

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

(Formerly Banco Mercantil, C.A. (Banco Universal))  
(Subsidiary of Mercantil Servicios Financieros, C.A.)

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

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**(Formerly Banco Mercantil, C.A. (Banco Universal))**  
**Index to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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## **Report of Independent Accountants**

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

We have audited the consolidated balance sheets of Mercantil, C.A. Banco Universal (formerly Banco Mercantil, C.A. (Banco Universal)) (the Bank) and its subsidiaries at December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. The preparation of these financial statements and their notes is the responsibility of Bank 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

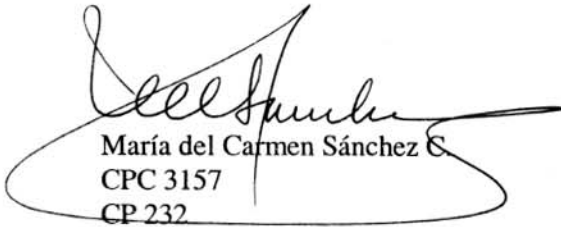
The accompanying consolidated financial statements have been prepared in accordance with the accounting instructions and rules of the Superintendency of Banks and Other Financial Institutions, which are of mandatory use for the Venezuelan banking system and include, on a consolidated basis, the accounts of the Bank's branch, agency and subsidiaries. As described in Note 2, these rules differ in certain respects from accounting principles generally accepted in Venezuela.

In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of Mercantil, C.A. Banco Universal and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years

*ESPIÑEIRA, SHELDON Y ASOCIADOS*

then ended, in conformity with the accounting instructions and rules of the Superintendency of Banks and Other Financial Institutions.

Espiñeira, Sheldon y Asociados



María del Carmen Sánchez C.  
CPC 3157  
CP 232

Caracas, Venezuela  
February 20, 2008

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**(Formerly Banco Mercantil, C.A. (Banco Universal))**  
**(Subsidiary of Mercantil Servicios Financieros, C.A.)**  
**Consolidated Balance Sheet**  
**December 31, 2007 and 2006**

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
<b>Cash and due from banks</b> (Note 3)	<u>6,089,114</u>	<u>3,856,297</u>
Cash	411,330	336,349
Banco Central de Venezuela	5,213,546	2,911,145
Venezuelan banks and other financial institutions	1,956	2,009
Foreign and correspondent banks	110,709	143,830
Pending cash items	351,888	463,193
(Provision for cash and due from banks)	(315)	(229)
<b>Investment securities</b> (Note 4)	<u>3,608,182</u>	<u>3,886,047</u>
Deposits with Banco Central de Venezuela and overnight deposits	1,935,793	2,075,404
Investments in trading securities	23,547	-
Investments in available-for-sale securities	810,815	1,203,921
Investments in held-to-maturity securities	743,398	455,933
Restricted investments	94,916	151,048
(Provision for investment securities)	(287)	(259)
<b>Loan portfolio</b> (Note 5)	<u>12,432,519</u>	<u>8,609,434</u>
Current	12,614,579	8,756,278
Rescheduled	18,939	19,608
Overdue	64,497	55,560
In litigation	5,007	7,005
(Allowance for losses on loan portfolio)	(270,503)	(229,017)
<b>Interest and commissions receivable</b>	<u>163,591</u>	<u>118,389</u>
Interest receivable on investment securities	50,740	35,503
Interest receivable on loan portfolio	111,560	69,107
Interest and commissions receivable on other accounts receivable	3,768	16,078
(Allowance for interest receivable and other)	(2,477)	(2,299)
<b>Investments in affiliates</b> (Note 6)	<u>84,439</u>	<u>60,290</u>
<b>Available-for-sale assets</b> (Note 7)	<u>19</u>	<u>2,922</u>
<b>Property and equipment</b> (Note 8)	<u>213,134</u>	<u>171,696</u>
<b>Other assets</b> (Note 9)	<u>406,525</u>	<u>292,700</u>
<b>Total assets</b>	<u><u>22,997,523</u></u>	<u><u>16,997,775</u></u>
<b>Memorandum accounts</b> (Note 23)		
Contingent debtor accounts	1,785,359	1,755,073
Assets received in trust	6,652,634	6,775,930
Other special trust services	25,536	27,876
Debtor accounts from other special trust services (Housing Mutual Fund)	1,316,351	985,619
Other debtor accounts (Housing Mutual Fund)	7,683	9,606
Other debtor memorandum accounts	30,753,429	24,257,235
Other debtor control accounts	48,587	66,066
	<u>40,589,579</u>	<u>33,877,405</u>

