

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

**Report of Independent Accountants  
and Consolidated Financial Statements  
June 30, 2010 and December 31, 2009**

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Index to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

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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. (MERCANTIL) and its subsidiaries at June 30, 2010 and December 31, 2009, and the related consolidated statements of income, changes in equity and cash flows for the six-month periods then ended. The preparation of these financial statements and their notes is the responsibility of MERCANTIL management. 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 from 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 important respects from accounting principles generally accepted in Venezuela (VEN NIF).

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, 2010 and December 31, 2009, 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



Carlos González G.  
CPC 21291  
CNV G-774

Caracas, Venezuela  
August 25, 2010

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated balance sheet**  
**June 30, 2010 and December 31, 2009**

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	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b> (Note 3)		
Cash	905,866	801,598
Central Bank of Venezuela (BCV)	8,863,000	7,673,511
Venezuelan banks and other financial institutions	12,902	36,820
Foreign banks and other financial institutions	1,021,687	557,517
Pending cash items	<u>1,026,160</u>	<u>410,612</u>
	<u>11,829,615</u>	<u>9,480,058</u>
<b>Investment portfolio</b> (Note 4)		
Investments in trading securities	213,234	71,772
Investments in available-for-sale securities	16,335,673	10,136,710
Investments in held-to-maturity securities	470,477	456,373
Share trading portfolio	19,698	19,971
Investments in time deposits and placements	2,228,441	2,029,133
Restricted investments and repurchase agreements	<u>1,511,118</u>	<u>1,330,133</u>
	<u>20,778,641</u>	<u>14,044,092</u>
<b>Direct financial assets</b> (Note 5)	<u>-</u>	<u>293,880</u>
<b>Loan portfolio</b> (Note 6)		
Current	36,265,298	27,017,149
Rescheduled	441,560	87,870
Overdue	1,504,980	854,373
In litigation	<u>150,140</u>	<u>71,056</u>
	38,361,978	28,030,448
Allowance for losses on loan portfolio	<u>(1,184,755)</u>	<u>(892,725)</u>
	<u>37,177,223</u>	<u>27,137,723</u>
<b>Interest and commissions receivable</b> (Note 7)	<u>419,533</u>	<u>301,846</u>
<b>Long-term investments</b> (Note 8)	<u>190,302</u>	<u>153,336</u>
<b>Available-for-sale assets</b> (Note 9)	<u>133,734</u>	<u>51,453</u>
<b>Property and equipment</b> (Note 10)	<u>631,746</u>	<u>490,039</u>
<b>Other assets</b> (Note 11)	<u>1,716,303</u>	<u>1,122,383</u>
<b>Total assets</b>	<u>72,877,097</u>	<u>53,074,810</u>
<b>Memorandum accounts</b> (Note 24)	<u>95,736,383</u>	<u>74,195,950</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated balance sheet**  
**June 30, 2010 and December 31, 2009**

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	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Deposits (Note 12)		
Non-interest-bearing checking accounts	13,620,463	10,398,275
Interest-bearing checking accounts	18,498,436	12,232,187
Savings deposits	17,130,886	13,902,051
Time deposits	<u>7,531,289</u>	<u>6,315,191</u>
	<u>56,781,074</u>	<u>42,847,704</u>
<b>Debt authorized by the Venezuelan Securities and Exchange Commission</b> (Note 13)		
Publicly traded debt securities issued by MERCANTIL	<u>128,873</u>	<u>312,394</u>
<b>Financial liabilities</b> (Note 14)		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	118,528	120,319
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	120,000	-
Liabilities to foreign banks and savings and loan institutions, up to one year	759,810	456
Liabilities to foreign banks and savings and loan institutions, more than one year	1,191,353	432,673
Direct financial liabilities	-	364,146
Liabilities under repurchase agreements	1,428,586	722,730
Other liabilities, up to one year	27,580	22,999
Other liabilities, more than one year	<u>2,125</u>	<u>2,137</u>
	<u>3,647,982</u>	<u>1,665,460</u>
<b>Interest and commissions payable</b>	<u>34,180</u>	<u>27,138</u>
<b>Other liabilities</b> (Note 15)	<u>4,259,559</u>	<u>3,094,804</u>
<b>Subordinated debt</b> (Note 16)	<u>489,323</u>	<u>244,656</u>
<b>Total liabilities</b>	<u>65,340,991</u>	<u>48,192,156</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>3,699</u>	<u>2,844</u>
<b>Equity</b> (Note 21)		
Capital stock	154,406	155,976
Capital inflation adjustment	191,709	191,709
Share premium	203,466	203,894
Capital reserves	166,715	166,715
Translation adjustment of net assets of subsidiaries abroad	1,538,050	280,144
Retained earnings	5,143,805	3,922,188
Repurchased shares held by subsidiaries	(8,403)	(29,319)
Repurchased shares and shares reserved for the stock option plan	(33,572)	(37,820)
Unrealized gain from adjustment of investments to market value	<u>176,231</u>	<u>26,323</u>
<b>Total equity</b>	<u>7,532,407</u>	<u>4,879,810</u>
<b>Total liabilities and equity</b>	<u>72,877,097</u>	<u>53,074,810</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated income statement**  
**Six-month periods ended June 30, 2010 and December 31, 2009**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars, except net income per share)	
<b>Interest income</b> (Note 2)		
Income from cash and due from banks	3,286	2,338
Income from investment portfolio (Note 4)	498,812	414,261
Income from loan portfolio (Note 6)	2,068,362	1,827,179
Income from financial assets	<u>1,849</u>	<u>16,905</u>
Total interest income	<u>2,572,309</u>	<u>2,260,683</u>
<b>Interest expense</b> (Note 2)		
Interest on demand and savings deposits	(731,708)	(641,768)
Interest on time deposits	(63,790)	(92,894)
Interest on securities issued by MERCANTIL (Note 13)	(17,753)	(42,207)
Interest on financial liabilities	<u>(52,056)</u>	<u>(55,919)</u>
Total interest expense	<u>(865,307)</u>	<u>(832,788)</u>
<b>Gross financial margin</b>	1,707,002	1,427,895
Allowance for losses on loan portfolio (Notes 2 and 6)	(366,436)	(395,612)
Expenses from write-down of investments in available-for-sale securities (Note 4)	<u>-</u>	<u>(34,038)</u>
<b>Net financial margin</b>	<u>1,340,566</u>	<u>998,245</u>
<b>Commissions and other income</b>		
Trust fund operations	28,829	25,342
Foreign currency operations (Note 23)	1,912	400
Commissions on customer account transactions	120,843	125,800
Commissions on letters of credit and guarantees granted	8,691	9,815
Equity in long-term investments (Note 8)	7,724	36,274
Exchange gain (Note 23)	897,975	2,981
Gain on sale of investment securities (Note 4)	216,327	212,080
Other income (Note 19)	<u>439,901</u>	<u>446,571</u>
Total commissions and other income	<u>1,722,202</u>	<u>859,263</u>
<b>Insurance premiums, net of claims</b> (Note 2)		
Premiums	1,483,440	1,270,084
Claims	<u>(1,324,165)</u>	<u>(1,098,093)</u>
Total insurance premiums, net of claims	<u>159,275</u>	<u>171,991</u>
	<u>3,222,043</u>	<u>2,029,499</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(820,364)	(683,750)
Depreciation, property and equipment expenses, amortization of intangibles and other (Notes 10 and 11)	(205,682)	(185,214)
Fees paid to regulatory agencies	(192,919)	(96,336)
Other operating expenses (Note 20)	<u>(553,875)</u>	<u>(496,395)</u>
Total operating expenses	<u>(1,772,840)</u>	<u>(1,461,695)</u>
Operating income before tax and minority interests	<u>1,449,203</u>	<u>567,804</u>
<b>Income tax</b> (Note 17)		
Current	(92,924)	(72,277)
Deferred	<u>(14,440)</u>	<u>(4,653)</u>
Total tax	<u>(107,364)</u>	<u>(76,930)</u>
Net income before minority interests	1,341,839	490,874
<b>Minority interests</b>	<u>(766)</u>	<u>(234)</u>
Net income	<u>1,341,073</u>	<u>490,640</u>
<b>Net income per share</b> (Note 22)		
Basic	13.45	4.91
Diluted	13.45	4.91
Weighted average of outstanding common shares	99,689,789	99,887,157
Weighted average of outstanding diluted common shares	99,689,789	99,887,157

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated statement of changes in equity**  
**Six-month periods ended June 30, 2010 and December 31, 2009**

	Capital stock	Capital inflation adjustment (Note 2)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad (Note 2)	Retained earnings	Repurchased shares held by subsidiaries (Note 21)	Repurchased shares and shares reserved for the stock option plan	Unrealized gain from adjustment of investments to market value (Note 2)	Total equity
(Thousands of bolivars)										
<b>Balances at June 30, 2009</b>	155,976	191,709	201,507	166,715	281,223	3,483,141	(22,265)	(28,316)	2,726	4,432,416
Net income	-	-	-	-	-	490,640	-	-	-	490,640
Repurchased shares	-	-	-	-	-	-	(7,054)	-	-	(7,054)
Repurchased shares and shares reserved for the stock option plan	-	-	2,387	-	-	-	-	(9,504)	-	(7,117)
Cash dividends (Note 21)	-	-	-	-	-	(14,006)	-	-	-	(14,006)
Minimum dividend payable (Note 2)	-	-	-	-	-	(37,587)	-	-	-	(37,587)
Unrealized gain on investments	-	-	-	-	-	-	-	-	23,597	23,597
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(1,079)	-	-	-	-	(1,079)
<b>Balances at December 31, 2009</b>	155,976	191,709	203,894	166,715	280,144	3,922,188	(29,319)	(37,820)	26,323	4,879,810
Net income	-	-	-	-	-	1,341,073	-	-	-	1,341,073
Repurchased shares and shares reserved for the stock option plan	-	-	(428)	-	-	-	-	4,248	-	3,820
Cash dividends (Note 21)	-	-	-	-	-	(97,543)	-	-	-	(97,543)
Repurchased shares	-	-	-	-	-	-	(2,567)	-	-	(2,567)
Redemption of shares	(1,570)	-	-	-	-	(21,913)	23,483	-	-	-
Unrealized gain on investments	-	-	-	-	-	-	-	-	149,908	149,908
Translation adjustment of net assets of subsidiaries abroad (Note 23)	-	-	-	-	1,257,906	-	-	-	-	1,257,906
<b>Balances at June 30, 2010</b>	<u>154,406</u>	<u>191,709</u>	<u>203,466</u>	<u>166,715</u>	<u>1,538,050</u>	<u>5,143,805</u>	<u>(8,403)</u>	<u>(33,572)</u>	<u>176,231</u>	<u>7,532,407</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated cash flow statement**  
**Six-month periods ended June 30, 2010 and December 31, 2009**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Cash flows from operating activities</b>		
Net income	1,341,073	490,640
Adjustments to reconcile net income to net cash provided by operating activities		
Allowance for losses on loan portfolio	366,436	395,612
Decrease in allowance for losses on loan portfolio	(1,370)	(5,681)
Depreciation and amortization	73,447	70,839
Amortization of available-for-sale assets	8,892	27,639
Provision for interest receivable and other assets	3,558	3,086
Gain on equity in long-term investments, net	(7,724)	(36,274)
Deferred income tax	14,440	4,653
Minority interest expenses	766	234
Accrual for employee termination benefits	99,312	73,318
Payment of employee termination benefits	(89,787)	(80,695)
Net change in operating assets and liabilities		
Interest and commissions receivable	(117,688)	(771)
Interest and commissions payable	7,042	220
Direct financial assets, available-for-sale assets and other assets	(442,117)	(46,988)
Other liabilities	<u>1,180,215</u>	<u>(20,599)</u>
Net cash provided by operating activities	<u>2,436,495</u>	<u>875,233</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	(5,266,642)	(3,001,659)
Loans granted	(77,288,768)	(38,856,863)
Loans collected	66,884,202	33,438,662
Additions to property and equipment, net	<u>(182,250)</u>	<u>(52,931)</u>
Net cash used in investing activities	<u>(15,853,458)</u>	<u>(8,472,791)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	13,933,370	4,364,852
Short-term financial liabilities	(241,207)	(237,238)
Debt securities issued by MERCANTIL	(183,521)	12,542
Subordinated debt	244,667	-
New long-term financial liabilities	1,167,982	(47,005)
Long-term financial liabilities repaid	1,055,750	121,943
Cash dividends	(122,440)	(125,500)
Share premium	(428)	2,387
Repurchased shares	(2,567)	(7,054)
Repurchased shares and shares reserved for the stock option plan	<u>4,248</u>	<u>(9,504)</u>
Net cash provided by financing activities	<u>15,855,854</u>	<u>4,075,423</u>
<b>Cash and cash equivalents</b>		
Net increase (decrease) for the period	2,438,891	(3,522,135)
At the beginning of the period	<u>11,499,872</u>	<u>15,022,007</u>
At the end of the period	<u>13,938,763</u>	<u>11,499,872</u>
<b>Supplementary information</b>		
Taxes paid	<u>68,614</u>	<u>1,378</u>
Interest paid	<u>806,209</u>	<u>776,648</u>
Translation adjustment of net assets of subsidiaries abroad	<u>1,257,906</u>	<u>(1,079)</u>
Unrealized gain from adjustment of investments to market value	<u>149,908</u>	<u>23,597</u>

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

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

## **Notes to the consolidated financial statements**

### **June 30, 2010 and December 31, 2009**

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#### **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. 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 as underlying assets. 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.

MERCANTIL and its subsidiaries provide financial and 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 Mercantil, C.A. Banco Universal in Venezuela (99.93% owned); Mercantil Commercebank Holding Corporation (wholly owned), which is the final beneficial owner of Mercantil Commercebank, N.A., a U.S.-based commercial bank; the Venezuela-based insurance company Mercantil Seguros, C.A. (wholly owned); and Mercantil 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 Mercantil Bank Curacao, N.V. (an off-shore bank domiciled in the Netherland Antilles); Mercantil Bank (Panamá), S.A.; Mercantil Bank (Schweiz) AG (domiciled in Switzerland) and its subsidiary Mercantil Bank & Trust Limited (Cayman Islands) (domiciled in Grand Cayman, B.W.I.); and Mercantil Inversiones y Valores, C.A.

The financial statements of MERCANTIL at June 30, 2010 and December 31, 2009 were approved by the Board of Directors on July 12 and January 12, 2010, respectively.

Below is a summary of the operating locations and the main regulations governing MERCANTIL's subsidiaries and specific-purpose entities:

##### **a) Mercantil, C.A. Banco Universal in Venezuela**

The activities of Mercantil, C.A. Banco Universal (the Bank) 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).

The General Bank Law was amended in December 2009 to require authorization from the Superintendency of Banks for purchasing bank stock, either directly or indirectly, to modify the percentage of total customer deposits that commercial and universal banks must contribute to the deposit guarantee fund (FOGADE), and to increase the deposit guarantee to Bs 30,000 per depositor.

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

## **Notes to the consolidated financial statements**

### **June 30, 2010 and December 31, 2009**

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Regulations require the subsidiary Mercantil, C.A. Banco Universal to earmark a minimum nominal percentage of 36.51% of its gross loan portfolio to finance loans for agriculture, tourism, manufacturing and small businesses (47% to agriculture, mortgages, manufacturing, small businesses and tourism at December 31, 2009). At June 30, 2010 and December 31, 2009, the gross loan portfolio for these sectors is Bs 9,395,905,000 and Bs 8,518,576,000, respectively (Note 6).

Deposit and lending rates are regulated by BCV. BCV sets maximum and minimum interest rates for deposits and credit operations based on reference rates. In this regard, the annual interest rate for lending operations may not exceed 24% (26% from April 1 to June 4, 2009) and 29% for credit card operations (31% from April 1 to June 4, 2009). Financial institutions may only charge an additional 3% per annum on amounts overdue from clients. The maximum interest rates for directed loan portfolios at December 31 and June 30, 2009 are as follows: agriculture 13%, microcredits 24%, tourism 15% to 16% (16% to 17% at June 30, 2009), mortgages 4.66% to 14.39% and manufacturing 19%. As from October 2008, annual interest rates for savings deposits may not fall below 12.5% calculated on daily balances (14% from April 1 to June 4, 2009). Annual interest rates on time deposits may not fall below 14.5% (16% from April 1 to June 4, 2009).

#### **b) Mercantil 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).

#### **c) Mercantil Bank (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) Mercantil Seguros, 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) Mercantil 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.

