u>1,952,646</u>
Transactions that decreased net monetary position		
Repurchased shares	(13,973)	(9,898)
Translation adjustment of subsidiaries abroad	(63,739)	(77,060)
Additions to property and equipment, net	(86,991)	(59,218)
Net change in other assets	(57,553)	-
Unrealized loss on investments	(46,695)	-
Cash dividends	(48,111)	(76,118)
Stock option plan sales and purchases	(510)	(1,857)
Deferred income tax	(363)	(11,742)
Net change in available-for-sale assets	(68)	-
Shares purchased by employees	-	(2,282)
Net change in other liabilities	-	(2,930)
Expenses	<u>(1,555,719)</u>	<u>(1,551,671)</u>
Subtotal	<u>(1,873,722)</u>	<u>(1,792,776)</u>
Estimated net monetary asset (liability) position	2,218,727	2,367,608
Historic net monetary asset (liability) position	<u>(2,131,192)</u>	<u>(2,242,101)</u>
Loss from net monetary position	<u>87,535</u>	<u>125,507</u>

Nonmonetary assets

Property and equipment are recorded in constant currency at June 30, 2007, according to the CPI at their dates of origin, at amounts which do not exceed their recoverable value based on valuations made by independent appraisers in December 2005.

Shares held in unconsolidated affiliates are reported under the equity method, based on the inflation-adjusted financial statements of those affiliates.

Other investment securities are recorded based on their intended use as investments in trading securities, investments in available-for-sale securities, investments in held-to-maturity securities, share trading portfolio, investment deposits and time deposits and restricted investments.

Deferred income tax

Deferred income tax is computed based on the balance sheet method, namely, on temporary differences between the tax base of assets and liabilities and their amounts in the inflation-adjusted balance sheet. MERCANTIL and its subsidiaries record a deferred income tax asset when management can reasonably expect future tax income to allow its realization.

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Shareholders' equity

All equity accounts are shown in constant currency at June 30, 2007. Dividends are stated in constant currency based on the date they were declared.

Statement of income

Operating income and expenses have been adjusted based on their dates of origin, except for costs and expenses related to nonmonetary items, which have been adjusted based on the previously restated nonmonetary items to which they relate. The adjustment in respect of expenses associated with nonmonetary items, mainly depreciation of property and equipment, of Bs 31,912 million was charged to income for the six-month period ended June 30, 2007 (Bs 30,829 million for the six-month period ended December 31, 2006).

Gains or losses on the sale of shares, investments in personal and real property and other nonmonetary items are determined based on the sales price and restated book value.

A breakdown of the items with significant differences in respect of the primary financial statements, as detailed in Notes 3 to 29, is shown below:

a) Property and equipment

<i>(Millions of constant bolivars at June 30, 2007)</i>	<u>Costs</u>			Fully depreciated write-offs	Other	Translation adjustment	Balances at June 30, 2007
	Balances at December 31, 2006	Additions	Withdrawals				
Buildings and facilities	736,093	69	(610)	-	268	(2,769)	733,051
Furniture and equipment	564,809	32,027	(7)	(24,039)	(1,562)	(4,421)	566,807
Vehicles	6,445	545	(126)	-	-	(15)	6,849
Land	41,017	-	(359)	-	-	(621)	40,037
Construction in progress	32,243	26,242	(3,338)	-	(2)	(1,193)	53,952
Other assets	46,396	32,638	-	-	-	(7)	79,027
Total	<u>1,427,003</u>	<u>91,521</u>	<u>(4,440)</u>	<u>(24,039)</u>	<u>(1,296)</u>	<u>(9,026)</u>	<u>1,479,723</u>

<i>(Millions of constant bolivars at June 30, 2007)</i>	<u>Accumulated depreciation</u>			Fully depreciated write-offs	Other	Inflation adjustment	Balances at June 30, 2007
	Balances at December 31, 2006	Additions	Withdrawals				
Buildings and facilities	(343,546)	(18,057)	254	-	2,027	902	(358,420)
Furniture and equipment	(429,459)	(25,367)	1	24,039	(448)	3,515	(427,719)
Vehicles	(3,319)	(652)	53	-	(35)	9	(3,944)
Other assets	-	(734)	-	-	-	-	(734)
Total	<u>(776,324)</u>	<u>(44,810)</u>	<u>308</u>	<u>24,039</u>	<u>1,544</u>	<u>4,426</u>	<u>(790,817)</u>

At June 30, 2007, property and equipment, including buildings, facilities and land amounting to Bs 414,668 million, has an estimated market value of Bs 724,036 million, calculated by independent appraisers in December 2005.

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b) Other assets

*(Millions of constant bolivars
at June 30, 2007)*

	June 30, 2007	December 31, 2006
Goodwill, net of accumulated amortization		
Interbank, C.A.	293,435	304,305
Florida Savings Bank	38,443	42,390
C.A. Seguros Orinoco	38,613	40,132
Seguros Mercantil, C.A.	8,699	8,879
Todo 1 Services Inc.	-	4,094
	<u>379,190</u>	<u>399,800</u>
Transactions with securities in process of settlement	664,461	126,939
Other transactions with derivative instruments	195,365	106,512
Insurance premiums receivable	123,218	114,685
Deferred expenses, net of accumulated amortization	85,661	79,125
Shopping mall rights	44,380	44,380
Other prepaid expenses	44,354	27,407
Prepaid taxes, insurance and other prepaid expenses	14,271	43,696
Deferred income tax	34,373	41,187
Pending items	33,200	39,403
Systems development, net of accumulated amortization	22,111	20,489
Advances for acquisition of property	21,168	2,698
Premiums receivable from the Venezuelan government	7,786	7,939
Prepaid advertising	7,798	5,221
Accounts receivable from other credit card issuing institutions	6,541	19,455
Stationery and office supplies	2,935	4,962
Cross Currency Swap Valuation	642	32
Other	<u>59,129</u>	<u>65,698</u>
	1,746,583	1,149,628
Allowance for estimated losses on other assets	<u>(10,203)</u>	<u>(8,586)</u>
	<u>1,736,380</u>	<u>1,141,042</u>

The balance of transactions with derivative financial instruments is mainly in respect of securities of the subsidiaries Banco Mercantil, Banco Mercantil Schweiz AG and Merinvest, C.A. and its subsidiaries which, according to the rules of the Venezuelan Securities and Exchange Commission, are included under memorandum accounts, whereas under generally accepted accounting principles they should be included in the balance sheet.