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

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**(Formerly Banco Mercantil, C.A. (Banco Universal))**  
**(Subsidiary of Mercantil Servicios Financieros, C.A.)**  
**Consolidated Balance Sheet**  
**December 31, 2007 and 2006**

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Deposits</b> (Note 10)	<u>19,757,310</u>	<u>14,696,663</u>
Demand deposits	<u>10,910,726</u>	<u>8,301,089</u>
Non-interest-bearing checking accounts	5,459,489	4,003,448
Interest-bearing checking accounts	5,451,237	4,297,641
Other demand deposits	376,369	306,424
Savings deposits	6,098,529	4,711,588
Time deposits	1,069,199	992,548
Securities issued by the Bank	129	194
Restricted deposits	211,470	125,045
Rights and participation in investment securities	1,090,888	259,775
<b>Deposits and liabilities with Banco Nacional de Ahorro y Préstamo</b> (Note 11)	<u>1,983</u>	<u>379</u>
<b>Borrowings</b> (Note 12)	<u>200,003</u>	<u>92,510</u>
Venezuelan financial institutions, up to one year	104,676	55,378
Foreign financial institutions, up to one year	79,979	19,755
Foreign financial institutions, more than one year	11,990	12,404
Borrowings, more than one year	3,358	4,973
<b>Other liabilities from financial intermediation</b> (Note 13)	<u>99,839</u>	<u>117,292</u>
<b>Interest and commissions payable</b>	<u>17,963</u>	<u>10,537</u>
Expenses payable on deposits	17,529	10,195
Expenses payable on borrowings	434	342
<b>Accruals and other liabilities</b> (Note 14)	<u>829,153</u>	<u>561,752</u>
<b>Total liabilities</b>	<u>20,906,251</u>	<u>15,479,133</u>
<b>Shareholders' equity</b> (Note 21)		
Capital stock	268,060	134,112
Paid-in surplus	36	36
Capital reserves	165,261	134,172
Retained earnings	1,664,784	1,240,907
Unrealized gain (loss) on available-for-sale investments	<u>(6,869)</u>	<u>9,415</u>
<b>Total shareholders' equity</b>	<u>2,091,272</u>	<u>1,518,642</u>
<b>Total liabilities and shareholders' equity</b>	<u>22,997,523</u>	<u>16,997,775</u>

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

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Consolidated Statement of Income**  
**Years ended December 31, 2007 and 2006**

(Millions of bolivars,  
except for net income per common share)

	<b>2007</b>	<b>2006</b>
<b>Interest income</b> (Note 2)	<u>2,242,167</u>	<u>1,469,105</u>
Income from cash and due from banks	9,786	8,795
Income from investment securities	370,109	237,525
Income from loan portfolio (Note 5)	1,761,925	1,125,345
Income from other accounts receivable	47,787	58,288
Other interest income (Note 23)	52,560	39,152
<b>Interest expense</b> (Note 2)	<u>(684,812)</u>	<u>(402,705)</u>
Expenses from deposits	(596,784)	(370,479)
Expenses from liabilities with Banco Nacional de Ahorro y Préstamo	-	(73)
Expenses from borrowings	(2,336)	(5,703)
Expenses from other liabilities from financial intermediation (Note 23)	(69,525)	(23,358)
Other interest expense	<u>(16,167)</u>	<u>(3,092)</u>
<b>Gross financial margin</b>	<u>1,557,355</u>	<u>1,066,400</u>
Income from financial assets recovered (Note 5)	36,824	66,589
Expenses from uncollectible accounts and write-down of financial assets (Notes 2-b and 5)	<u>(86,490)</u>	<u>(74,848)</u>
Uncollectible loans and other accounts receivable	(86,243)	(74,805)
Provision for cash and due from banks and adjustments	(247)	(43)
<b>Net financial margin</b>	<u>1,507,689</u>	<u>1,058,141</u>
Other operating income (Note 18)	604,572	536,298
Other operating expenses (Note 19)	<u>(157,728)</u>	<u>(83,718)</u>
<b>Financial intermediation margin</b>	<u>1,954,533</u>	<u>1,510,721</u>
<b>Operating expenses</b>	<u>(1,248,208)</u>	<u>(1,003,437)</u>
Salaries and employee benefits	(589,742)	(504,440)
General and administrative expenses (Note 17)	(554,838)	(426,163)
Fees paid to the Deposit Guarantee and Bank Protection Fund	(81,401)	(57,460)
Fees paid to the Superintendency of Banks and Other Financial Institutions	(22,227)	(15,374)
<b>Gross operating margin</b>	<u>706,325</u>	<u>507,284</u>
Income from available-for-sale assets (Note 7)	6,655	13,391
Sundry operating income	50,720	90,194
Expenses from available-for-sale assets (Note 7)	(377)	(1,156)
Expenses from depreciation, amortization and write-down of sundry assets	(1,232)	(45)
Sundry operating expenses (Note 9)	<u>(76,040)</u>	<u>(97,788)</u>
<b>Net operating margin</b>	686,051	511,880
Extraordinary income	10	54
Extraordinary expenses (Note 20)	<u>(39,593)</u>	<u>(24,216)</u>
<b>Gross income before tax</b>	646,468	487,718
Income tax (Note 15)	<u>(111,516)</u>	<u>(63,594)</u>
<b>Net income</b>	<u>534,952</u>	<u>424,124</u>
<b>Appropriation of net income</b>		
Legal reserve	31,089	-
Retained earnings	<u>503,863</u>	<u>424,124</u>
	<u>534,952</u>	<u>424,124</u>
<b>Net income per common share (in bolivars)</b> (Note 2-s)	<u>3,420</u>	<u>3,162</u>