## **2. Accounting principles in use**

In April 2008, the Venezuelan Federation of Public Accountants (FCCPV) approved the adoption of accounting principles generally accepted in Venezuela (VEN NIF) as the accounting principles of mandatory application in Venezuela as from January 1, 2008. These standards are mainly based on International Financial Reporting Standards issued by the International Accounting Standards Board, except for certain criteria concerning adjustments for inflation and the valuation of foreign currency transactions and balances, among others. In January 2009, the CNV established that, as from 2011, publicly traded companies must present their financial statements in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). However, MERCANTIL and its subsidiaries, as entities regulated by the CNV, must continue to present their financial information in conformity with the CNV's Accounting Manual and Plan of Accounts until the CNV determines otherwise.

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

## **Notes to the consolidated financial statements**

### **June 30, 2010 and December 31, 2009**

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MERCANTIL complies with the rules set out in the CNV's Accounting Manual and Plan of Accounts. When these rules contain no specific instructions, MERCANTIL follows accounting principles generally accepted in Venezuela (VEN NIF) (accounting principles). The accompanying consolidated financial statements have been prepared following the rules and instructions of the CNV, which differ from these accounting principles in the following respects:

#### **1) Financial statements adjusted for the effects of inflation**

VEN NIF Adoption Bulletin No. 2 (BA VEN NIF No. 2) establishes criteria for applying International Accounting Standard No. 29 (IAS 29), "Financial reporting in hyperinflationary economies" in Venezuela and requires that the effects of inflation on the financial statements be recognized, provided that inflation for the year exceeds one digit. In accordance with CNV instructions, as from 1999 MERCANTIL should not recognize the effects of inflation in its financial statements. The CNV has ruled that the methodology to be followed by MERCANTIL for preparation and presentation of its nominal financial statements is that 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 use the amounts expressed in terms of purchasing power at the end of the previous reporting period as a basis for presenting 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 (Note 34).

#### **2) Transactions with derivative instruments**

In accordance with CNV rules, contracted amounts in transactions with derivative instruments are presented as memorandum accounts instead of in the balance sheet as required by VEN NIF. In addition, differences between the fair value and the agreed-upon price of spot contracts are recorded as deferred charges with a credit to unrealized gain (loss) from adjustment of investments to market value in the equity statement, rather than in the results for the period as per VEN NIF.

#### **3) Allowance for losses on loan portfolio**

Allowances for losses on the loan portfolio are determined based on a collectibility assessment for individual loans, a global risk percentage for loans not assessed individually, and a general provision of 1% over loan balances at month end, except for microcredits, which are subject to a general provision of 2% in the case of the subsidiary Mercantil, C.A., Banco Universal. VEN NIF require the allowance for losses on the loan portfolio to be determined based on asset recoverability, considering the fair value of guarantees, and do not provide for a general provision, which would have to be accounted for as a reduction of retained earnings in the statement of changes in equity.

#### **4) Rescheduled loans**

For the subsidiary Mercantil, C.A. Banco Universal, the Accounting Manual establishes that loans whose original repayment schedule, term or other conditions have been modified by the creditor at the request of the debtor must be reclassified within rescheduled loans. VEN NIF provide no specific guidance; however, they do state that impairment losses on financial assets carried at amortized cost shall be recognized in the results for the period in which they are incurred.

#### **5) Overdue and in-litigation loans**

Loans classified as overdue must be written off within 24 months after inclusion in this category. Loans in litigation must be fully provided for after 24 months in the in-litigation category. In addition, overdue monthly loan installments that have been repaid must be reclassified to the category to which they pertained before being classified as overdue. Likewise, when an individual repays pending loan

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installments of a loan in litigation, thereby terminating the lawsuit, MERCANTIL must reclassify the loan to the category to which it pertained before being classified as in litigation or overdue. Under VEN NIF, these loans are recorded based on collectibility.

**6) 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.

**7) Assets received as payment and idle assets**

Assets received as payment are recorded at the lower of assigned value, book value, market value or appraisal value not older than one year and are amortized using the straight-line method over one to three years. Assets idle for more than 24 months are written out of asset accounts. In accordance with VEN NIF, assets received as payment are recorded at the lower of cost and market value and are classified as property and equipment or available-for-sale assets depending on their use.

**8) Commissions**

Commissions charged on loans granted are recorded as income when collected, whereas under VEN NIF they should be deferred and recorded as income over the loan term.

**9) Deferred income tax**

MERCANTIL computes a deferred tax asset or liability 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 addition, the amount by which the deferred tax asset exceeds tax expense for the period is not recognized. In accordance with VEN NIF, a deferred tax asset or liability is recognized in respect of all temporary differences between the tax balance sheet and the accounting balance sheet, provided that there is reasonable expectation of recovery.

**10) Currency redenomination**

Expenses incurred during the currency redenomination process to adapt the technological equipment or for advisory, training, travel and other personnel expenses, publicity, software and security are deferred and are being amortized, according to their nature, using the straight-line method over one to six years. According to VEN NIF, expenses incurred during the currency redenomination process should be recognized during the period in which they are incurred.

**11) Goodwill**

MERCANTIL amortizes goodwill using the straight-line method over 20 years (Note 11). According to VEN NIF, goodwill is not amortized but tested for impairment annually or whenever events or circumstances indicate that the value of the respective reporting unit may be impaired. Impairment is determined comparing the book value to the recoverable amount of the cash generating unit, and if the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the income statement.

**12) Investments in trading and available-for-sale securities**

Trading and available-for-sale securities may remain in these categories for a maximum and minimum of 90 days, respectively, as from the date they were classified in the respective category. Under VEN NIF, they may remain in these categories indefinitely.

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**13) Reclassification of investments in held-to-maturity securities to available-for-sale securities**

According to VEN NIF, when held-to-maturity securities for significant amounts are reclassified to available-for-sale securities and such transfer is due to a change in their original intended use not qualified as an isolated, external, nonrecurring or unusual event affecting MERCANTIL, all investments remaining in this category should be reclassified to available-for-sale securities. According to CNV rules, reclassifications of held-to-maturity securities must be approved by the CNV.

**14) Permanent losses on investment securities**

When permanent losses resulting from a fair value impairment of investment securities are recorded, any subsequent recovery in fair value does not affect the new cost basis. VEN NIF allow any recovery of impairment previously expensed to be recorded as income.

**15) Foreign currency**

Foreign currency balances at June 30, 2010 are shown at the official exchange rate of Bs 4.2893/US\$1, Bs 0.002/Ps1 and Bs 3.982/CHF1 (Bs 2.1446/US\$1, Bs 0.001/Ps1 and Bs 2.072/CHF1 at December 31, 2009), as established in the Exchange Agreements described in Note 23. Exchange gains and losses are included in the consolidated income statement, except for those resulting from investments in available-for-sale debt securities and investments in publicly traded shares denominated in foreign currency, which are recorded in equity.

VEN NIF establish that the only exchange rate that may be used to measure balances in foreign currency is that set by BCV (Note 23). In addition, VEN NIF establish that net monetary liability positions in foreign currency which are not reasonably expected to be settled with foreign currency purchased from the Venezuelan government at the official exchange rate shall be measured on the basis of best estimates of future cash flows in bolivars expected to be required to settle these liabilities at the transaction or balance sheet date, using the exchange or settlement mechanisms permitted under Venezuelan law.

Below is a summary of the accounting principles in use that do not differ from VEN NIF:

**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 ends on November 30. Subsidiaries whose accounting year ends on 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 MERCANTIL's financial position or results of operations.

Specific-purpose entities controlled by MERCANTIL or of which MERCANTIL is considered the final beneficial owner or the main beneficiary are included in the consolidated financial statements (Note 21).

**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 reported amounts of assets and liabilities, the amounts of gains and losses recorded during the period, and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

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***Provision for legal and tax claims***

MERCANTIL sets aside a provision for legal and tax contingencies considered probable and reasonably quantifiable based on the opinion of its legal advisors and facts at the assessment date. The final outcome of these processes could differ from that expected (Note 32).

**c) 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. 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. Unrealized gains or losses arising from differences in market values are included in equity as an unrealized gain or loss on adjustment of investments to market value until they are sold or reclassified to investments in trading securities.

If these investments are reclassified to the held-to-maturity category, the unrealized gain or loss on available-for-sale securities will be maintained separately in equity and will be amortized during the investment's remaining life as an adjustment to yield.

***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***

This portfolio includes 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 the securities, trading operations on the secondary market, or specific market prices of financial instruments with similar characteristics.

***Impairment testing***

MERCANTIL assesses at each balance sheet date, or sooner if circumstances require it, whether there is objective evidence that a financial asset is impaired. An impairment in the fair value of held-to-maturity and available-for-sale securities is charged to the results for the period when management considers that it is other than temporary. Indicators of impairment are: 1) a prolonged period where fair value remains substantially below cost, 2) the financial condition and liquidity of the issuer, 3) a fall in the issuer's credit rating, 4) the disappearance of an active market for the security, and 5) MERCANTIL's inability to hold the investment long enough to allow for recovery of fair value, among others. For the six-month periods ended June 30, 2010 and December 31, 2009, MERCANTIL has identified no permanent impairment in the value of its investments.

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*Time deposits and placements*

These investments are funds deposited with financial institutions and are recorded at cost, which is equivalent to nominal 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 as for the investments from which they are derived.

*Long-term investments*

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

**d) 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 within interest income on the accrual basis (Note 4).

**e) Direct financial assets and liabilities**

These are mutuum or short sale agreements in which MERCANTIL is the lender and the client is the borrower. When MERCANTIL is the borrower, the liability is recorded as a financial liability (Notes 5 and 14). Short sale agreements are shown at the market value of underlying assets, including related interest receivable or payable in respect of these assets. Gains or losses from adjustments to market values are included in the results for the period.

**f) 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.

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.

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

**g) Property and equipment**

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 amount may not be recoverable. If an asset is impaired, the amount to be recognized as impairment is the amount by which the carrying amount of the asset exceeds fair value. Assets to be disposed of by sale are shown at the lower of book and fair value.

Assets received in lieu of payment are recorded at the lower of assigned value, book value, market value or appraisal value not older than one year, and are amortized using the straight-line method over

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one to three years. Assets idle for more than 24 months are written out of asset accounts. In conformity with VEN NIF, these assets must be recorded at the lower of cost and market value and are classified as property and equipment or available-for-sale assets depending on their use.

**h) 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 income accounts.

MERCANTIL assesses the collectibility of items within other assets using the same criteria, where applicable, as for the loan portfolio. Provisions are set aside for items that require them due to their nature or aging.

**i) Deferred and systems development expenses**

Deferred expenses are mainly in respect of office setup, office improvement and software. 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.

**j) Deferred income tax**

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

**k) Liabilities under repurchase agreements**

Repurchase agreements are treated as financing operations and recorded as liabilities for the amount 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.

**l) Reserves for insurance operations**

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.

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 within other liabilities (Note 15).

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

**m) Employee benefits**

***Accrual for 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

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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.

**n) Employee benefit plans**

***Retirement pension plan***

MERCANTIL has a long-term defined benefit plan covering all eligible employees 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 that are revised annually, such as the discount rate of the obligation, the inflation rate and salary increases, and include service costs, interest expense and returns on plan assets, as well as deferral and amortization of certain components. Changes in assumptions may affect the amount of future contributions.

MERCANTIL uses 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, Mercantil Commercebank, N.A. has a 401K benefit plan to which MERCANTIL contributes a fixed percentage of participating employees' salaries.

During the six-month periods ended June 30, 2010 and December 31, 2009, Mercantil Commercebank contributed Bs 546,000 and Bs 1,883,000, respectively, to the plan.

***Defined contribution scheme***

MERCANTIL maintains 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 in which they are made. This Plan is a voluntary programmed savings scheme in the form of individual capitalization accounts that is administered by the savings funds of certain subsidiaries. Under the Supplementary Savings Plan, employees contribute between 1% and 5% of their basic monthly salary and MERCANTIL doubles the employee's contribution up to a maximum of 10% of said salary.

***Post-retirement benefits***

The Supplementary Retirement Pension Plan and the Supplementary Savings Plan include certain post-retirement benefits for personnel of MERCANTIL and its Venezuelan subsidiaries, mainly medical insurance. The related costs and liabilities are determined based on actuarial methods and their initial past service 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.

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**o) Recognition of revenue and expenses**

Income, costs and expenses are recorded as earned or incurred. Interest collected in advance is recorded as income when earned.

Interest on customer deposits, liabilities and borrowings is recorded as interest expense when incurred.

Income from financial lease contracts and amortization costs of leased property are shown as net interest income.

**p) Fair value of financial instruments**

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

**q) Net income per share**

Basic net income per share is determined by dividing net income for the period by the weighted average of outstanding shares, excluding repurchased shares and those reserved for the employee stock option plan. Diluted net income per share is determined by applying the Treasury Stock Method, by which the net income per share is determined as if employee stock options had been exercised and funds from exercised options had been used to acquire MERCANTIL shares (Note 22).

**r) Assets received in trust**

MERCANTIL values assets received in trust, shown under memorandum accounts, using the same parameters as for its own assets. Investments in securities are mainly valued using the same method as that used for investments in held-to-maturity securities.

**s) Cash equivalents**

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

**t) Dividends**

In accordance with the Capital Markets Law, MERCANTIL records as a liability the required minimum annual cash dividend (Note 21). Cash dividends are recorded as liabilities when approved at a Shareholders' Meeting.

**u) Memorandum accounts**

MERCANTIL records under memorandum accounts assets received in trust, which are valued using the same parameters as for its own assets, commercial paper and debenture bonds that have been authorized for issue by the CNV, lines of credit and special trust services (Note 24).

**v) Translation of financial statements of subsidiaries abroad**

Assets and liabilities are translated at the period-end exchange rate, equity accounts at the historic exchange rate, and income accounts at the average exchange rate for the period. Translation adjustments are recorded in equity (Note 23).

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**w) Segment reporting**

A business segment is an identifiable component of a company, with specific products or services, which is subject to risks and returns that are different from those of other business segments (Note 28).

**3. Cash and due from banks**

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

Below are the balances with the BCV included in cash and due from banks:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
Demand deposits	1,850,414	1,125,785
Legal reserve in local currency	7,011,576	6,544,359
Legal reserve in U.S. dollars	<u>1,010</u>	<u>3,367</u>
	<u><b>8,863,000</b></u>	<u><b>7,673,511</b></u>

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

The legal reserve in Venezuela amounts to 17% of all deposits and other liabilities, including deposits classified as investments assigned but excluding liabilities with BCV, FOGADE and other financial institutions. The legal reserve for deposits and borrowings in local and foreign currency should be made in bolivars. Marginal increases in deposits as from July 2006 were subject to a legal reserve of 30% until January 30, 2009, when the rate was changed to 27%. As of March 2009, marginal increases in deposits were subject to a legal reserve of 25% until November 2009, when the rate was changed to 23%. Legal reserve funds do not earn interest for MERCANTIL.

**4. Investment portfolio**

The investment portfolio comprises the following:

	<u><b>June 30, 2010</b></u>		<u><b>December 31, 2009</b></u>	
	<b>Cost</b>	<b>Book value (equivalent to market value)</b>	<b>Cost</b>	<b>Book value (equivalent to market value)</b>
	(Thousands of bolivars)			
<b>Investments in trading securities</b>				
Investments in securities issued by Venezuelan entities				
Securities issued or guaranteed by the Bolivarian				
Republic of Venezuela in foreign currency	<u>22,463</u>	<u>22,463</u>	<u>809</u>	<u>809</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	109,578	109,578	42,727	42,727
Other investments	<u>81,127</u>	<u>81,127</u>	<u>28,210</u>	<u>28,210</u>
	<u>190,705</u>	<u>190,705</u>	<u>70,937</u>	<u>70,937</u>
Investment insecurities issued by foreign entities				
Other investments	<u>66</u>	<u>66</u>	<u>26</u>	<u>26</u>
	<u><b>213,234</b></u>	<u><b>213,234</b></u>	<u><b>71,772</b></u>	<u><b>71,772</b></u>

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	June 30, 2010				December 31, 2009			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
	(Thousands of bolivars)							
<b>Investments in available-for-sale securities</b>								
Investments in securities issued by Venezuelan entities								
Securities issued or guaranteed by the Bolivarian Republic of Venezuela								
In local currency (1)	3,587,075	168,387	(37,926)	3,717,536	3,301,508	39,782	(43,603)	3,297,687
In foreign currency	<u>794,479</u>	<u>30,566</u>	<u>(79,800)</u>	<u>745,245</u>	<u>447,285</u>	<u>44,849</u>	<u>(51,495)</u>	<u>440,639</u>
	<u>4,381,554</u>	<u>198,953</u>	<u>(117,726)</u>	<u>4,462,781</u>	<u>3,748,793</u>	<u>84,631</u>	<u>(95,098)</u>	<u>3,738,326</u>
Other investments								
In local currency	472,889	2,636	(3,585)	471,940	542,897	2,377	(5,241)	540,033
In foreign currency	<u>5,886</u>	<u>59</u>	<u>(133)</u>	<u>5,812</u>	<u>3,226</u>	<u>296</u>	<u>(133)</u>	<u>3,389</u>
	<u>478,775</u>	<u>2,695</u>	<u>(3,718)</u>	<u>477,752</u>	<u>546,123</u>	<u>2,673</u>	<u>(5,374)</u>	<u>543,422</u>
	<u>4,860,329</u>	<u>201,648</u>	<u>(121,444)</u>	<u>4,940,533</u>	<u>4,294,916</u>	<u>87,304</u>	<u>(100,472)</u>	<u>4,281,748</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)	6,271,766	87,160	(10,838)	6,348,088	2,985,502	31,025	(14,468)	3,002,059
Debt in companies sponsored and supervised by the government of the United States of America (3)	2,874,925	63,232	(8,285)	2,929,872	2,175,125	32,381	(6,670)	2,200,836
Securities issued by the National Treasury of the United States of America	171,454	7,738	(19)	179,173	187,547	827	(15,331)	173,043
Other investments	<u>862,406</u>	<u>11,646</u>	<u>(46,524)</u>	<u>827,528</u>	<u>90,338</u>	<u>237</u>	<u>(82)</u>	<u>90,493</u>
	<u>10,180,551</u>	<u>169,776</u>	<u>(65,666)</u>	<u>10,284,661</u>	<u>5,438,512</u>	<u>64,470</u>	<u>(36,551)</u>	<u>5,466,431</u>
Investments in other countries	<u>1,104,378</u>	<u>7,861</u>	<u>(1,760)</u>	<u>1,110,479</u>	<u>388,024</u>	<u>2,800</u>	<u>(2,293)</u>	<u>388,531</u>
	<u>16,145,258</u>	<u>379,285</u>	<u>(188,870)</u>	<u>16,335,673</u>	<u>10,121,452</u>	<u>154,574</u>	<u>(139,316)</u>	<u>10,136,710</u>

- (1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$140,699 at June 30, 2010 payable in bolivars at the official exchange rate (Note 23).
- (2) Includes securities of the Government National Mortgage Association and the Small Business Administration.
- (3) Mainly includes shares of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank.