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

**Mercantil, C.A. Banco and its Subsidiaries**  
**Consolidated Statement of Shareholders' Equity**  
**Years ended December 31, 2007 and 2006**

<i>(Millions of bolivars)</i>	Capital stock	Paid-in surplus	Capital reserves	Equity adjustment	Retained earnings		Unrealized gain (loss) on available-for sales investments	Total shareholders' equity
					Restricted surplus	Unappropriated surplus		
<b>Balances at December 31, 2005</b>	134,112	36	134,172	14,133	92,026	794,764	30,957	1,200,200
Net income for the year	-	-	-	-	-	424,124	-	424,124
Cash dividends (Note 21)	-	-	-	-	-	(70,007)	-	(70,007)
Adjustment of available-for-sale investments to market value (Note 4)	-	-	-	-	-	-	(21,542)	(21,542)
Translation adjustment of net assets of subsidiary abroad	-	-	-	(14,133)	-	-	-	(14,133)
Restricted equity surplus in subsidiaries and affiliates (Note 21)	-	-	-	-	84,431	(84,431)	-	-
Reclassification of 50% of unappropriated surplus to restricted surplus (Note 21)	-	-	-	-	379,880	(379,880)	-	-
Reclassification of 50% of net income for the year to restricted surplus (Note 21)	-	-	-	-	169,846	(169,846)	-	-
<b>Balances at December 31, 2006</b>	134,112	36	134,172	-	726,183	514,724	9,415	1,518,642
Net income for the year	-	-	-	-	-	534,952	-	534,952
Appropriation to legal reserve (Note 21)	-	-	31,089	-	-	(31,089)	-	-
Cash dividends (Note 21)	-	-	-	-	-	(79,986)	-	(79,986)
Capital increase (Note 21)	133,948	-	-	-	-	-	-	133,948
Adjustment of available-for-sale investments to market value (Note 4)	-	-	-	-	-	-	(16,284)	(16,284)
Release of restricted surplus (Note 6)	-	-	-	-	(120,586)	120,586	-	-
Restricted equity surplus in subsidiaries and affiliates (Note 21)	-	-	-	-	59,374	(59,374)	-	-
Reclassification of 50% of net income for the year to restricted surplus (Note 21)	-	-	-	-	222,244	(222,244)	-	-
<b>Balances at December 31, 2007</b>	<u>268,060</u>	<u>36</u>	<u>165,261</u>	<u>-</u>	<u>887,215</u>	<u>777,569</u>	<u>(6,869)</u>	<u>2,091,272</u>

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

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Consolidated Statement of Cash Flows**  
**Years ended December 31, 2007 and 2006**