The available-for-sale securities portfolio includes Petrobonos 2011, which are traded on the national and international markets. At June 30, 2010, these securities are valued based on the national market value, which represents the estimated cash flows in bolivars expected to be received at the realization date, based on their intended use.

At June 30, 2010, investments in available-for-sale securities with a market value of US\$1,384 million were pledged to guarantee deposits and investments sold under repurchase agreements (US\$1,057 million at December 31, 2009).

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The unrealized gain (loss) comprises the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Type of portfolio</b>		
Investments in available-for-sale securities	190,415	15,258
Investments in held-to-maturity securities reclassified to investments in available-for-sale securities	(14,485)	(4,325)
Share trading portfolio	13,730	14,439
Restricted investments	5,818	1,156
Affiliates shown under the equity method	(19,247)	(220)
Net increase from adjustment of spot contracts to market value	<u>-</u>	<u>15</u>
	<u>176,231</u>	<u>26,323</u>

At June 30, 2010, the market value of securities of the Bolivarian Republic of Venezuela owned by MERCANTIL and its subsidiaries is lower than cost by Bs 117,727,000. This loss is included in equity as an unrealized gain on investments. MERCANTIL considers that this difference is temporary since it is related to, among other things, the current state of world financial markets and the high volatility of international oil prices which, in the opinion of management, do not significantly affect payment capabilities of the issuer. Therefore, this difference has not been recognized in the consolidated income statement. In addition, MERCANTIL has the ability to hold these securities for a sufficient period of time to recover unrealized losses.

In addition to securities of the Bolivarian Republic of Venezuela, at June 30, 2010, MERCANTIL has other securities with values lower than cost by Bs 71,144,000. MERCANTIL believes that these losses arise from normal stock market fluctuations and, consequently, are temporary. Management does not expect to realize these securities at a price below their book value.

	<u>June 30, 2010</u>			<u>December 31, 2009</u>		
	Amortized cost	Unrealized gain (loss)	Market value	Amortized cost	Unrealized gain	Market value
	(Thousands of bolivars)					
<b>Investments in held-to-maturity securities</b>						
Investments in securities issued by Venezuelan entities						
Securities issued or guaranteed by the Bolivarian Republic of Venezuela						
In local currency (1)	<u>193,163</u>	<u>(25,459)</u>	<u>167,704</u>	<u>317,867</u>	<u>8,060</u>	<u>325,927</u>
Investments in securities issued by entities in the United States of America in U.S. dollars						
Other investments	<u>48,147</u>	<u>335</u>	<u>48,482</u>	<u>23,323</u>	<u>104</u>	<u>23,427</u>
Investments in other countries	<u>229,167</u>	<u>1,636</u>	<u>230,803</u>	<u>115,183</u>	<u>1,007</u>	<u>116,190</u>
	<u>470,477</u>	<u>(23,488)</u>	<u>446,989</u>	<u>456,373</u>	<u>9,171</u>	<u>465,544</u>

(1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$76,642 at June 30, 2010 payable in bolivars at the official exchange rate (Note 23).

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During the six-month period ended December 31, 2009, the subsidiary Mercantil Commercebank N.A., transferred held-to-maturity investments at their amortized cost of Bs 101,654,000 (equivalent to US\$47.4 million) to the available-for-sale securities portfolio, resulting in an unrealized loss of Bs 7,077,000 (equivalent to US\$3.3 million), which is included under unrealized gain from adjustment of investments to market value.

	June 30, 2010			Book value (equivalent to market value)	December 31, 2009			Book value (equivalent to market value)
	Cost	Unrealized gain	Unrealized loss		Cost	Unrealized gain	Unrealized loss	
(Thousands of bolivars)								
<b>Share trading portfolio</b>								
Shares issued by Venezuelan companies	5,948	14,737	(1,008)	19,677	5,522	15,497	(1,058)	19,961
Shares issued by foreign companies	<u>20</u>	<u>1</u>	<u>-</u>	<u>21</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
	<u>5,968</u>	<u>14,738</u>	<u>(1,008)</u>	<u>19,698</u>	<u>5,532</u>	<u>15,497</u>	<u>(1,058)</u>	<u>19,971</u>

During the six-month period ended December 31, 2009, Mercantil recorded a gain of US\$267,919, equivalent to Bs 575,000, in connection with the sale of 1,930 Class “B” MasterCard shares, shown within gain on sale of investment securities.

In July 2009, Mercantil sold 273,025 Visa Inc. shares at a gain of US\$16,558,000, equivalent to Bs 35,510,000, included under gain on sale of investment securities at December 31, 2009.

	June 30, 2010		December 31, 2009	
	Cost	Market value	Cost	Market value
(Thousands of bolivars)				
<b>Investments in time deposits and placements</b>				
Investments in securities issued by Venezuelan entities				
Time deposits with the Central Bank of Venezuela (BCV)	1,623,000	1,623,000	1,831,000	1,831,000
Time deposits with financial institutions	94,350	94,350	69,000	69,000
Overnight deposits	<u>177,802</u>	<u>177,802</u>	<u>3,000</u>	<u>3,000</u>
	<u>1,895,152</u>	<u>1,895,152</u>	<u>1,903,000</u>	<u>1,903,000</u>
Investments in securities issued by financial institutions in the United States of America				
Time deposits	120,959	120,959	51,899	51,899
Overnight deposits	<u>1,035</u>	<u>1,035</u>	<u>518</u>	<u>518</u>
	<u>121,994</u>	<u>121,994</u>	<u>52,417</u>	<u>52,417</u>
Investments in securities issued by foreign entities				
	<u>211,295</u>	<u>211,295</u>	<u>73,716</u>	<u>73,716</u>
	<u>2,228,441</u>	<u>2,228,441</u>	<u>2,029,133</u>	<u>2,029,133</u>

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At June 30, 2010, time deposits and placements include investments for Bs 2,019,148,000 maturing within 90 days (Bs 2,019,814,000 at December 31, 2009).

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
	(Thousands of bolivars)			
<b>Restricted investments and repurchase agreements</b>				
Securities issued by the Bolivarian Republic of Venezuela				
In local currency	1,428,544	1,428,485	1,288,093	1,288,156
In foreign currency	<u>73</u>	<u>73</u>	<u>33</u>	<u>33</u>
	<u>1,428,617</u>	<u>1,428,558</u>	<u>1,288,126</u>	<u>1,288,189</u>
Securities issued or guaranteed by the government of the United States of America				
	<u>72,865</u>	<u>78,742</u>	<u>38,703</u>	<u>39,796</u>
Investments in other countries				
	<u>3,818</u>	<u>3,818</u>	<u>2,148</u>	<u>2,148</u>
	<u>1,505,300</u>	<u>1,511,118</u>	<u>1,328,977</u>	<u>1,330,133</u>

At June 30, 2010, restricted investments include securities of the Coral Gables agency of the subsidiary Mercantil, C.A. Banco Universal with a market value of US\$12,879,000 (US\$13,919,000 at December 31, 2009), pledged to regulatory entities in compliance with state requirements in the United States of America.

Below is a classification of investments by maturity at June 30, 2010:

	<u>Available-for-sale investments</u>			<u>Held-to-maturity investments</u>		
	<u>Cost</u>	<u>Book value (equivalent to market value)</u>	<u>Yield %</u>	<u>Cost</u>	<u>Amortized cost</u>	<u>Yield % (1)</u>
	(Thousands of bolivars)			(Thousands of bolivars)		
<b>In bolivars</b>						
Less than 1 year	1,089,203	1,101,317	8.67	-	-	-
From 1 to 5 years	2,523,319	2,512,061	13.92	-	-	-
Over 5 years	541,387	669,796	15.61	191,498	193,163	15.57
<b>In U.S. dollars</b>						
Less than 1 year	463,226	464,430	7.91	69,208	67,940	1.20
From 1 to 5 years	1,788,244	1,756,588	5.10	193,348	190,645	2.19
Over 5 years	<u>9,739,879</u>	<u>9,831,481</u>	5.29	<u>16,920</u>	<u>18,729</u>	9.16
	<u>16,145,258</u>	<u>16,335,673</u>		<u>470,974</u>	<u>470,477</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 December 31, 2009, MERCANTIL recorded an impairment expense of Bs 34,038,000 in the consolidated income statement under expenses from write-down of investments in available-for-sale securities, mainly due to the difference between the cost represented by the national market value at purchase date and the international market value of securities denominated in foreign currency acquired in October 2009.

During the six-month period ended June 30, 2010, a net gain of Bs 219,954,000 (Bs 105,821,000 during the six-month period ended December 31, 2009) was recorded on the sale of securities, included under gain on sale of investment securities.

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During the six-month period ended June 30, 2010, MERCANTIL swapped debt securities issued by the Bolivarian Republic of Venezuela denominated in foreign currency for debt securities issued by the Bolivarian Republic of Venezuela denominated in bolivars, which were subsequently sold at a loss of Bs 3,627,000 (net gain of Bs 106,257,000 at December 31, 2009), included 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, 2010, MERCANTIL has investment securities issued or guaranteed by the Venezuelan government and investment securities with BCV, which represent 24.58% and 14.68%, respectively, of its investment securities portfolio (29.43% and 21.77%, respectively, at December 31, 2009). Furthermore, MERCANTIL has investments in bonds issued by the government and other government agencies of the United States of America representing 49.71% of its investment portfolio (39.64% at December 31, 2009).

**5. Direct financial assets**

At December 31, 2009, MERCANTIL had mutuum or securities loan agreements with third parties, represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela for Bs 293,880,000, with a par value of Bs 294,818,000 and yields between 8.24% and 12.97%, and maturities as follows:

	(Thousands of bolivars)
Up to 30 days	282,750
31 to 60 days	<u>11,130</u>
	<u>293,880</u>

**6. Loan portfolio**

The loan portfolio is classified as follows:

	June 30, 2010					%	December 31, 2009		
	Current	Rescheduled	Overdue	In litigation	Total		Total	%	
	(Thousands of bolivars)								
<b>Economic activity</b>									
Commercial	12,401,173	240,916	439,226	95,743	13,177,058	34	9,483,364	35	
Foreign trade	4,046,907	-	21,902	-	4,068,809	11	2,280,916	8	
Credit cards	3,714,576	-	2,684	-	3,717,260	10	3,220,782	12	
Agriculture	3,403,209	47,297	71,113	14,848	3,536,467	9	2,939,591	10	
Construction	2,239,101	94,611	640,284	2,466	2,976,462	8	2,363,904	8	
Industrial	2,614,859	1,265	16,153	-	2,632,277	7	2,339,015	8	
Home purchase	2,537,412	2,056	38,778	23,284	2,601,530	7	2,067,687	7	
Services	2,055,897	7,683	3,356	-	2,066,936	5	800,776	3	
Car loans	1,148,177	-	15,414	-	1,163,591	3	1,219,366	4	
Other	<u>2,103,987</u>	<u>47,732</u>	<u>256,070</u>	<u>13,799</u>	<u>2,421,588</u>	<u>6</u>	<u>1,315,047</u>	<u>5</u>	
	<u>36,265,298</u>	<u>441,560</u>	<u>1,504,980</u>	<u>150,140</u>	<u>38,361,978</u>	<u>100</u>	<u>28,030,448</u>	<u>100</u>	

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Below is a breakdown of the loan portfolio by geographic location:

<b>Geographic location</b>	<b>June 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Thousands of bolivars</b>	<b>%</b>	<b>Thousands of bolivars</b>	<b>%</b>
Venezuela	22,628,993	59	21,045,321	76
United States of America	9,322,657	24	4,388,635	16
Brazil	1,456,965	4	590,209	2
Peru	901,737	2	270,223	1
Mexico	619,663	2	255,722	1
Colombia	351,996	2	126,614	-
Panama	190,910	-	46,565	-
Switzerland	153,180	-	65,425	-
Other countries	<u>2,735,877</u>	<u>7</u>	<u>1,241,734</u>	<u>4</u>
	<u>38,361,978</u>	<u>100</u>	<u>28,030,448</u>	<u>100</u>

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

	<b>Six-month periods ended</b>	
	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
Balance at the beginning of the period	892,725	758,841
Provided in the period	365,648	395,612
Effect of translating allowances in foreign currency	204,583	1,009
Decrease in allowance (Note 19)	(1,370)	(5,681)
Write-off of uncollectible loans	(276,831)	(253,756)
Transfers to other reserves	-	(3,300)
Balance at the end of the period	<u>1,184,755</u>	<u>892,725</u>

At June 30, 2010, the loan portfolio no longer earning interest amounts to Bs 1,655,120,000 and includes US\$335,828,000 (Bs 1,083,096,000 including US\$415,788,000 at December 31, 2009).

During the six-month period ended June 30, 2010, interest accrued but not recorded as income on loans overdue and in-litigation amounts to Bs 221,831,000 and includes US\$8.6 million (Bs 248,866,000 including US\$19.9 million during the six-month period ended December 31, 2009). Interest on the loan portfolio for the six-month period ended June 30, 2010 includes Bs 192,314,000 (Bs 208,457,000 during the six-month period ended December 31, 2009) for interest collected on loans overdue and in-litigation deferred in previous periods.

During the six-month period ended June 30, 2010, uncollectible loans written off in previous six-month periods for Bs 36,777,000 (Bs 75,124,000 during the six-month period ended December 31, 2009) are included in the consolidated income statement 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, 2010 and December 31, 2009, 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:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Interest on</b>		
Loan portfolio	269,107	215,910
Investment securities and cash and due from banks	<u>144,183</u>	<u>74,344</u>
	413,290	290,254
Commissions receivable	23,111	26,899
Provision for contingent losses	<u>(16,868)</u>	<u>(15,307)</u>
	<u>419,533</u>	<u>301,846</u>

**8. Long-term investments**

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

	<u>June 30, 2010</u>				<u>December 31, 2009</u>		
	Par value Bs	Number of shares	Equity %	Thousands of bolivars	Number of shares	Equity %	Thousands of bolivars
Cestaticket Accor Services, C.A.	1.00	2,580,000	43.00	86,774	2,580,000	43.00	74,630
Inversiones Platco, C.A.	100.00	30,000	50.00	47,045	30,000	50.00	48,676
Todo 1 Services, Inc. (Note 11)	2.14 (1)	26,187	47.00	43,083	26,187	47.72	21,498
Proyectos Conexus, C.A.	0.10	343,334	33.00	3,643	343,334	33.33	3,123
Other				<u>9,757</u>			<u>5,409</u>
				<u>190,302</u>			<u>153,336</u>

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

During the six-month period ended June 30, 2010, MERCANTIL recorded income from equity participation of Bs 7,724,000 (Bs 36,274,000 during the six-month period ended December 31, 2009), which includes a gain of Bs 12,144,000 from Cestaticket Accor Services, C.A. and losses of Bs 249,000 from the affiliate Todo 1 Services, Inc. and Bs 4,328,000 from Inversiones Platco, C.A. (gain of Bs 42,437,000 from Cestaticket Accor Services, C.A. and Bs 184,000 from Todo 1 Services, Inc. and a loss of Bs 6,915,000 from Inversiones Platco, C.A. during the six-month period ended December 31, 2009).

At June 30, 2009, the subsidiary Mercantil, C.A. Banco Universal made capital contributions to its affiliate Inversiones Platco, C.A. of Bs 37,889,000 by assigning points of sale (POS) at their estimated market value, and recorded deferred income of Bs 21,922,000 in respect of the difference between the book value and the estimated market value of the POS. In addition, during the six-month period ended June 30, 2010, the subsidiary Mercantil, C.A. Banco Universal made capital contributions to its affiliate Inversiones Platco, C.A. of Bs 16,000,000 in cash (Bs 13,303,000 during the six-month period ended December 31, 2009). During the six-month period ended June 30, 2010, this affiliate reduced contributions for future capitalizations by Bs 13,303,000.

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**9. Available-for-sale assets**

Available-for-sale assets comprise the following:

	December 31, 2009	Additions	Withdrawals	Sales	Other	June 30, 2010
	(Thousands of bolivars)					
Real property received as payment	67,041	69,795	-	-	65,362	202,198
Idle assets	31,964	13,959	(12,784)	(337)	-	32,802
Other available-for-sale assets	7,035	15,837	(16,540)	-	4,790	11,122
Accumulated amortization	<u>(54,587)</u>	<u>(8,892)</u>	<u>3,641</u>	<u>337</u>	<u>(52,887)</u>	<u>(112,388)</u>
	<u>51,453</u>	<u>90,699</u>	<u>(25,683)</u>	<u>---</u>	<u>17,265</u>	<u>133,734</u>

During the six-month period ended June 30, 2010, MERCANTIL recorded amortization expense of available-for-sale assets of Bs 8,892,000 (Bs 27,637,000 during the six-month period ended December 31, 2009). Fully depreciated personal and real property are shown under memorandum accounts (Note 24).

During the six-month period ended June 30, 2010, MERCANTIL sold assets received as payment and idle assets at a gain of Bs 2,526,000 and a loss of Bs 1,536,000 (gain of Bs 4,619,000 and loss of Bs 1,728,000 during the six-month period ended December 31, 2009), shown in the consolidated income statement under other income and other operating expenses, respectively (Notes 19 and 20).

During the six-month period ended December 31, 2009, the subsidiary Mercantil, C.A. Banco Universal reclassified Bs 31,326,000 to idle assets, of which Bs 13,455,000 is in respect of office furniture and constructions made in offices to be used by MERCANTIL at the Sambil La Candelaria shopping mall (Note 11).

**10. Property and equipment**

Property and equipment comprises the following:

	Cost							
	Balances at December 31, 2009	Additions	Withdrawals	Fully depreciated assets written off	Other	Loss from asset write-down	Translation adjustment	Balances at June 30, 2010
	(Thousands of bolivars)							
Buildings and facilities	384,708	18,451	(107)	(292)	(3,561)	-	92,592	491,791
Office furniture and equipment	401,235	21,104	(4,336)	(4)	(1,900)	-	66,797	482,896
Equipment for Chip project	-	11,211	-	-	-	-	-	11,211
Vehicles	9,002	586	-	-	(46)	-	202	9,744
Land	18,212	-	-	-	(144)	-	8,138	26,206
Construction in progress	30,274	12,432	(9,162)	-	-	-	6,010	39,554
Other property	<u>55,943</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>41,532</u>	<u>97,475</u>
Total	<u>899,374</u>	<u>63,784</u>	<u>(13,605)</u>	<u>(296)</u>	<u>(5,651)</u>	<u>---</u>	<u>215,271</u>	<u>1,158,877</u>

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	Accumulated depreciation							Balances at June 30, 2010
	Balances at December 31, 2009	Additions	Withdrawals	Fully depreciated assets written off	Other	Loss from asset write-down	Translation adjustment	
	(Thousands of bolivars)							
Buildings and facilities	(134,870)	(9,266)	72	292	3,769	-	(22,162)	(162,165)
Office furniture and equipment	(262,342)	(27,164)	2,798	4	1,903	-	(53,027)	(337,828)
Equipment for Chip project	-	(516)	-	-	(1,459)	-	-	(1,975)
Vehicles	(4,184)	(818)	-	-	45	-	(182)	(5,139)
Other property	<u>(7,940)</u>	<u>(2,779)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,305)</u>	<u>(20,024)</u>
Total	<u>(409,336)</u>	<u>(40,543)</u>	<u>2,870</u>	<u>296</u>	<u>4,258</u>	<u>-</u>	<u>(84,676)</u>	<u>(527,131)</u>
Net	<u>490,038</u>	<u>23,241</u>	<u>(10,735)</u>	<u>-</u>	<u>(1,393)</u>	<u>-</u>	<u>130,595</u>	<u>631,746</u>

At June 30, 2010, property and equipment includes Bs 83,109,000 related to a corporate airplane (Bs 41,428,000 during the six-month period ended December 31, 2009). During the six-month period ended December 31, 2009, MERCANTIL sold a corporate airplane at its market value of Bs 16,085,000 (US\$7,500,000) to a third party. At December 31, 2009, depreciation, property and equipment expenses, amortization of intangibles and other include Bs 2,657,000 from the impairment in the market value of the airplane sold. During the six-month period ended June 30, 2010, MERCANTIL recorded depreciation expense of Bs 2,779,000 (Bs 2,625,000 during the six-month period ended December 31, 2009).

During the six-month period ended June 30, 2010, MERCANTIL recorded depreciation expense of Bs 40,543,000 (Bs 37,044,000 during the six-month period ended December 31, 2009), shown in the consolidated income statement within operating expenses.

At June 30, 2010, buildings, facilities and land carried at Bs 355,833,000 have an estimated market value of Bs 1,934,754,000, based on valuations performed by independent appraisers in April and June 2009.

At June 30, 2010 and December 31, 2009, construction in progress is mainly in respect of construction or remodeling of offices to be used by MERCANTIL.

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

	Useful life	Remaining useful life
	(Years)	
Buildings and facilities	40	22
Office furniture and equipment	4-10	3
Other property	10	7

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**11. Other assets**

Other assets comprise the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
Insurance premiums receivable	437,253	325,135
Sale of securities in process of collection	199,408	32,742
Prepaid expenses	173,955	97,259
Goodwill	146,984	119,164
Deferred expenses, net of accumulated amortization of Bs 163,959 (Bs 132,318 at December 31, 2009)	129,585	149,797
Guarantee deposits to reinsurers	113,550	48,857
Cross Currency Swap valuation (Notes 15 and 24)	85,144	380
Prepaid taxes, insurance and other prepaid expenses	53,399	58,672
Guarantee deposits and advances for acquisition of personal and real property (Note 10)	49,145	16,568
Pending items	45,078	23,633
Sambil La Candelaria shopping mall rights (Note 9)	39,191	39,191
Systems development, net of accumulated amortization of Bs 151,051 (Bs 118,905 at December 31, 2009)	37,298	36,664
Deferred income tax (Note 17)	31,992	39,951
Adjustment of spot and forward contracts to market value (Note 24)	23,371	4,087
Prepaid advertising	9,672	4,507
Accounts receivable from other credit card institutions	9,283	6,509
Currency redenomination expenses (Note 2)	3,991	4,811
Other	<u>168,555</u>	<u>144,339</u>
	1,756,854	1,152,266
Provision for estimated losses on other assets	<u>(40,551)</u>	<u>(29,883)</u>
	<u>1,716,303</u>	<u>1,122,383</u>

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), which gave rise to goodwill of Bs 131,222,000, Bs 19,602,000 and Bs 41,162,000, respectively. These three companies were later merged with Mercantil, C.A. Banco Universal, Mercantil Seguros, C.A. and Mercantil Commercebank, N.A., respectively. To acquire Seguros Orinoco, former shareholders provided guarantees covering a 10-year period for recovery of certain assets and resolution of certain contingencies. In November 2007, an agreement was signed between the subsidiary Inversiones y Valores Mercantil VI, C.A. and certain former shareholders of C.A. Seguros Orinoco, whereby the parties agreed to close the trust fund consisting of guarantees granted for acquisition of C.A. Seguros Orinoco. At June 30, 2010 and December 31, 2009, MERCANTIL has recorded Bs 932,167, including US\$273,541, in connection with this settlement.

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Below is the movement of goodwill:

	<b>Cost</b>		
	<b>Balances at December 31, 2009</b>	<b>Translation adjustment</b>	<b>Balances at June 30, 2010</b>
	(Thousands of bolivars)		
Interbank, C.A.	131,222	-	131,222
Florida Savings Bank	41,162	41,164	82,326
C.A. Seguros Orinoco	19,602	-	19,602
Mercantil Seguros, C.A.	3,989	-	3,989
Todo 1 Services, Inc.	<u>3,291</u>	<u>-</u>	<u>3,291</u>
	<u>199,266</u>	<u>41,164</u>	<u>240,430</u>

  

	<b>Accumulated amortization</b>			
	<b>Balances at December 31, 2009</b>	<b>Additions</b>	<b>Translation adjustment</b>	<b>Balances at June 30, 2010</b>
	(Thousands of bolivars)			
Interbank, C.A.	59,052	3,281	-	62,333
Florida Savings Bank	7,375	1,380	8,053	16,808
C.A. Seguros Orinoco	8,488	530	-	9,018
Mercantil Seguros, C.A.	1,896	100	-	1,996
Todo 1 Services, Inc.	<u>3,291</u>	<u>-</u>	<u>-</u>	<u>3,291</u>
	<u>80,102</u>	<u>5,291</u>	<u>8,053</u>	<u>93,446</u>

The balance of deferred expenses mainly includes expenses for office setup, leasehold improvements and projects to be capitalized, which include technology upgrades, equipment and software.

Sambil La Candelaria shopping mall rights were mainly acquired to set up the main office of Mercantil, C.A. Banco Universal and for other purposes. At June 30, 2010, MERCANTIL's consolidated financial statements include Bs 46 million (Bs 49 million at December 31, 2009) for the aforementioned rights, as well as idle assets. In January 2010, the Venezuelan National Assembly declared this property of public utility and social interest, and urged the Capital District government to proceed with its expropriation, which was effected on February 24, 2010. To date, the expropriation terms are unknown. Based on an independent appraisal conducted in February 2010, the fair value of these assets is considered to exceed their book value.

The balance of pending items mainly comprises operations that, due to their nature, cannot be immediately imputed to a definitive account, as well as 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, 2010, MERCANTIL recorded amortization expense of Bs 32,907,000 (Bs 31,138,000 during the six-month period ended December 31, 2009) in this connection, shown in the consolidated income statement under depreciation, property and equipment expenses, amortization of intangibles and other.

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**12. Deposits**

Deposits comprise the following:

**Type of deposit**

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Non-interest-bearing checking accounts	13,620,463	24	10,398,275	24
Interest-bearing checking accounts	18,498,436	33	12,232,187	29
Savings deposits	17,130,886	30	13,902,051	32
Time deposits	<u>7,531,289</u>	<u>13</u>	<u>6,315,191</u>	<u>15</u>
	<u>56,781,074</u>	<u>100</u>	<u>42,847,704</u>	<u>100</u>

**Time deposits by maturity**

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Up to 30 days	2,203,129	29	1,234,489	20
31 to 60 days	868,087	12	648,503	10
61 to 90 days	747,678	10	393,998	6
91 to 180 days	1,007,038	13	567,304	9
181 to 360 days	743,002	10	466,460	7
Over 360 days	<u>1,962,355</u>	<u>26</u>	<u>3,004,437</u>	<u>48</u>
	<u>7,531,289</u>	<u>100</u>	<u>6,315,191</u>	<u>100</u>

Deposits bear interest at the rates shown below:

	<u>June 30, 2010</u>				<u>December 31, 2009</u>			
	<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>		<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>	
	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %
Interest-bearing checking accounts	0.50	2.50	0.03	1.20	0.50	3.00	0.03	1.20
Savings deposits	12.50	12.50	0.03	2.00	12.50	12.50	0.03	2.00
Time deposits	14.50	14.76	0.10	5.80	14.50	17.00	0.10	6.10

At June 30, 2010, deposits include Bs 1,115,078,000 (Bs 957,342,000 at December 31, 2009) from the Venezuelan government and other government entities, equivalent to 2.0% of total deposits (2.2% at December 31, 2009).

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**13. Debt authorized by the Venezuelan Securities and Exchange Commission**

At June 30, 2010, MERCANTIL has issued by public offering debenture bonds and commercial paper with the following characteristics:

**a) Debenture bonds**

	<b>Amount issued and placed (Note 24)</b>	<b>Date of issue</b>	<b>Term (Years)</b>	<b>Percentage of return compared to TAM (•)</b>
	(Thousands of bolivars)			
Issue 2007-I	20,000	May 2007	4	72.5
Issue 2008-I	60,000	February and March 2009	1.5 and 2	83 - 85
Issue 2009-I	<u>60,000</u>	August and September 2009	1 and 1.6	80 - 83
	<u>140,000</u>			
Bonds acquired by subsidiaries	<u>11,127</u>			
	<u>128,873</u>			

(•) The Market Lending Rate (TAM) is the weighted average annual interest rate for lending operations agreed by the six main commercial and universal banks in Venezuela according to information published by BCV.

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

**b) Commercial paper**

	<b>Amount issued</b>	<b>Pending issue (Note 16)</b>	<b>Amount placed</b>
	(Thousands of bolivars)		
<b>Issue 2009-I</b>			
Pending issue	<u>100,000</u>	<u>100,000</u>	_____ -
	<u>100,000</u>	<u>100,000</u>	=====

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**14. Financial liabilities**

Financial liabilities are classified by type and maturity as follows:

	<u>June 30, 2010</u>			<u>December 31, 2009</u>		
	<u>Up to one year</u>	<u>More than one year</u>	<u>Total</u>	<u>Up to one year</u>	<u>More than one year</u>	<u>Total</u>
	(Thousands of bolivars)					
<b>Liabilities with Venezuelan banks and savings and loan institutions</b>						
Credit balances with correspondent banks	38,518	-	38,518	120,309	-	120,309
Loans granted by Venezuelan financial institutions, with annual interest at between 16% and 17%	80,000	120,000	200,000	-	-	-
Deposits and other liabilities with BANAVIH	10	-	10	10	-	10
	<u>118,528</u>	<u>120,000</u>	<u>238,528</u>	<u>120,319</u>	<u>-</u>	<u>120,319</u>
<b>Liabilities with foreign banks and savings and loan institutions</b>						
Federal Home Loan Bank, with a par value of US\$454,750,000, with annual interest at between 0.2% and 5.8% (US\$201,754,359 at December 31, 2009, with annual interest at between 2.0% and 5.9%)	750,628	1,199,932	1,950,560	9	432,673	432,682
Credit balances with foreign correspondent banks	-	-	-	447	-	447
Other	603	-	603	-	-	-
	<u>751,231</u>	<u>1,199,932</u>	<u>1,951,163</u>	<u>456</u>	<u>432,673</u>	<u>433,129</u>
<b>Direct financial liabilities</b>						
Mutuums (liability) or securities loan agreements	-	-	-	364,146	-	364,146
<b>Liabilities under repurchase agreements</b>						
Liabilities under repurchase agreements with a par value of US\$333,058,000, with annual interest at between 0.32% and 5.51% (US\$337,000,000, with annual interest at between 3.85% and 5.51% at December 31, 2009)	798,059	630,527	1,428,586	-	722,730	722,730
<b>Other liabilities</b>						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	2,111	2,111	-	2,111	2,111
Liabilities with credit card institutions	828	-	828	-	-	-
Liabilities in respect of letters of credit	26,693	-	26,693	21,892	-	21,892
Other	59	14	73	1,107	26	1,133
	<u>27,580</u>	<u>2,125</u>	<u>29,705</u>	<u>22,999</u>	<u>2,137</u>	<u>25,136</u>
	<u>1,695,398</u>	<u>1,952,584</u>	<u>3,647,982</u>	<u>507,920</u>	<u>1,157,540</u>	<u>1,665,460</u>

Maturities of financial liabilities are as follows:

**Up to one year**

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Up to 30 days	439,529	26	498,771	99
Between 31 and 60 days	310,547	18	6,585	1
Between 61 and 90 days	432,473	25	1,030	-
Between 91 and 360 days	512,849	31	1,534	-
Total	<u>1,695,398</u>	<u>100</u>	<u>507,920</u>	<u>100</u>

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**More than one year**

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
2011	77,183	-	387,086	33
2012	713,427	57	122,249	11
2013	701,949	20	375,305	32
2014 and beyond	128,679	-	272,900	24
2015 and beyond	<u>331,348</u>	<u>23</u>	<u>-</u>	<u>-</u>
Total	<u>1,952,586</u>	<u>100</u>	<u>1,157,540</u>	<u>100</u>

**Direct financial liabilities**

At December 31, 2009, MERCANTIL had mutuum or securities loan agreements of Bs 364,146,000 represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela with annual yields between 11.98% and 16.13%. Of these amounts, Bs 1,014,000 is related to the subsidiary Mercantil Merinvest Casa de Bolsa, C.A.