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Net income	534,952	424,124
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Equity in affiliates	(16,134)	(35,622)
Allowance for losses on loan portfolio and contingent debtor accounts	85,574	74,438
Write-off of uncollectible accounts	(42,811)	(14,436)
Provision for cash and due from banks	247	43
Provision for investment securities	28	259
Provision for other accounts receivable	669	367
Provision for other assets	9,961	3,402
Debits to the provision for other assets	(919)	-
Deferred income tax	(7,510)	(1,507)
Other provisions	177,707	162,215
Depreciation	34,199	25,358
Amortization of deferred expenses and goodwill	27,851	22,606
Amortization of available-for-sale assets	161	1,139
Accrual for employee termination benefits	65,576	49,875
Payment of employee termination benefits	(65,063)	(51,102)
Net change in		
Deposits with Banco Central de Venezuela and overnight deposits	139,611	(1,533,758)
Interest and commissions receivable	(45,202)	(12,353)
Other assets	(144,124)	(78,430)
Interest and commissions payable	7,426	(11,862)
Accruals and other liabilities	<u>89,182</u>	<u>2,583</u>
Net cash provided by (used in) operating activities	<u>851,381</u>	<u>(972,661)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	5,060,647	5,724,103
Deposits and liabilities with Banco Nacional de Ahorro y Préstamo	1,604	(42,533)
Borrowings	107,492	(56,201)
Other liabilities from financial intermediation	(17,453)	50,490
Capital increase	133,948	-
Dividends paid	<u>(79,986)</u>	<u>(70,007)</u>
Net cash provided by financing activities	<u>5,206,252</u>	<u>5,605,852</u>
<b>Cash flows from investing activities</b>		
Loans granted during the year	(23,045,863)	(14,977,821)
Loans collected during the year	19,180,015	13,071,122
Net change in		
Trading investments	(23,547)	-
Available-for-sale investments	376,822	(620,975)
Held-to-maturity investments	(287,465)	(63,546)
Restricted investments	56,132	(41,402)
Investments in affiliates	(8,015)	8,663
Available-for-sale assets	2,742	2,443
Property and equipment	<u>(75,637)</u>	<u>(68,897)</u>
Net cash used in investing activities	<u>(3,824,816)</u>	<u>(2,690,413)</u>
<b>Cash and cash equivalents</b>		
Net change	2,232,817	1,942,778
At the beginning of the year	<u>3,856,297</u>	<u>1,913,519</u>
At the end of the year	<u>6,089,114</u>	<u>3,856,297</u>
<b>Supplementary information on non-cash activities</b>		
Translation adjustment of net assets of subsidiary abroad	<u>-</u>	<u>(14,133)</u>
Adjustment of available-for-sale investments to market value	<u>(16,284)</u>	<u>(21,542)</u>
Taxes paid	<u>53,907</u>	<u>36,324</u>
Interest paid	<u>677,386</u>	<u>414,566</u>
Income from transactions with derivative financial instruments	<u>5,950</u>	<u>27</u>
<b>Reclassification</b>		
Provision for contingent debtor accounts to allowance for losses on loan portfolio (Note 5)	<u>2,504</u>	<u>7,284</u>

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

# **Mercantil, C.A. Banco Universal and its Subsidiaries**

## **Notes to the Consolidated Financial Statements**

### **December 31, 2007 and 2006**

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#### **1. Operations and Regulatory Environment**

##### **Reporting entity**

Mercantil, C.A. Banco Universal (formerly Banco Mercantil, C.A. (Banco Universal)) (the Bank), founded in 1925 in the Bolivarian Republic of Venezuela, and its subsidiaries operate in the financial services sector in Venezuela and abroad. The Bank's primary activities consist in providing financial intermediation services to individuals and corporations through its main office in Caracas, agencies throughout the country, its agency in the United States of America (Coral Gables, FL), and its branch in Curaçao. In November 2007 Banco Mercantil, C.A. (Banco Universal) changed its name to Mercantil, C.A. Banco Universal.

The Bank owns the subsidiaries Inversiones y Valores Mercantil V, C.A. and Mercantil Promotora de Valores 2005 V, C.A., which are engaged in financial investing.

The Bank belongs to the MERCANTIL financial group. As a subsidiary of Mercantil Servicios Financieros, C.A. (MERCANTIL), the Bank adopted a new corporate image following a global strategy established by the shareholder in November 2007 to use the MERCANTIL trademark for all subsidiaries.

Most of the Bank's assets are located in Venezuela. At December 31, 2007, the Bank, its agency, branch and subsidiaries have 7,741 employees.

The Bank's primary financial statements at December 31, 2007 and 2006 were approved for issue by the Board of Directors on January 14, 2008 and January 11, 2007, respectively.