In January 2010, the CNV reformed brokerage intermediation activities to mutuum operations carried out by brokerage firms and to order their unwinding within 90 days. At June 30, 2010, MERCANTIL has no current mutuum.

**Liabilities under repurchase agreements**

Below is a summary of liabilities under repurchase agreements:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
Balance at period end	1,428,586	722,730
Fair value of financial instruments (1)	1,428,586	722,730
Total maximum balance outstanding at the end of any month of the period	1,707,390	829,960
Average balance for the period	1,460,309	751,325

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

	<b>%</b>	<b>%</b>
<b>Weighted average interest rate</b>		
For the period		
In foreign currency	4.34	4.53
Interest rate at period end		
In foreign currency	4.27	4.62

Liabilities under repurchase agreements are mainly in respect of investments assigned by MERCANTIL during the normal course of business.

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**15. Other liabilities**

Other liabilities comprise the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
Reserves for insurance operations (Note 2)	1,583,393	1,303,605
Cashier's checks issued to clients	572,066	320,641
Accrued expenses	356,080	143,487
Other demand liabilities	307,548	275,438
Provision for contingencies and other (Notes 17 and 32)	299,079	168,808
Personnel profit sharing and bonuses	284,032	133,552
Deferred income and interest (Note 8)	167,604	171,120
Taxes collected and withheld	136,424	62,098
Provisions for taxes payable (Note 17)	117,468	93,158
Pending items	77,579	74,075
Accounts payable to suppliers	74,480	70,108
Dividends payable	34,061	55,667
Labor contributions	25,193	18,593
Provision for operating risks	11,785	25,285
Law for the Advancement of Science, Technology and Innovation (Note 20)	10,959	-
Supplementary Savings Plan (Note 18-a)	7,192	4,211
Cross Currency Swap valuation (Notes 11 and 24)	6,932	7,275
Law on Narcotic and Psychotropic Substances	6,792	14,365
Deposits or advances received for leasing and sale of premises in Sambil La Candelaria shopping mall	3,848	5,702
Other	<u>177,044</u>	<u>147,616</u>
	<u>4,259,559</u>	<u>3,094,804</u>

At June 30, 2010, MERCANTIL maintains provisions for operating risks of Bs 11,785,000, (Bs 25,285,000 at December 31, 2009) 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 income statement under Other operating expenses (Note 20).

At June 30, 2010, certain MERCANTIL subsidiaries have invested in technology and innovation projects to cover the 0.5% contribution of territorial gross income during the prior year required by the Law for the Advancement of Science, Technology and Innovation. In addition, during the six-month period ended June 30, 2010, MERCANTIL made contributions to companies included under the aforementioned Law. At December 31, 2009, MERCANTIL had a provision of Bs 10,959,000 in this connection.

The Law on Narcotic and Psychotropic Substances and its Regulations require MERCANTIL to earmark 1% of its annual net income subject to income tax for employee-oriented social programs for the prevention of illegal drug consumption and traffic.

Pending items mainly include commitments acquired by Mercantil Commercebank, N.A. in respect of securities transactions pending settlement at period end, which clear during the first days of July and January 2010, respectively.

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**16. Subordinated debt**

The subsidiary Mercantil 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\$	Balances at June 30, 2010		Balances at December 31, 2009	
				Equivalent in millions of US\$	Equivalent in millions of bolivars	Equivalent in millions of US\$	Equivalent in millions of bolivars
June 1998	June 2028	8.90	40	27	115,082	27	57,539
September 2000	September 2030	10.60	15	15	64,340	15	32,169
March 2001	June 2031	10.18	10	10	42,893	10	21,446
December 2002	January 2033	LIBOR + 3.35	9	9	39,676	9	19,838
April 2003	April 2033	LIBOR + 3.25	8	8	34,313	8	17,157
March 2004	April 2034	LIBOR + 2.85	5	5	21,446	5	10,723
September 2006	December 2038	LIBOR + 1.75	25	25	107,233	25	53,615
December 2006	December 2036	LIBOR + 1.78	15	15	<u>64,340</u>	15	<u>32,169</u>
					<u>489,323</u>		<u>244,656</u>

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

**17. Taxes**

**a) Tax expense**

The tax expense comprises the following:

	Six-month periods ended	
	June 30, 2010	December 31, 2009
	(Thousands of bolivars)	
<b>Taxes</b>		
Current		
In Venezuela	92,731	70,093
Abroad	<u>193</u>	<u>2,184</u>
	<u>92,924</u>	<u>72,277</u>
Deferred		
In Venezuela	14,440	-
Abroad	<u>-</u>	<u>4,653</u>
	<u>14,440</u>	<u>4,653</u>

**Taxes in Venezuela**

***Venezuelan Income Tax Law***

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

MERCANTIL's tax year ends on December 31. The main differences between book income and taxable income arise from the net effect of the annual inflation adjustment, shareholdings, provisions and accruals, nontaxable income and the net effect of tax-exempt income from National Public Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela.

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At June 30, 2010, MERCANTIL and its subsidiaries have tax loss carryforwards of Bs 619,390,759 with sources and maturities as shown below:

	<b>Territorial</b>	<b>Extraterritorial</b>	<b>Total global</b>
	(Thousands of bolivars)		
Tax losses	606,557	12,834	619,391
<b>Maturities</b>			
2010	479,118	1,433	480,551
2011	84,807	6,344	91,151
2012	42,632	5,057	47,689

The aforementioned amount mainly comprises tax loss carryforwards of Mercantil Servicios Financieros, C.A. (Bs 299,528,000), Mercantil Seguros, C.A. (Bs 101,140,000), Mercantil Merinvest, C.A. (Bs 70,355,000), Mercantil Merinvest Casa de Bolsa, C.A. (Bs 30,130,000), Inversiones y Valores Mercantil VIII, C.A. (Bs 54,884,000) and Mercantil Financiadora de Primas, C.A. (Bs 17,632,000).

The subsidiary Mercantil, C.A. Banco Universal has estimated a tax expense of Bs 71 million for the six-month period ended June 30, 2010. In addition, for the six-month period ended December 31, 2009, this subsidiary computed a tax expense of Bs 60 million.

The following is a reconciliation between book expense and tax expense for the subsidiary Mercantil, C.A. Banco Universal for the tax period ended December 31, 2009:

Statutory tax rate	<u>34%</u>
	(Thousands of bolivars)
Notional tax expense based on book income in Venezuela computed at the effective tax rate	264,113
Difference between notional tax expense and actual tax expense	
Net effect of equity participation	(21,858)
Effect of the annual inflation adjustment	(224,467)
Net effect of exemption of securities issued or guaranteed by the Venezuelan government	(75,302)
Nondeductible provisions	
Loan portfolio, net	91,139
Other provisions	(3,192)
Other effects, net	<u>22,369</u>
Effect of applying tax rate to net income in Venezuela	52,802
Effect of applying tax rate to foreign-earned net income	<u>7,179</u>
Effect of applying tax rate to net income in Venezuela and foreign-earned net income	<u>59,981</u>

**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 the methodologies set out in each country's regulations and to report results obtained through a special return. MERCANTIL and the subsidiaries subject to these regulations filed transfer-pricing returns for information purposes within the established time frames.

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**Taxes in the United States of America**

***Federal taxes***

Federal tax legislation in the United States of America establishes, among other things, a 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 2008 MERCANTIL 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.

**b) Deferred income tax**

The deferred tax asset comprises the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
Unrealized loss on valuation of investments	(41,847)	(11,407)
Provision for operating and labor expenses	31,007	28,105
Allowance for losses on loan portfolio	40,306	21,990
Property and equipment, office setup expenses and other	<u>2,526</u>	<u>1,263</u>
	<u>31,992</u>	<u>39,951</u>

At June 30, 2010, deferred income tax corresponds to the subsidiary Mercantil Commercebank Holding Corporation (Bs 14,440,000 and Bs 25,511,000 to the subsidiaries Mercantil, C.A., Banco Universal and Mercantil Commercebank Holding Corporation, respectively, at December 31, 2009).

MERCANTIL assesses recoverability of deferred tax assets using a model which considers the historic financial performance, taxable income projections and the future realization of existing temporary differences, among others. This assessment is based on approved business plans, among others, and includes management judgment on assumptions used, which may vary from one period to the next. At June 30, 2010, MERCANTIL, based on its assessment, estimates that the net deferred tax asset of Bs 31,992,000 is realizable.

**18. Employee benefit plans**

**a) Supplementary Savings Plan**

MERCANTIL maintains 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 Plan). Active employees have the option of subscribing to the new plan or remaining in the existing defined benefit plan.

Expenses in connection with this plan for MERCANTIL and its subsidiaries for the six-month period ended June 30, 2010 amount to Bs 16 million (Bs 15 million for the six-month period ended December 31, 2009).

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**b) Supplementary Defined Benefit Plan**

This 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 meeting certain conditions in respect of age and length of service, mainly health insurance, with costs and obligations determined based on actuarial methods. These benefits are recorded in the consolidated income statement for the period.

For the six-month period ended June 30, 2010, MERCANTIL and its subsidiaries recorded an expense of Bs 8 million (Bs 7 million for the six-month period ended December 31, 2009) in connection with the Supplementary Defined Benefit Plan and post-retirement benefits.

At December 31, 2009, date of the last actuarial study, the assets, obligations and results of the Supplementary Defined Benefit Plan and post-retirement benefits for both plans, as well as the long-term assumptions used, are as follows:

	<b>Supplementary Defined Benefit Plan</b>	<b>Post-retirement benefits</b>
	(Thousands of bolivars)	
<b>Variation of projected benefit obligation</b>		
Benefit obligation at the beginning of the Plan	28,514	32,594
Service cost	116	2,600
Interest cost	5,702	6,310
Actuarial (gain) loss	1,572	(12,396)
Benefits paid	(6,208)	(2,579)
Plan modification	<u>11,684</u>	<u>-</u>
Projected benefit obligation	<u>41,380</u>	<u>26,529</u>
<b>Variation in restricted Plan assets</b>		
Opening fair value of assets	36,465	16,035
Yield on assets	1,322	159
MERCANTIL contribution	5,000	1,500
Benefits paid	-	-
Transfer of obligations	<u>(1,407)</u>	<u>1,407</u>
Closing fair value of assets	<u>41,380</u>	<u>19,101</u>
<b>Financial position at 2009 year end</b>		
Present value of obligations (DBO)	(41,380)	(26,529)
Assets of external fund supporting the Plan	<u>41,380</u>	<u>19,101</u>
Excess (deficit) of assets over projected obligation	-	(7,428)
Unrecognized past service cost	-	6,550
Unrecognized actuarial (gain) loss	<u>-</u>	<u>(4,333)</u>
	<u>-</u>	<u>(5,211)</u>

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	<b>Supplementary Defined Benefit Plan</b>	<b>Post-retirement benefits</b>
	(Thousands of bolivars)	
<b>Components of net benefit cost for 2009</b>		
Service cost	116	2,600
Interest cost	5,702	6,310
Expected yield from Plan assets	(1,322)	(159)
Amortization of unrecognized past service cost	-	888
Amortization of actuarial (gain) loss	<u>(1,572)</u>	<u>651</u>
Net benefit cost for the year	<u>2,924</u>	<u>10,290</u>

The following are the assumptions used to determine benefit obligations:

	<b>Supplementary Defined Benefit Plan December 31, 2009 %</b>	<b>Post-retirement benefits December 31, 2009 %</b>
Discount rate	24.00	24.00
Salary increase	24.00	24.00
Yield on assets		
Bolivars	20.00	20.00
U.S. dollars	6.00	6.00
Increase in medical expenses	-	27.00

**d) Long-term stock option plan**

MERCANTIL and certain subsidiaries in Venezuela and abroad 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 nature of the plan, officers must be active employees of MERCANTIL in order to exercise their purchase options within the time periods established. Otherwise, or if the allotted shares are not purchased within the established time periods, the entitlements are cancelled. At June 30, 2010, 32 employees are participating in this plan.

Below is a breakdown of shares included in the plan at June 30, 2010, which are deposited in the Mercantil Seguros, C.A. trust fund:

Phase	Approval date	Number of shares		Option price		End of term for exercising the option
		Class "A"	Class "B"	Class "A"	Class "B"	
(In bolivars)						
IV	2004	111,991 (1)	93,335 (1)	25.00	25.00	2011
V	2007	308,825 (2)	540,834 (2)	47.65	47.65	
Available shares		<u>956,165</u>	<u>429,162</u>			
Total shares in trust fund		<u>1,376,981</u> (3)	<u>1,063,331</u> (3)			

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

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

(3) Includes stock dividends.

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Phase IV was announced to employees in March 2007. This phase offers two groups of options for eligible employees. Vesting of the 354,053 Class “A” shares and 295,147 Class “B” shares granted in respect of the first group is subject to a minimum nine-month employment period. Vesting of the 77,931 Class “A” and 64,969 Class “B” shares granted in respect of the second group is subject to a minimum one year and nine-month employment period. Once exercised, 50% of these options may not be sold while the employees are working at MERCANTIL. During the six-month periods ended June 30, 2010 and December 31, 2009, the term for exercising certain options awarded in previous periods was extended.

Below is the movement of shares awarded in Phase IV:

	<u>Shares awarded</u>		
	<u>Class “A”</u>	<u>Class “B”</u>	<u>Total</u>
<b>Balance at June 30, 2009</b>	604,359	503,496	1,107,855
Options exercised	<u>(15,890)</u>	<u>(13,244)</u>	<u>(29,134)</u>
<b>Balance at December 31, 2009</b>	588,469	490,252	1,078,721
Options exercised	(429,412)	(358,492)	(787,904)
Options recovered	<u>(47,066)</u>	<u>(38,425)</u>	<u>(85,491)</u>
<b>Balance at June 30, 2010</b>	<u>111,991</u>	<u>93,335</u>	<u>205,326</u>

Of the options outstanding at June 30, 2010, 205,326 options were exercisable (1,078,721 options at December 31, 2009).

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

	<b>Share volatility %</b>	<b>Risk free rate %</b>	<b>Time (Years)</b>	<b>Option value (In bolivars)</b>
Phase IV	37.52	11.02	1.06	13.33

During the six-month period ended December 31, 2009, MERCANTIL recognized expenses of Bs 2,370,000 in the consolidated income statement in respect of the extension of the term for exercising certain options awarded in previous periods.

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**19. Other income**

Other income comprises the following:

	<u>Six-month periods ended</u>	
	<u>June 30,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
	(Thousands of bolivars)	
Credit card commissions	105,720	107,735
Interest on insurance policies financed	47,242	35,151
Decrease in allowances	46,563	54,173
Commissions on banking services	40,577	46,817
Income from repurchase agreements	38,810	17,226
Recovery of loans recorded as uncollectible (Note 6)	36,777	75,124
Commission for foreign currency administration	16,406	11,697
Commissions on drafts and transfers	12,435	9,804
Income from other accounts receivable	12,435	7,211
Commissions on administration of housing savings funds	10,404	13,787
Commissions on sale of securities	6,252	4,429
Commissions on sale of insurance policies	4,362	5,448
Commissions on advisory services	4,113	3,742
Income from transactions with derivative instruments (Note 24)	3,516	18,390
Amortization of deferred income (Inversiones Platco)	3,197	3,654
Gain on sale of available-for-sale assets (Note 9)	2,526	4,619
Income from interest on financial lease contracts	1,858	1,391
Decrease in allowance for losses on loan portfolio (Note 6)	1,370	5,681
Cross Currency Swap valuation (Note 24)	1,138	3,077
Decrease in provision for deferred income tax (Notes 11 and 17)	-	14,440
Other	<u>44,202</u>	<u>2,975</u>
	<u>439,903</u>	<u>446,571</u>

**20. Other operating expenses**

Other operating expenses comprise the following:

	<u>Six-month periods ended</u>	
	<u>June 30,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
	(Thousands of bolivars)	
Professional fees and other external services	100,335	104,734
Taxes and contributions (Note 17)	78,133	60,316
Service commissions	63,783	54,827
Communications	61,722	58,413
Provision for operating risks and other contingencies	32,975	16,548
Robbery, assault and fraud	22,579	33,101
Office supplies	22,550	21,266
Provisions for available-for-sale and other assets	21,078	32,045
Provision for the Law for the Advancement of Science, Technology and Innovation (Note 15)	18,630	550
Advertising and marketing	16,279	21,366
Transportation and security	12,707	12,891
Insurance expenses	7,013	3,654
Public relations and representation expenses	6,768	6,305
Cross Currency Swap valuation (Note 24)	3,169	810
Donations	1,838	7,141
Other	<u>84,316</u>	<u>62,428</u>
	<u>553,875</u>	<u>496,395</u>

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**21. Equity**

**a) Capital stock and authorized capital**

At June 30, 2010, MERCANTIL's subscribed and paid-in capital amounts to Bs 154,406,000 (Bs 155,976,000 at December 31, 2009), represented by 102,937,240 shares divided into 59,847,222 Class "A" common shares and 43,090,018 Class "B" common shares, with limited voting rights regarding approval of financial statements and appointment of statutory auditors, with a par value of Bs 1.5 each. Of these shares, 180,265 Class "A" and 138,456 Class "B" common shares constitute treasury stock in connection with the current repurchase program of MERCANTIL shares. Outstanding shares amount to 102,618,519 shares: 59,666,957 Class "A" and 42,951,562 Class "B" common shares.

MERCANTIL's authorized capital stock at June 30, 2010 is Bs 308,811,720 (Note 24).

**b) 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 with a maximum redemption term of two years after acquisition). This Law sets out that repurchased shares have no voting rights.

The repurchase program has been implemented in 21 six-month phases. Below is a summary of the applicable conditions for the current phases:

Phase	Date of approval at Shareholders' Meeting	Maximum authorized purchase price per share	Average purchase price	Repurchased and unredeemed shares
		(In bolivars)		
Nineteenth	March 2009	90	22.28	96,466
Twentieth	September 2009	90	20.47	183,158
Twenty-first	March 2010	90	26.57	<u>38,497</u>
Repurchased and unredeemed shares (0.31% of capital stock)				<u>318,721</u>

In October 2009, approval was given to reduce shares acquired in the sixteenth, seventeenth, eighteenth and nineteenth phases. This reduction was recorded in January 2010.

At June 30, 2010, 81,767,180 shares for Bs 221,732,000 (80,720,693 shares at December 31, 2009) were redeemed. They were acquired up to the nineteenth phase of the aforementioned repurchase program and were held as treasury stock in conformity with the Capital Markets Law.

**c) Cash dividends declared**

Type of dividend	Date of approval at Shareholders' Meeting	Amount per share Bs	Frequency or payment date
Special	March 2009	0.40	July 2009
Ordinary	March 2009	0.14	August 2009
Ordinary	March 2009	0.14	November 2009
Ordinary	September 2009	0.15	February 2010
Ordinary	March 2010	0.15	May 2010
Special	March 2010	0.90	May 2010
Ordinary	March 2010	0.30	October 2010

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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. 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:

	<b>Year ended December 31, 2009</b>
	(Thousands of bolivars)
Consolidated net income	795,692
<b>Less</b>	
Equity in the results of subsidiaries	(886,327)
<b>Add</b>	
Dividends collected	<u>391,334</u>
Base income for dividend distribution	<u><u>300,699</u></u>

Retained earnings at June 30, 2010 include Bs 1,118,641,000 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.

**d) Trust agreement on shares of Mercantil Commercebank**

At a Shareholders' Meeting of MERCANTIL on September 19, 2008, it was resolved to adopt a new corporate scheme aimed at improving U.S.-based Mercantil Commercebank, N.A.'s ability to access international markets. This scheme, which was previously submitted to the Venezuelan Securities and Exchange Commission and the Federal Reserve of the United States of America for consideration, contemplates establishing a trust agreement between MERCANTIL, its subsidiary Mercantil Commercebank Holding Corporation and nine trustees in the State of Florida, U.S.A. The trustees were designated by the Board of Directors of MERCANTIL and ratified by the Board of Directors of Mercantil Commercebank Holding Corporation.

In accordance with the trust agreement, on October 14, 2008, Mercantil Commercebank Holding Corporation transferred shares of Mercantil Commercebank, N.A. to the trust fund. Subsequently, the trustees incorporated a new company, called Mercantil Commercebank Florida Bancorp in the State of Florida, U.S.A., to which Mercantil Commercebank, N.A. shares were transferred. In return, trustees received shares of the new corporation abroad. The trust issued voting certificates in favor of Mercantil Commercebank Holding Corporation in the same proportion to and with the same rights as transferred shares of Mercantil Commercebank, N.A., thereby maintaining Mercantil Commercebank Holding Corporation as the final beneficial owner of Mercantil Commercebank, N.A. The trust may be early terminated by the Board of Directors of Mercantil Commercebank Holding Corporation, the Board of Directors of MERCANTIL or the trustees.

Like Mercantil Commercebank Holding Corporation, both Mercantil Commercebank Florida Bancorp and the trust fund, as bank shareholding companies, are subject to Federal Reserve supervision.

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In conformity with the terms of the trust agreement, the trustees may, at any time deemed convenient, transfer shares of Mercantil Commercebank Florida Bancorp to MERCANTIL shareholders in the same proportion to the number and class of shares held by each shareholder, thereby voiding the previously issued voting certificates. Should this transfer be carried out, MERCANTIL and its subsidiary Mercantil Commercebank Holding Corporation shall cease to be considered the trust's final beneficial owners and, consequently, shall record the related financial effect.

At June 30, 2010 and December 31, 2009, MERCANTIL is the final beneficiary of the trust and will absorb its expected losses and benefits. Accordingly, the trust's balance sheet and income statement at those dates are included in the accompanying consolidated financial statements of MERCANTIL.

**e) Other**

MERCANTIL's bylaws 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 1.50 per share). This measure follows the defensive corporate best practices in use by companies in industrialized nations to maximize the value available to shareholders in the event of a non-negotiated takeover and thus strengthen their negotiating position in such an event.

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 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, 2010, the Foundation has net equity of US\$710,282 (US\$736,402 at December 31, 2009), represented by securities at market value (Note 4).

**22. Income per share**

Calculation of net income per common share and net income per diluted common share is shown below:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(Thousands of bolivars, except for number of shares)	
<b>Net income per common share</b>		
Net income	1,341,073	490,640
Common shares issued	102,937,240	103,983,727
Weighted average of outstanding common shares	99,689,789	99,887,157
Basic net income per share	13.45	4.91
<b>Net income per diluted common share</b>		
Net income	1,341,073	490,640
Weighted average of outstanding common shares	99,689,789	99,887,157
Potentially diluted common shares	-	-
Total weighted average of outstanding diluted common shares	99,689,789	99,887,157
Diluted net income per share	13.45	4.91

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**23. Financial assets and liabilities in foreign currency**

**a) Exchange control regime**

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 in foreign currency issued by the Venezuelan government 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 BCV establishes the related regulations.

In June 2010, BCV modified the rules for conducting exchange operations. According to these rules, the trading in bolivars of securities denominated in foreign currency may only be conducted through the System for Transactions with Securities in Foreign Currency (SITME). BCV shall determine which securities shall be traded through this system and shall publish on a daily basis the price band in bolivars for foreign currency securities trading to be conducted by universal banks, commercial banks, and savings and loan institutions.

**b) Applicable exchange rates**

On March 2, 2005, the Ministry of Finance and BCV changed the official exchange rates, effective as from that date, from Bs 1.915/US\$1 to Bs 2.145/US\$1 (purchase) and from Bs 1.92/US\$1 to Bs 2.15/US\$1 (sale). In January 2010, the Venezuelan government and the BCV introduced a two-tiered exchange rate of Bs 2.5935/US\$1 or Bs 4.2893/US\$1 (purchase) and Bs 2.60/US\$1 or Bs 4.30/US\$1 (sale), thereby modifying the official exchange rates that had remained in effect since March 2005. The rate applicable to imports for priority sectors such as food, health, education, machinery and equipment, and science and technology, as well as for external public debt servicing, among others, is Bs 2.60/US\$1; whereas Bs 4.30/US\$1 shall apply to imports for all other sectors.

In January 2010, BCV established that foreign currency assets and liabilities held by banks, exchange offices and other financial institutions, whether public or private, regulated by the General Bank Law, the Capital Markets Law, the Law of Insurers and Reinsurers, and other special laws shall be measured and recorded at Bs 2.60/US\$1 and public-sector securities at Bs 4.30/US\$1, except for Principal and Interest Covered Bonds (TICC), which shall be measured at 2.60/US\$1. In June 2010, BCV further modified this regulation by establishing a single exchange rate of Bs 4.30/US\$1; however, the Bs 2.60/US\$1 exchange rate remained unchanged for TICCs.

**c) Measurement and recording of assets and liabilities in foreign currency**

For the six-month period ended June 30, 2010, the effect of measuring foreign currency balances of MERCANTIL and its subsidiaries in accordance with current currency exchange regulations resulted in:

- An exchange gain of Bs 898 million, included in the income statement.
- An increase in the translation adjustment of net assets of subsidiaries abroad of Bs 1,258 million, included in equity.

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- An increase in the unrealized gain from adjustment of investments to market value of Bs 218 million, included in equity.

**d) Applications to CADIVI to obtain foreign currency for dividend payment**

MERCANTIL applies to CADIVI to obtain currency at the official exchange rate for conversion into U.S. dollars of dividends payable to ADR holders. In April 2009, MERCANTIL's Board of Directors, in conformity with contractual provisions of the ADR program, agreed to ask the trustee JP Morgan Chase to establish a procedure to allow ADR holders to receive dividends in bolivars. This option is effective for dividends in bolivars paid as from April 2009. In July 2009, the total amount of the aforementioned dividends was transferred to the trustee.

**e) Net global position in foreign currency**

MERCANTIL's consolidated balance sheet 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:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of U.S. dollars)	
<b>Assets</b>		
Cash and due from banks	247,537	270,010
Investment portfolio	3,032,465	3,001,959
Loan portfolio	3,749,480	3,343,940
Other assets	<u>137,726</u>	<u>67,645</u>
	<u><b>7,167,208</b></u>	<u><b>6,683,554</b></u>
<b>Liabilities</b>		
Deposits	5,270,072	5,073,011
Financial liabilities	794,267	549,167
Other liabilities	19,631	30,171
Subordinated debt	<u>114,080</u>	<u>114,080</u>
	<u><b>6,198,050</b></u>	<u><b>5,766,429</b></u>

Furthermore, during the six-month period ended June 30, 2010, gains from intermediation in foreign currency trading amounted to Bs 1,912,000 (Bs 400,000 during the six-month period ended December 31, 2009).

The estimated effect of every Bs 0.10/US\$1 increase in the exchange rate of Bs 4.2983/US\$1 at June 30, 2010 would be an increase in assets of Bs 716,721,000 and an increase in equity of Bs 96,916,000.

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**24. Memorandum accounts**

Memorandum accounts comprise the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Contingent debtor accounts</b>		
Transactions with derivative instruments (Note 19)	3,523,357	2,213,892
Investment securities under resale agreements	1,427,000	1,226,000
Lines of credit (Note 25)	1,882,072	756,051
Letters of credit	853,859	368,419
Guarantees granted	448,693	341,152
Cross Currency Swap Contract (Notes 11 and 15)	63,884	61,997
Tourism loan commitments	72,634	25,059
Other contingencies	<u>707,632</u>	<u>778,922</u>
	<u>8,979,131</u>	<u>5,771,492</u>
Assets received in trust	<u>11,319,569</u>	<u>9,699,922</u>
Special trust services	<u>571,038</u>	<u>851,839</u>
<b>Other debtor memorandum accounts</b>		
Guarantees received	42,176,842	34,337,786
Custody of values received	15,599,402	9,561,001
Unused lines of credit	5,608,783	5,040,479
Collections	130,687	110,006
Publicly traded shares (Note 21)	154,406	158,517
Commercial paper pending issue (Notes 2-u and 13)	100,000	70,000
Other control accounts	<u>11,096,525</u>	<u>8,594,908</u>
	<u>74,866,645</u>	<u>57,872,697</u>
	<u>95,736,383</u>	<u>74,195,950</u>

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**a) Assets received in trust**

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Assets</b>		
Cash and due from banks	498,361	352,218
Investment portfolio	6,359,578	5,559,151
Loan portfolio	3,835,346	3,291,949
Interest and commissions receivable	62,568	53,045
Assets received for administration	10,337	10,959
Other assets	<u>553,379</u>	<u>432,600</u>
Total assets	<u>11,319,569</u>	<u>9,699,922</u>
<b>Liabilities</b>		
Fees and other accounts payable	21,488	24,263
Other liabilities	<u>22,382</u>	<u>1,229</u>
Total liabilities	43,870	25,492
Equity	<u>11,275,699</u>	<u>9,674,430</u>
Total liabilities and equity	<u>11,319,569</u>	<u>9,699,922</u>

**b) Securities under spot contracts**

MERCANTIL purchases and sells securities under spot contracts at an established price. During the six-month period ended June 30, 2010, MERCANTIL recorded net gains from adjustment to market value of Bs 1,525,000 (net losses of Bs 1,656,000 at December 31, 2009). Spot transactions were settled within seven business days of the date of origin (Note 11). Securities under spot contracts comprise the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Securities</b>		
Purchase rights	1,737,250	1,365,996
Sale rights	<u>188,885</u>	<u>17,193</u>
	<u>1,926,135</u>	<u>1,383,189</u>

**c) Transactions with derivative instruments**

MERCANTIL enters into futures hedges for the purchase and sale of securities at a fixed price. Net gains resulting from these contracts for the six-month period ended June 30, 2010 amounted to Bs 3,516,000 (Bs 18,390,000 for the six-month period ended December 31, 2009), shown under other income (Note 19).

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

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

Futures contracts	June 30, 2010		December 31, 2009	
	Thousands of bolivars	Maturity	Thousands of bolivars	Maturity
<b>Exchange rates (foreign currency)</b>				
Purchases	629,387	July 2010 - March 2011	117,676	January and September 2010
<b>Securities</b>				
Purchases	860,602	July - August 2010	364,772	January 2010
Sales	-		<u>294,640</u>	January 2010
	<u>1,489,989</u>		<u>777,088</u>	

During the six-month period ended June 30, 2007, MERCANTIL exchanged U.S. dollar securities worth US\$29.7 million with a third party for securities denominated in bolivars for Bs 63,750,000. Simultaneously, MERCANTIL entered into a Cross Currency Swap Contract with the same institution that allows MERCANTIL to acquire US\$29.7 million at Bs 63,750,000 in March 2012. At June 30, 2010, the contract's fair value is US\$12 million (US\$11 million at December 31, 2009) and it resulted in gains and losses of Bs 1,138,000 and Bs 3,169,000, shown under other income and other operating expenses, respectively (Notes 19 and 20) (gain of Bs 3,077,000 and loss of Bs 810,000 at December 31, 2009, shown under other income and other operating expenses, respectively).

In October 2008, Mercantil Commercebank, N.A. entered into five interest rate swap agreements to reduce the interest rate risk of certain fixed-rate loans. At June 30, 2010, the agreement's nominal value was US\$25 million and the market value was US\$1 million (liability), respectively.

**25. 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 1% and 2% (0.25% and 3% at December 31, 2009) of their value. Commissions are recorded monthly while the guarantees remain in force.

**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 0.125% and 2% (0.125% and 2% at December 31, 2009) 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.

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**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.

**26. Maturity of financial assets and liabilities**

Financial assets and liabilities at June 30, 2010 are classified according to maturity as follows:

	30 days	60 days	90 days	180 days	360 days	Over 360 days	Total
	(Thousands of bolivars)						
<b>Assets</b>							
Cash and due from banks	11,829,615	-	-	-	-	-	11,829,615
Investment portfolio	3,955,608	327,247	56,583	554,113	527,582	15,357,508	20,778,641
Loan portfolio	8,054,238	3,658,581	3,729,691	4,405,926	2,382,824	16,130,718	38,361,978
Interest and commissions receivable	419,533	-	-	-	-	-	419,533
Total financial assets	<u>24,258,994</u>	<u>3,985,828</u>	<u>3,786,274</u>	<u>4,960,039</u>	<u>2,910,406</u>	<u>31,488,226</u>	<u>71,389,767</u>
<b>Liabilities</b>							
Deposits	51,452,913	868,087	747,678	1,007,038	743,002	1,962,356	56,781,074
Debt authorized by the Venezuelan Securities and Exchange Commission	-	20,000	20,000	19,980	68,893	-	128,873
Financial liabilities	439,529	310,546	432,473	258,385	254,465	1,952,584	3,647,982
Interest and commissions payable	34,180	-	-	-	-	-	34,180
Subordinated debt	-	-	-	-	-	489,323	489,323
Total financial liabilities	<u>51,926,622</u>	<u>1,198,633</u>	<u>1,200,151</u>	<u>1,285,403</u>	<u>1,066,360</u>	<u>4,404,263</u>	<u>61,081,432</u>

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**27. Fair value of financial instruments**

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

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
	(Thousands of bolivars)			
<b>Assets</b>				
Cash and due from banks	11,829,615	11,829,615	9,480,058	9,480,058
Investment portfolio	20,778,641	20,755,153	14,044,092	14,053,263
Direct financial assets	-	-	293,880	293,880
Loan portfolio, net of allowance	37,177,223	37,177,223	27,137,723	27,137,723
Interest and commissions receivable, net of provision	<u>419,533</u>	<u>419,533</u>	<u>301,846</u>	<u>301,846</u>
	<u>70,205,012</u>	<u>70,181,524</u>	<u>51,257,599</u>	<u>51,266,770</u>
<b>Liabilities</b>				
Deposits	56,781,074	56,781,074	42,847,704	42,847,704
Debt authorized by the Venezuelan Securities and Exchange Commission	128,873	128,873	312,394	312,394
Financial liabilities	3,647,984	3,647,984	1,665,460	1,665,460
Interest and commissions payable	489,323	489,323	27,138	27,138
Subordinated debt	<u>34,180</u>	<u>34,180</u>	<u>244,656</u>	<u>244,656</u>
	<u>61,081,434</u>	<u>61,081,434</u>	<u>45,097,352</u>	<u>45,097,352</u>
<b>Memorandum accounts</b>				
Contingent debtor accounts	<u>7,097,058</u>	<u>7,097,058</u>	<u>5,015,441</u>	<u>5,015,441</u>

The fair value of a financial instrument is defined as the amount for which it 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, interest receivable and payable, short-term interest-bearing demand 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. For securities denominated in foreign currency, the equivalent in bolivars of their fair value in foreign currency was determined using the official exchange rate.