##### **Regulatory environment**

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

The Bank's branch and agency abroad, which have not been incorporated separately from the Bank, are subject to specific requirements of regulatory agencies in countries where they operate in respect of prior consultation for certain transactions, quality of assets, and capital and liquidity levels, as explained below:

##### **Mercantil, C.A. Banco Universal - Curaçao Branch**

This branch operates in the Netherlands Antilles. It is supervised and controlled by the Central Bank of the Netherlands Antilles and the Superintendency of Banks in Venezuela.

##### **Mercantil, C.A. Banco Universal - Coral Gables, FL agency (United States of America)**

This agency is subject to banking regulations of the State of Florida. In addition, it is supervised and regulated by the U.S. Federal Reserve System and the Superintendency of Banks in Venezuela.

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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**New regulations**

In March 2007 the Venezuelan government established that as from January 1, 2008 the unit of the Venezuelan monetary system (Venezuelan bolivar) will be redenominated at a conversion rate of one thousand current bolivars to one new bolivar (“Bolívar Fuerte”). Therefore, financial statements as of that date must be presented in the new currency. The Bank has adapted its operating and information systems to the new monetary unit.

Regulations require the Bank to earmark at least 37% of its gross loan portfolio at December 31, 2007 to finance loans for mortgages, agriculture, small businesses and tourism (31.5% at December 31, 2006) (Note 5).

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, including credit cards, may not exceed 28%. Financial institutions may only charge an additional 3% on amounts overdue from clients. Annual interest rates for savings deposits may not fall below 10% (6.5% at December 31, 2006). Annual interest rates on time deposits for 28 or more days may not fall below 11% (10% at December 31, 2006). As to commissions and fees, BCV also established limits on certain financial services. In January 2008 BCV established a 15% maximum interest rate for the agricultural loan portfolio (Note 5).

BCV establishes that banks may not charge commissions, fees or surcharges to its customers for savings accounts or any other transaction, operation or service related to those accounts. Banks may not charge their customers (individuals) maintenance fees for minimum balance checking accounts, commissions, fees or surcharges exceeding 0.5% of these minimum monthly balances. According to BCV, a maximum 3% fee may be charged for factoring and financial lease operations. It also establishes a maximum 5% commission to be charged by banks for cash advances from credit cards. Banks may not charge customers commissions, fees or charges for maintaining or renewing credit cards, collecting balances owed or issuing statements. Furthermore, BCV established that banks will pay annual interest not below that established by BCV for savings deposits on credit card credit balances.

**2. Basis of Preparation**

The Bank’s accompanying consolidated financial statements are prepared based on the Accounting Manual for Banks, Other Financial Institutions and Savings and Loan Entities (Accounting Manual) and the accounting instructions and rules of the Superintendency of Banks.

These rules differ in certain respects from accounting principles generally accepted in Venezuela (accounting principles), mainly as follows:

	<b>Accounting treatment</b>	
	<b>Rules of the Superintendency of Banks</b>	<b>Generally accepted accounting principles</b>
Inflation-adjusted financial statements	Shown as supplementary information.	Required as primary information.

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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	<b>Accounting treatment</b>	
	<b>Rules of the Superintendency of Banks</b>	<b>Generally accepted accounting principles</b>
Investments assigned through liquid asset accounts and certificates of participation	Shown as a decrease in the balance of investment securities. In addition, interest on liquid asset accounts and certificates of participation is shown as a reduction of income from investment securities.	Must be shown as a liability. Interest on investments assigned must be shown as interest expense.
Balances from transactions with derivative financial instruments	Shown under memorandum accounts. Gains from changes in market value of derivative financial instruments arising from contracts with related companies are recorded under other deferred income (Notes 9 and 14).	Must be shown in the balance sheet. Gains from changes in market value of derivative financial instruments are shown in the statement of income.
Recognition of exchange gains or losses on investments in held-to-maturity securities in foreign currency	Shown in the statement of income.	Maintained at amortized cost.
Assets received as payment for uncollectible loans and idle assets no longer used in operations	Property received as payment is recorded at the lower of assigned value, book value and market value and amortized using the straight-line method over one and three years. Assets idle for more than 24 months are written out of asset accounts.	Shown at the lower of cost and market value.
Commissions collected on loans granted	Shown as income when collected.	Shown as income over the term of the loan.
Deferred income tax	Recognized by temporary differences between income and expense arising in different periods for accounting and tax purposes, provided that there is a reasonable expectation of realization and recovery over time. The amount by which the deferred income tax asset exceeds tax expense for the year is not recognized.	Recognized by temporary differences between the tax balance and the book balance, provided that there is a reasonable expectation of future recovery.
Consolidation	Subsidiaries over 50%-owned are consolidated.	Subsidiaries over 50%-owned and specific-purpose entities controlled by the Bank or of which the Bank is considered the main beneficiary of their income.
Employee stock option plan	Contributions to the employee stock option plan are expensed when incurred.	The related expense is recorded at the fair value of options granted to employees and amortized over the period of permanence that employees are required to complete to exercise the option. The effect of shares repurchased for the stock option plan on the financial position is also recognized.
Expenses incurred during the currency redenomination process.	These expenses are deferred and will be amortized, according to their nature, using the straight-line method over one and six years.	Must be recorded during the year in which they are incurred.