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**Loan portfolio**

Most of the loan portfolio earns interest at variable rates that are revised regularly, generally between 30 and 90 days for most of the short-term portfolio. In addition, 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 other 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.

**28. Geographic segment information**

MERCANTIL operations are distributed geographically as follows:

	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(Thousands of bolivars)	
<b>Gross financial margin</b>		
Venezuela	1,492,340	1,250,966
United States of America	189,288	159,677
Other	<u>25,374</u>	<u>17,252</u>
Total	<u>1,707,002</u>	<u>1,427,895</u>

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	<u>Six-month periods ended</u>			
	<u>June 30,</u>	<u>December 31,</u>		
	<u>2010</u>	<u>2009</u>		
	(Thousands of bolivars)			
<b>Net financial margin, commissions and other income</b>				
Venezuela	2,819,238	1,710,389		
United States of America	201,618	96,410		
Other	<u>41,913</u>	<u>50,709</u>		
Total	<u>3,062,769</u>	<u>1,857,508</u>		
<b>Operating income before tax and minority interests</b>				
Venezuela	1,434,718	600,688		
United States of America	3,076	(63,462)		
Other	<u>11,410</u>	<u>30,578</u>		
Total	<u>1,449,204</u>	<u>567,804</u>		
	<u>June 30, 2010</u>	<u>December 31, 2009</u>		
	<b>Thousands</b>	<b>Thousands</b>		
	<b>of bolivars</b>	<b>of bolivars</b>	<b>%</b>	
<b>Assets</b>				
Venezuela	42,535,706	58	39,000,854	74
United States of America	27,529,056	38	12,803,218	24
Other	<u>2,812,335</u>	<u>4</u>	<u>1,270,738</u>	<u>2</u>
Total	<u>72,877,097</u>	<u>100</u>	<u>53,074,810</u>	<u>100</u>
<b>Liabilities and minority interests</b>				
Venezuela	38,567,456	59	35,775,684	74
United States of America	24,566,332	38	11,479,613	24
Other	<u>2,210,904</u>	<u>3</u>	<u>939,703</u>	<u>2</u>
Total	<u>65,344,692</u>	<u>100</u>	<u>48,195,000</u>	<u>100</u>

**29. Financial information by subsidiary**

Below is a summary of the financial information by subsidiary at June 30, 2010. This information includes the effect of eliminations normally made during consolidation:

	Mercantil, C.A. Banco Universal	Mercantil Commercebank Holding Corporation (1)	Holding Mercantil Internacional, C.A. (2)	Mercantil Seguros, C.A.	Mercantil Merinvest C.A.	Mercantil Inversiones y Valores, C.A. and other	Consolidated total
	(Thousands of bolivars)						
Total assets	40,053,262	27,342,052	2,309,328	2,745,303	90,670	336,482	72,877,097
Investment portfolio	6,872,298	10,050,973	1,709,512	1,906,001	86,274	153,583	20,778,641
Loan portfolio, net	21,279,293	15,563,871	334,059	-	-	-	37,177,223
Total liabilities	36,143,427	24,516,915	2,115,716	2,150,267	20,532	397,833	65,344,690
Deposits	34,318,060	20,423,055	2,039,959	-	-	-	56,781,074
Gross financial margin	1,421,131	188,012	18,193	92,440	4,175	(16,949)	1,707,002
Net operating income before tax	1,144,087	6,572	2,438	211,368	36,749	47,223	1,448,437
Net income	1,049,663	6,572	2,348	201,868	36,144	44,478	1,341,073
Number of employees	6,888	740	42	1,460	53	54	9,237

(1) Final beneficial owner of Mercantil Commercebank, N.A.

(2) Owner of Mercantil Bank Curacao, N.V. and its subsidiary Mercantil Bank (Panamá), S.A., and Mercantil Bank (Schweiz) AG and its subsidiary Mercantil Bank & Trust Limited (Cayman Islands).

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**30. 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.

**Market risks**

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, foreign exchange and share price risks.

Interest rate risk arises 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 the institution's financial margins.

Foreign exchange risk arises 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'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 the 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 operational risk as the possibility of incurring direct or indirect losses as a result of inadequate or defective internal processes, deficient internal controls, human error, system failures or external events. The operational risk management structure established by MERCANTIL enables it to conduct internal processes for identification, assessment, quantification, follow-up and mitigation of operational risks throughout the organization. This structure also provides management with the information required to set priorities and aid the decision-making process.

Operational risk management at MERCANTIL is a dynamic process conducted from a qualitative standpoint—by identifying risks and analyzing trigger factors—and from a quantitative standpoint—by identifying events, measuring their impact, monitoring the behavior of key risk indicators and analyzing scenarios. The information gathered from these processes serves as the basis to define and implement actions aimed at controlling and mitigating operational risks within the organization.

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**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, 2010 and December 31, 2009, trust fund assets amount to Bs 11,319,569,000 and Bs 9,699,922,000, respectively, and are shown under memorandum accounts (Note 24).

**31. Regulatory capital requirements**

MERCANTIL and certain 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 measurements of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

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

	<u>June 30, 2010</u> Current %	<u>December 31, 2009</u> Current %	Minimum required %
<b>Equity to risk-weighted assets and contingent operations</b>			
Mercantil Servicios Financieros, C.A. and its subsidiaries (consolidated)	20.93	18.30	8.00
Mercantil, C.A. Banco Universal and branches abroad	17.12	17.01	12.00
Mercantil Commercebank, N.A.	19.03	22.05	8.00
<b>Tier I equity to risk-weighted assets and contingent operations</b>			
Mercantil Servicios Financieros, C.A. and its subsidiaries (consolidated)	18.44	16.22	4.00
Mercantil Commercebank, N.A.	17.77	20.78	4.00
<b>Equity to total assets</b>			
Mercantil, C.A. Banco Universal and branches abroad	11.75	10.17	8.00
Mercantil Commercebank, N.A.	10.07	10.09	4.00

**32. 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 that 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 26,467,000, 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 Mercantil, C.A. Banco Universal was subject to assessments of approximately Bs 3,341,000 in respect of unwithheld and late payment 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.

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Mercantil, C.A. Banco Universal (the Bank) also received and appealed additional bank debit tax assessments amounting to Bs 23,508,000 at December 31, 2009. In the opinion of the Bank's legal advisors, these assessments are not well grounded in law.

MERCANTIL management identified a maximum risk of Bs 27,054,000 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 February 2009, the subsidiary Mercantil, C.A. Banco Universal was notified of a tax assessment of Bs 1,408,393 in respect of income tax for 2007. The assessment is based on the taxability of interest on the overdue or in-litigation loan portfolio. In April 2009, the subsidiary filed a discharge claim in this connection. In April 2010, SENIAT confirmed this tax assessment, which was appealed by the subsidiary in May 2010. In the opinion of management and its legal advisors, this assessment is not well grounded in law.

In April 2008, the subsidiary Mercantil, C.A. Banco Universal was subject to a tax assessment of Bs 62,679,000 in respect of the proportional tax on dividends. In June 2008, the Bank filed a discharge claim with the Tax Authorities stating its legal arguments against this assessment. In December 2008, SENIAT confirmed this tax assessment and in January 2009 the Bank filed an appeal against the payment forms issued. In the opinion of Bank management and its legal advisors, this assessment is not well grounded in law.

In June 2008, the subsidiary Mercantil, C.A. Banco Universal was notified by Banco Nacional de la Vivienda y Hábitat (BANAVIH), ascribed to the People's Power Ministry for Housing, of an assessment of Bs 25,364,000, in respect of alleged differences in the contributions made under the Housing Loan Law. The Bank appealed this assessment in July 2008. In August 2008, BANAVIH ruled partially in favor of the Bank and reduced the assessment to Bs 11,647,000. However, in September 2008, the subsidiary appealed this decision. Simultaneously, since BANAVIH arrived at the ruling following procedures established in the Law on Administrative Proceedings instead of applying the procedures set out in the Master Tax Code, as required by the Instance Courts and the Supreme Tribunal of Justice, the Bank filed for and was awarded constitutional protection in December 2008 and February 2009, respectively. BANAVIH was ordered to follow the Master Tax Code to rule on the appeal filed by the subsidiary in September 2008, according to which the effects of the tax assessment were suspended. In the opinion of Bank management and its legal advisors, there are legal grounds to uphold the inadmissibility of the assessment.

In July 2006, the subsidiary Mercantil, C.A. Banco Universal was notified of an unfavorable ruling in connection with a claim filed by a client. The Bank has been ordered to pay approximately Bs 36,978,000 for general damages 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 March 2009, the Supreme Tribunal of Justice ruled in favor of the annulment appeal filed by the subsidiary against the July 2006 sentence and ordered that a new ruling be issued. In the opinion of Bank management and its legal advisors, the new ruling will be favorable to the Bank.

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, as well as undetermined contingencies and liquidator fees, was calculated at Bs 3,463,000 to be managed

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under a trust fund agreement. At June 30, 2010, the balance of this trust fund is Bs 3,130,000 (Bs 1,806,000 at December 31, 2009).

**33. 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:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of bolivars)	
<b>Assets</b>		
Cash and due from banks	143,213	7,682
Investment portfolio		
Mercantil, C.A. Banco Universal	4,067,229	3,183,659
Mercantil Commercebank Holding Corporation	2,223,127	1,091,572
Inversiones y Valores Mercantil VI, C.A.	567,213	422,335
Holding Mercantil Internacional, C.A.	400,717	231,150
Mercantil Merinvest, C.A.	87,281	95,515
Mercantil Inversiones y Valores, C.A.	23,440	57,966
Cestaticket Accor Services, C.A.	86,774	74,630
Other	288,403	72,717
Other assets	<u>40,967</u>	<u>36,751</u>
Total assets	<u>7,928,364</u>	<u>5,273,977</u>
<b>Liabilities</b>		
Debenture bonds and commercial paper	140,000	326,009
Other liabilities	<u>255,958</u>	<u>68,158</u>
Total liabilities	395,958	394,167
Equity	<u>7,532,406</u>	<u>4,879,810</u>
Total liabilities and equity	<u>7,928,364</u>	<u>5,273,977</u>
<b>Income</b>		
Interest income	1,518	2,000
Equity in subsidiaries, affiliates and other entities	1,393,721	536,551
<b>Expenses</b>		
Operating	(35,772)	(24,082)
Interest	<u>(18,394)</u>	<u>(23,829)</u>
Net income	<u>1,341,073</u>	<u>490,640</u>

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**34. Supplementary information - Consolidated financial statements adjusted for the effects of inflation**

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

Below are the consolidated financial statements of Mercantil Servicios Financieros, C.A. and its subsidiaries expressed in constant bolivars at June 30, 2010:

**Supplementary consolidated balance sheet**  
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	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of constant bolivars at June 30, 2010)	
<b>Assets</b>		
<b>Cash and due from banks</b>		
Cash	905,866	935,705
Central Bank of Venezuela (BCV)	8,863,000	8,957,291
Venezuelan banks and other financial institutions	12,902	42,980
Foreign banks and other financial institutions	1,021,687	650,788
Pending cash items	<u>1,026,160</u>	<u>479,307</u>
	<u>11,829,615</u>	<u>11,066,071</u>
<b>Investment portfolio</b>		
Investments in trading securities	213,234	83,779
Investments in available-for-sale securities	16,335,673	11,832,582
Investments in held-to-maturity securities	470,477	532,724
Share trading portfolio	51,511	53,588
Investments in time deposits and placements	2,228,441	2,368,607
Restricted investments and repurchase agreements	<u>1,511,118</u>	<u>1,552,664</u>
	<u>20,810,454</u>	<u>16,423,944</u>
<b>Direct financial assets</b>	-	343,046
<b>Loan portfolio</b>		
Current	36,265,298	31,537,118
Rescheduled	441,560	102,571
Overdue	1,504,980	997,310
In litigation	<u>150,140</u>	<u>82,944</u>
	38,361,978	32,719,943
Allowance for losses on loan portfolio	<u>(1,184,755)</u>	<u>(1,042,078)</u>
	<u>37,177,223</u>	<u>31,677,865</u>
<b>Interest and commissions receivable</b>	<u>419,533</u>	<u>352,345</u>
<b>Long-term investments</b>	<u>217,559</u>	<u>199,926</u>
<b>Available-for-sale assets</b>	<u>151,090</u>	<u>73,095</u>
<b>Property and equipment</b>	<u>1,541,242</u>	<u>1,459,807</u>
<b>Other assets</b>	<u>2,352,721</u>	<u>1,912,907</u>
<b>Total assets</b>	<u>74,499,437</u>	<u>63,509,006</u>
<b>Memorandum accounts</b>	<u>95,222,605</u>	<u>86,608,932</u>

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	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of constant bolivars at June 30, 2010)	
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Deposits		
Non-interest-bearing checking accounts	13,620,463	12,137,906
Interest-bearing checking accounts	18,498,436	14,278,632
Savings deposits	17,130,886	16,227,864
Time deposits	<u>7,531,289</u>	<u>7,371,722</u>
	<u>56,781,074</u>	<u>50,016,124</u>
<b>Debt authorized by the Venezuelan Securities and Exchange Commission</b>		
Publicly traded debt securities issued by MERCANTIL	<u>128,873</u>	<u>364,658</u>
<b>Financial liabilities</b>		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	118,528	140,448
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	120,000	-
Liabilities to foreign banks and savings and loan institutions, up to one year	759,810	532
Liabilities to foreign banks and savings and loan institutions, more than one year	1,191,353	505,059
Direct financial liabilities	-	425,068
Liabilities under repurchase agreements	1,428,586	843,643
Other liabilities, up to one year	27,580	26,847
Other liabilities, more than one year	<u>2,125</u>	<u>2,495</u>
	<u>3,647,982</u>	<u>1,944,092</u>
<b>Interest and commissions payable</b>	<u>34,180</u>	<u>31,678</u>
<b>Other liabilities</b>	<u>4,297,859</u>	<u>3,624,633</u>
<b>Subordinated debt</b>	<u>489,323</u>	<u>285,587</u>
<b>Total liabilities</b>	<u>65,379,291</u>	<u>56,266,772</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>3,699</u>	<u>4,524</u>
<b>Equity</b>		
Capital stock	154,406	155,976
Capital inflation adjustment	2,151,649	2,151,869
Share premium	843,321	843,768
Capital reserves	1,323,901	1,323,901
Translation adjustment of net assets of subsidiaries abroad	(395,696)	(1,404,605)
Retained earnings	4,906,601	4,219,797
Repurchased shares held by subsidiaries	(36,659)	(37,399)
Repurchased shares and shares reserved for the stock option plan	(7,306)	(48,435)
Unrealized gain from adjustment of investments to market value	<u>176,230</u>	<u>32,838</u>
<b>Total equity</b>	<u>9,116,447</u>	<u>7,237,710</u>
<b>Total liabilities and equity</b>	<u>74,499,437</u>	<u>63,509,006</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