# **Mercantil, C.A. Banco Universal and its Subsidiaries**

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#### **Transition to International Financial Reporting Standards**

In January 2004 the Venezuelan Federation of Public Accountants (FCCPV) resolved to adopt International Financial Reporting Standards (IFRS) and their interpretations, issued by the International Accounting Standards Board (IASB). In August 2006 the FCCPV set IFRS adoption for large-sized entities as from 2008 and as from 2010 for small and medium-sized entities. Until the FCCPV definitely approves the adoption schedule, it is not possible to determine whether any significant difference will arise between the accounting rules and instructions established by the Superintendency of Banks and accounting principles generally accepted in Venezuela.

Below is a summary of the accounting principles in use:

#### ***a) Consolidation***

The consolidated financial statements include the accounts of the Bank, its Curaçao branch and the agency in Coral Gables, FL, as well as the wholly owned subsidiaries Inversiones y Valores Mercantil V, C.A. and its subsidiaries, and Mercantil Promotora de Valores 2005 V, C.A., all domiciled in Venezuela.

The Bank's agency, branch and subsidiaries are regulated by different accounting rules. The agency is regulated by accounting principles generally accepted in the United States of America and the branch by International Financial Reporting Standards. They also follow bank practices generally used in the countries where they operate. Subsidiaries are mainly regulated by accounting principles generally accepted in Venezuela. However, necessary adjustments and groupings have been made for presentation of the consolidated financial statements in accordance with rules of the Superintendency of Banks.

#### ***b) Use of estimates***

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the amounts of income and expense reported for the periods covered by these consolidated financial statements. Actual results may differ from those estimates. Below is a summary of the main bases used in the preparation of the consolidated financial statements:

#### ***Loan portfolio and contingent debtor accounts***

The allowance for losses on loan portfolio and contingent debtor accounts is determined based on a collectibility assessment aimed at quantifying the specific allowance for possible losses on each loan considering, among other things, economic conditions, client credit risk, credit history and the fair value of guarantees received. The Bank's review is performed on a quarterly basis in accordance with the Superintendency of Banks. In compliance with the rules of the Superintendency of Banks, the Bank maintains a general 1% allowance of the loan portfolio balance, except for the balance of loans to small businesses for which the Bank maintains a general 2% allowance.

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

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*Other assets*

The Bank assesses collectibility of items recorded under other assets using the same criteria, where applicable, as those applied to the loan portfolio. Furthermore, the Bank sets aside provisions for those items that require them due to their nature or aging, or following requirements from the Superintendency of Banks.

*Provision for legal and tax contingencies*

Following the opinion of the Bank's legal advisors, management records a provision for legal and tax contingencies considered probable and reasonably quantifiable (Notes 15 and 16). Bank management believes the provision for contingencies set aside at December 31, 2007 and 2006 to be adequate and appropriate to cover identified risks. However, the provision is based on events at the assessment date; the outcome of these lawsuits could differ from that expected.

*c) Foreign currency*

Foreign currency transactions, mainly denominated in U.S. dollars (US\$), are recorded at the official exchange rate in effect at the transaction date. Foreign currency balances at December 31, 2007 and 2006 are shown at the exchange rate of Bs 2,144.60/US\$1 as established in the Exchange Agreements described in Note 22. Exchange gains and losses are included in the results for the year.

*d) Translation of the financial statements of the Bank's branch, agency and subsidiaries abroad*

Assets, liabilities and shareholders' equity of the Bank's branch and agency abroad are translated at the year-end exchange rate (see c above). Income statement accounts are translated at the average exchange rate for the year. The effect from translation is included in the results for the year.

At December 31, 2006, assets, liabilities and results of the Colombian subsidiary of Inversiones Valores Mercantil V, C.A. were translated at the year-end exchange rate (see c above) and equity accounts at the historic exchange rate. The effect from translation is included in the results for the year. The aforementioned subsidiary was liquidated during the year ended December 31, 2007.

*e) Investment securities*

Investment securities are classified upon acquisition, based on their nature and intended use, as deposits with Banco Central de Venezuela (BCV) and overnight deposits, investments in trading securities, investments in available-for-sale securities, investments in held-to-maturity securities, investments in other securities and restricted investments; they are accounted for as described below:

*Deposits with Banco Central de Venezuela (BCV) and overnight deposits*

Excess liquidity deposited at Banco Central de Venezuela (BCV), overnight deposits and debt securities issued by Venezuelan financial institutions maturing within 60 days are included in this account. These investments are recorded at realizable value, representing cost or par value.

*Investments in trading securities*

Investments in trading securities are recorded at fair value and comprise investments in debt and equity securities which may be converted into cash within 90 days of their acquisition. Unrealized gains or losses resulting from differences in fair values are included in the consolidated statement of income.

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*Investments in available-for-sale securities*

Investments in available-for-sale debt and equity securities are recorded at fair value. Unrealized gains or losses, net of tax, resulting from differences in fair value are included in shareholders' equity under unrealized gain (loss) on available-for-sale investments, 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 shareholders' equity and will be amortized during the investment's remaining life. Investments in available-for-sale debt securities not listed on stock exchanges are recorded at fair value based principally on the present value of future cash flows of the securities.

*Investments in held-to-maturity securities*

Investments in debt securities that the Bank has the firm intention and ability to hold until their maturity are recorded at cost, which should not differ significantly from fair value at purchase, and are subsequently adjusted for amortization of premiums or discounts. Discounts or premiums are amortized over the term of the securities as a credit or debit to income from investment securities. The book value of the investments in respect of instruments denominated in foreign currency will be adjusted to the exchange rate in effect at year end.

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

*Restricted investments*

Restricted investments originating from other investment categories are valued using the same criteria used to record those investments from which they are derived. Investments which the Bank is committed to reselling through BCV are valued using the same criteria as for investments in trading securities.

*Investments in other securities*

Investments in other securities include investment trusts, as well as investments not classified under any other category.

The Bank uses the specific identification method to determine the cost of securities and this same basis to calculate realized gains or losses on sale of trading or available-for-sale securities.

Investments in shares of 20% to 50%-owned affiliates are shown by the equity method and recorded under investments in affiliates (Note 6).

**f) Loan portfolio**

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

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As required by the Superintendency of Banks, commercial loans and term, mortgage and credit card loan installments are classified as overdue if repayment is more than 30 days past due. As from October 9, 2007, advances on negotiated letters of credit are classified as overdue if not repaid within 270 days after their due date (180 days up to October 8, 2007) for letters of credit for import purposes for which the customer has consigned documents for Authorizations for Currency Liquidation with the Commission for the Administration of Foreign Currency (CADIVI) and funds in bolivars are available at the Bank for foreign currency purchases. Furthermore, the entire principal balance of term, mortgage or credit card loans is classified as overdue if repayment of any installment is more than 90 days late. In addition, the entire balance of loans granted to small businesses is considered past due if repayment of at least one monthly installment is 60 days overdue or one weekly installment is 14 days overdue.

Loans in litigation are those in the legal collection process.

***g) Investments in affiliates***

The Bank uses the equity method to account for investments in 20% to 50%-owned affiliates.

***h) Property and equipment***

Property and equipment is recorded at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Substantial leasehold improvements are recorded as amortizable expenses and included under other assets. Gains or losses on the sale of personal and real property are shown in the consolidated statement of income.

***i) Available-for-sale assets***

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

***j) Deferred expenses***

Deferred expenses are mainly in respect of office installation and improvement expenses and software costs. These expenses are recorded at cost, net of accumulated amortization. Amortization is calculated based on the straight-line method over four years.

***k) Goodwill***

Goodwill on the purchase in 2000 of shares in Interbank, C.A. Banco Universal is being amortized using the straight-line method over 20 years.

Goodwill of Inversiones y Valores Mercantil VI, C.A. and Mercantil Merinvest, C.A. is in respect of excess cost over book value of shares in the aforementioned companies and is amortized using the straight-line method over 10 years.