**Supplementary consolidated income statement**  
**Six-month periods ended June 30, 2010 and December 31, 2009**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of constant bolivars at June 30, 2010)	
<b>Interest income</b>		
Income from cash and due from banks	3,570	2,842
Income from investment portfolio	522,214	498,619
Income from loan portfolio	2,200,049	2,217,665
Income from financial assets	<u>2,108</u>	<u>20,483</u>
Total interest income	<u>2,727,941</u>	<u>2,739,609</u>
<b>Interest expense</b>		
Interest on demand and savings deposits	(766,646)	(783,407)
Interest on time deposits	(67,488)	(112,683)
Interest on securities issued by MERCANTIL	(19,309)	(52,022)
Interest on financial liabilities	<u>(52,687)</u>	<u>(65,984)</u>
Total interest expense	<u>(906,130)</u>	<u>(1,014,096)</u>
<b>Gross financial margin</b>	1,821,811	1,725,513
Allowance for losses on loan portfolio	(378,915)	(475,581)
Expenses from write-down of investments in available-for-sale securities	<u>-</u>	<u>(39,129)</u>
<b>Net financial margin</b>	<u>1,442,896</u>	<u>1,210,803</u>
<b>Commissions and other income</b>		
Trust fund operations	30,901	30,858
Foreign currency operations	1,924	483
Commissions on customer account transactions	128,695	152,811
Commissions on letters of credit and guarantees granted	9,029	11,971
Equity in long-term investments	40,033	38,924
Exchange gain	929,082	3,066
Gain on sale of investment securities	226,829	242,520
Other income	<u>495,424</u>	<u>599,215</u>
Total commissions and other income	<u>1,861,917</u>	<u>1,079,848</u>
<b>Insurance premiums, net of claims</b>		
Premiums	1,580,248	1,547,348
Claims	<u>(1,408,925)</u>	<u>(1,333,824)</u>
Total insurance premiums, net of claims	<u>171,323</u>	<u>213,524</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(866,601)	(833,706)
Depreciation, property and equipment expenses, amortization of intangibles and other	(299,197)	(349,860)
Fees paid to regulatory agencies	(205,516)	(117,385)
Other operating expenses	<u>(639,625)</u>	<u>(632,480)</u>
Total operating expenses	<u>(2,010,939)</u>	<u>(1,933,431)</u>
<b>Loss from net monetary position</b>	<u>(525,655)</u>	<u>(443,861)</u>
Operating income before tax and minority interests	<u>939,542</u>	<u>126,883</u>
<b>Income tax</b>		
Current	(95,510)	(85,562)
Deferred	<u>(14,440)</u>	<u>(5,431)</u>
Total tax	<u>(109,950)</u>	<u>(90,993)</u>
Net income before minority interests	829,592	35,890
<b>Minority interests</b>	<u>(426)</u>	<u>(55)</u>
Net income	<u>829,166</u>	<u>35,835</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

**Supplementary consolidated statement of changes in equity**  
**Six-month periods ended June 30, 2010 and December 31, 2009**

	Capital stock	Capital inflation adjustment	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad	Retained earnings	Repurchased shares held by subsidiaries	Repurchased shares and shares reserved for the stock option plan	Unrealized gain from adjustment of investments to market value	Total equity
(Thousands of constant bolivars at June 30, 2010)										
<b>Balances at June 30, 2009</b>	155,976	2,151,869	840,702	1,323,901	(1,204,691)	4,245,001	(26,496)	(37,337)	(48,284)	7,400,641
Net income	-	-	-	-	-	35,835	-	-	-	35,835
Repurchased shares	-	-	-	-	-	-	(10,903)	-	-	(10,903)
Repurchased shares and shares reserved for the stock option plan	-	-	3,066	-	-	-	-	(11,098)	-	(8,032)
Cash dividends	-	-	-	-	-	(17,164)	-	-	-	(17,164)
Minimum dividend payable	-	-	-	-	-	(43,875)	-	-	-	(43,875)
Unrealized gain on investments	-	-	-	-	-	-	-	-	81,122	81,122
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(199,914)	-	-	-	-	(199,914)
<b>Balances at December 31, 2009</b>	155,976	2,151,869	843,768	1,323,901	(1,404,605)	4,219,797	(37,399)	(48,435)	32,838	7,237,710
Net income	-	-	-	-	-	829,166	-	-	-	829,166
Repurchased shares	-	-	-	-	-	-	-	-	-	-
Repurchased shares and shares reserved for the stock option plan	-	-	(447)	-	-	-	-	4,248	-	3,801
Shares purchased by employees	-	-	-	-	-	-	740	-	-	740
Redemption of shares	(1,570)	(220)	-	-	-	(35,091)	-	36,881	-	-
Cash dividends	-	-	-	-	-	(107,271)	-	-	-	(107,271)
Unrealized gain on investments	-	-	-	-	-	-	-	-	143,392	143,392
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	1,008,909	-	-	-	-	1,008,909
<b>Balances at June 30, 2010</b>	<u>154,406</u>	<u>2,151,649</u>	<u>843,321</u>	<u>1,323,901</u>	<u>(395,696)</u>	<u>4,906,601</u>	<u>(36,659)</u>	<u>(7,306)</u>	<u>176,230</u>	<u>9,116,447</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

**Supplementary consolidated cash flow statement**  
**Six-month periods ended June 30, 2010 and December 31, 2009**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of constant bolivars at June 30, 2010)	
<b>Cash flows from operating activities</b>		
Net income	829,166	35,835
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	155,942	168,943
Allowance for losses on loan portfolio	378,915	475,581
Decrease in allowance for losses on loan portfolio	(1,370)	(6,631)
Amortization of available-for-sale assets	17,560	39,155
Provision for interest receivable and other assets	3,840	2,148
Gain on equity in long-term investments, net	(40,033)	(38,924)
Deferred income tax	14,440	6,034
Minority interest expenses	426	55
Accrual for employee termination benefits	105,496	89,552
Payment of employee termination benefits	15,540	(100,420)
Net change in operating assets and liabilities		
Interest and commissions receivable	(67,188)	44,647
Interest and commissions payable	2,502	(3,816)
Direct financial assets, available-for-sale assets and other assets	(290,881)	119,873
Other liabilities	<u>570,116</u>	<u>(483,531)</u>
Net cash provided by operating activities	<u>1,694,471</u>	<u>348,501</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	(3,460,389)	(2,277,633)
Loans granted	(72,761,103)	(42,026,633)
Loans collected	66,884,200	39,032,950
Additions to property and equipment, net	<u>(160,254)</u>	<u>(22,082)</u>
Net cash used in investing activities	<u>(9,497,546)</u>	<u>(5,293,398)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	6,764,950	(726,675)
Short-term financial liabilities	(319,726)	(389,658)
Debt securities issued by MERCANTIL	(235,785)	(30,722)
Subordinated debt	203,736	(37,013)
New long-term financial liabilities	974,326	(218,648)
Long-term financial liabilities repaid	1,055,750	142,344
Cash dividends	(126,448)	(159,746)
Share premium	(447)	(10,903)
Repurchased shares	(2,565)	(11,098)
Repurchased shares and shares reserved for the stock option plan	<u>4,248</u>	<u>3,066</u>
Net cash provided by (used in) financing activities	<u>8,318,039</u>	<u>(1,439,053)</u>
<b>Cash and cash equivalents</b>		
Net increase (decrease) for the period	514,964	(6,383,950)
At the beginning of the period	<u>13,423,799</u>	<u>19,807,749</u>
At the end of the period	<u>13,938,763</u>	<u>13,423,799</u>
<b>Supplementary information</b>		
Taxes paid	<u>121,124</u>	<u>229</u>
Interest paid	<u>787,585</u>	<u>1,016</u>
Translation adjustment of net assets of subsidiaries abroad	<u>1,008,909</u>	<u>(199,914)</u>
Unrealized gain from adjustment of investments to market value	<u>143,392</u>	<u>81,122</u>

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

## **Notes to the consolidated financial statements**

### **June 30, 2010 and December 31, 2009**

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In April 2008, the FCCPV approved the adoption of VEN NIF as the accounting principles of mandatory application in Venezuela as from January 1, 2008. These standards are mainly based on International Financial Reporting Standards and their interpretations issued by the International Accounting Standards Board, with the exception of certain criteria concerning adjustments for inflation, among others.

Supplementary financial statements adjusted for the effects of inflation using the General Price Level (GPL) method have been provided in order to present the consolidated financial statements, prepared in conformity with the rules and instructions of the CNV, 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 consolidated 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.

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

#### **Inflation indices and rates**

CPI indices and inflation rates for the six-month periods ended June 30, 2010 and December 31, 2009, according to information published by BCV, are as follows:

<b>Six-month periods ended</b>	<b>CPI base for 2007=100</b>	<b>Inflation rate</b>
December 2009	167.40	12.96
June 2010	195.40	15.30

#### **Monetary assets and liabilities and result from monetary position**

Monetary assets and liabilities at June 30, 2010, 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, 2009 have been restated to express them in terms of purchasing power at June 30, 2010.

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

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

	<u>Six-month periods ended</u>	
	<u>June 30,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
	(Thousands of constant bolivars at June 30, 2010)	
Net monetary asset position at the beginning of the period	4,733,920	4,887,551
<b>Transactions that increased net monetary position</b>		
Income	4,761,178	4,032,178
Translation adjustment of subsidiaries abroad	1,008,909	-
Unrealized gain on affiliates	143,389	81,121
Net change in other assets	43,905	37,578
Net change in available-for-sales assets	4,367	-
Repurchased shares	3,801	-
Net change in securities	3,626	130,773
Sales and acquisitions under the stock option plan	740	-
Deferred income tax	-	5,431
Subtotal	<u>5,969,915</u>	<u>4,287,081</u>
<b>Transactions that decreased net monetary position</b>		
Expenses	(3,248,492)	(3,397,275)
Cash dividends	(107,271)	(17,163)
Net change in subsidiaries and affiliates	(17,627)	(54,942)
Deferred income tax	(14,440)	-
Net change in property and equipment	(11,687)	(183,060)
Net change in other assets	-	(45,230)
Translation adjustment of subsidiaries abroad	-	(199,914)
Net change in available-for-sale assets	-	(36,460)
Sales and acquisitions under the stock option plan	-	(11,094)
Repurchased shares	-	(7,838)
Dividends declared	-	(43,875)
Subtotal	<u>(3,399,517)</u>	<u>(3,996,851)</u>
Estimated net monetary asset position	7,304,318	5,177,781
Historic net monetary asset position	<u>6,778,663</u>	<u>4,733,920</u>
Loss from net monetary position	<u>525,655</u>	<u>443,861</u>

**Nonmonetary assets**

Property and equipment, available-for-sale assets and deferred charges are expressed in constant currency at June 30, 2010, based on the CPI at their dates of origin.

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, investments in deposits, time deposits and restricted investments.

**Equity**

All equity accounts are shown in constant currency at June 30, 2010. Dividends are stated in constant currency based on the date they were declared.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

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**Income statement**

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.

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 consolidated financial statements, as detailed in Notes 3 to 29, is shown below:

**a) Property and equipment**

	<b>Balances at June 30, 2010</b>	<b>Balances at December 31, 2009</b>
	(Thousands of constant bolivars at June 30, 2010)	
Buildings and facilities	1,993,353	1,919,948
Furniture and equipment	1,288,095	1,230,197
Land	175,382	169,741
Construction in progress	44,393	38,224
Vehicles	19,663	19,023
Chip project	13,385	-
Other assets	<u>189,919</u>	<u>155,338</u>
	3,724,190	3,532,471
Accumulated depreciation	<u>(2,182,948)</u>	<u>(2,072,664)</u>
	<u>1,541,242</u>	<u>1,459,807</u>

At June 30, 2010, buildings, facilities and land amounting to Bs 1,092,245,000 have an estimated market value of Bs 1,934,754,000, calculated by independent appraisers.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

**b) Other assets**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Thousands of constant bolivars at June 30, 2010)	
Goodwill	658,831	628,091
Insurance premiums receivable	437,253	387,223
Sales of securities in process of collection	199,408	29,473
Deferred expenses, net of accumulated amortization	176,211	244,601
Prepaid expenses	175,010	113,529
Guarantee deposits to reinsurers	113,550	57,031
Sambil La Candelaria shopping mall rights	98,544	98,554
Cross Currency Swap valuation (Notes 15 and 23)	85,144	1,498
Systems development, net of accumulated amortization	52,773	58,657
Prepaid taxes	53,399	68,488
Guarantee deposits and advances for acquisition of property	49,145	19,340
Pending items	45,078	27,618
Deferred income tax	31,992	46,635
Adjustment of spot contracts to market value	23,371	4,771
Prepaid advertising	9,672	5,261
Accounts receivable from other credit card issuing institutions	9,283	7,598
Currency redenomination	7,319	8,720
Other	<u>167,289</u>	<u>140,701</u>
	2,393,272	1,947,789
Provision for estimated losses on other assets	<u>(40,551)</u>	<u>(34,882)</u>
	<u>2,352,721</u>	<u>1,912,907</u>

Below is the movement of goodwill for the six-month period ended June 30, 2010:

	<b>Cost</b>				<b>Balances at June 30, 2010</b>
	<b>Balances at December 31, 2009</b>	<b>Additions</b>	<b>Translation adjustment</b>	<b>Other</b>	
	(Thousands of constant bolivars at June 30, 2010)				
Interbank, C.A.	965,364	-	-	25	965,389
C.A. Seguros Orinoco	105,184	-	-	-	105,184
Florida Savings Bank	51,626	-	36,825	-	88,451
Mercantil Seguros, C.A.	29,718	-	-	-	29,718
Todo 1 Service, Inc.	<u>9,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,093</u>
Total	<u>1,160,985</u>	<u>-</u>	<u>36,825</u>	<u>25</u>	<u>1,197,835</u>
	<b>Accumulated amortization</b>				<b>Balances at June 30, 2010</b>
<b>Balances at December 31, 2009</b>	<b>Additions</b>	<b>Translation adjustment</b>	<b>Other</b>		
	(Thousands of constant bolivars at June 30, 2010)				
Interbank, C.A.	(464,765)	(24,440)	-	30,646	(458,559)
C.A. Seguros Orinoco	(36,313)	(3,374)	-	-	(39,687)
Florida Savings Bank	(8,609)	(1,380)	(6,819)	-	(16,808)
Mercantil Seguros, C.A.	(14,114)	(743)	-	-	(14,857)
Todo 1 Service, Inc.	<u>(9,093)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,093)</u>
Total	<u>(532,894)</u>	<u>(29,937)</u>	<u>(6,819)</u>	<u>30,646</u>	<u>(539,004)</u>

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

## **Notes to the consolidated financial statements**

### **June 30, 2010 and December 31, 2009**

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#### **35. Subsequent events**

Below is a summary of the most relevant aspects of the regulations that went into effect after June 30, 2010:

##### **Law of the National Financial System**

The Law of the National Financial System was enacted on June 16, 2010. The purpose of this Law is to supervise and coordinate the National Financial System in order to ensure that financial resources are used and invested for the public interest and for economic and social development.

The National Financial System is formed by the group of public, private and communal financial institutions and any other form of organization operating in the banking sector, the insurance sector, the stock market and any other sector or group of financial institutions that the policy-making body deems should form part of the system.

The Law prohibits institutions belonging to the National Financial System from forming financial groups with companies from other sectors of the national economy or to associate with international financial groups for purposes other than those defined in the Law.

##### **Insurance Activity Law**

The Insurance Activity Law was enacted on July 29, 2010. The scope of this Law extends to other sectors of the Venezuelan economy, e.g., prepaid medicine companies (fund administrators covering health expenses), insurance premium financing companies and insurance cooperatives. This Law establishes new obligations regarding social health service plans, service delivery methods, creation of new reserves, and an increase in the insurance company's contributions to the Insurance Superintendency to between 1.5% and 2.5% of net premiums collected (between 0.20% and 0.30% in 2010). Regulated entities shall present an adjustment plan within 60 working days to be executed within 6 months following approval. The specific regulations for social health service plans, contributions to the Superintendency and other aspects are yet to be published.

##### **Stock Market Law**

The new Stock Market Law became effective on August 17, 2010 with significant changes to its regulations. The scope of the Law and the powers and regulations of the new National Securities Superintendency are extended. This Law enables the Venezuelan President to suspend market operations and prohibits securities dealers from brokering public-sector securities. In addition, the Law defines rules for companies related to entities regulated by this Law and rules that disregard the legal personality benefit. A new regulation under this Law relates to stock in companies that make public offers to small investors. New regulations regarding the form and equity distribution to be adopted by issuers, and the functioning of board of directors and calling of meetings may be issued. The Law also establishes that arbitration shall be the only dispute resolution mechanism among issuers, investors and brokers. The Law prohibits individuals with over 3% equity in entities of the financial system from becoming members of stock exchanges. An intervention system for companies regulated by this Law, including issuers, is also established. The Law creates the investors council as a mechanism for citizen participation and defense.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**June 30, 2010 and December 31, 2009**

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**Reform to the General Bank Law**

The General Law of Banks and Other Financial Institutions was partially amended on August 18, 2010 to prohibit the equity and administrative participation in financial institutions of persons involved in the communication, information and telecommunications sectors.

Management is currently analyzing and interpreting the future impact of these laws.