***l) Income tax***

The Bank's tax year ends on December 31. The tax provision is based on management's projection of tax results. The Bank records a deferred income tax asset when, in the opinion of management, there is reasonable expectation that future tax results will allow its realization (Note 15).

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***m) Labor-related benefits***

The Bank accrues for its liability in respect of employee termination benefits, which are a vested right of employees, based on the provisions of the Venezuelan Labor Law and the prevailing collective labor agreement, and deposits amounts accrued monthly in a trust fund on behalf of each employee. Under certain circumstances, the Law provides for an additional indemnity for unjustified dismissals. Based on experience, the Bank has set aside an additional provision to cover this contingent liability.

*Profit-sharing bonus and vacation leave*

As established in its collective labor agreement, the Bank grants profit-sharing bonuses and vacation leave to its employees that match or exceed minimum requirements set out by law, and accrues the related liabilities as incurred (Note 14).

***n) Employee benefit plans***

*Retirement pension plan*

The Bank has a long-term defined benefit pension 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 year. The net costs of the pension plan are based on actuarial assumptions which are revised annually and include service costs, interest expense and returns on plan assets, as well as deferral and amortization of certain components, such as actuarial gains or losses, which are amortized over four years. The Bank uses the projected unit credit method to calculate the present value of the Defined Benefit Obligation (DBO). The Bank makes annual contributions to the plan, except when the DBO is already covered by plan assets.

*Defined contribution scheme*

The Bank 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 year in which they are incurred. This Plan is a voluntary programmed savings scheme in the form of individual capitalization accounts that is administered by the Savings and Credit Fund of Mercantil Servicios Financieros, C.A. employees. In 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%.

*Post-retirement benefits*

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

*Stock option plan*

The Bank has a long-term stock option plan for officers in strategic positions (Note 16-d). The Bank makes contributions to Fundación BMA for the acquisition of shares, which are recorded in the results of the year they are incurred.

***o) Investments in securities acquired under resale agreements***

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

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*p) Direct financial assets and liabilities*

Short sale agreements in which the Bank is the lender and the client is the borrower (securities loan agreements). The underlying asset is included in the loan portfolio (Note 5). When the Bank is the borrower, the liability is shown under accruals and other liabilities (Note 14). Direct financial assets and liabilities are recorded at the market value of the underlying asset or liability, including any interest receivable or payable on these assets or liabilities. Gains or losses from adjustments to market value are included in the results for the year.

*q) Recognition of revenue and expenses*

Income, costs and expenses are recorded as earned or incurred, respectively. Interest on loans, investments and accounts receivable is recorded as income when earned, except: a) interest receivable on loan portfolios more than 30 days overdue; b) interest on overdue or in-litigation loan portfolios, or other loans classified as real risk, high risk or unrecoverable, and c) overdue interest, all of which are recorded as income when collected. Interest collected in advance is included under accruals and other liabilities as deferred income and recorded as income when earned (Note 14).

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

Income from financial lease contracts, net of amortization costs of leased property, is shown in the consolidated statement of income under income from loan portfolio.

*r) Cash flows*

For purposes of the consolidated statement of cash flows, the Bank considers as cash equivalents cash and due from banks.

*s) Net income per common share*

Net income per common share has been determined by dividing net income for the year by the weighted average of fully paid outstanding shares considering for both years the effect of the decrease in the number of shares arising from the increase in their par value (Note 21).

*t) Assets received in trust*

Assets received in trust, shown under memorandum accounts, are valued using the same parameters used by the Bank to value its own assets, except investment securities which are valued as described below:

Investments in debt securities are recorded at cost, which should not differ significantly from fair value at purchase. Discounts or premiums are amortized over the term of the securities as a credit or debit to interest income, resulting in a lower or greater effective interest of investments. Debt securities in foreign currency are adjusted to the exchange rate in effect. Investments in equity securities in bolivars and foreign currency are recorded at cost. In accordance with certain trust agreements, investments in debt or equity securities included in these trusts are maintained at cost or market values.

Investment portfolios in foreign currency, maintained through a related company abroad and in respect of directed trusts, are recorded at the market value of the month before year end.

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*u) Risk management*

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

*Credit risk*

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

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

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

*Market risk*

Financial institutions encounter market risks when market conditions show adverse changes that affect the liquidity and value of financial instruments included in investment portfolios or contingent positions and result in a loss for these financial institutions. Market risks mainly comprise two types of risk: price and liquidity. Price risks include interest rate, exchange rate and share price risks.

Interest rate risks arise from temporary differences between assets and liabilities shown in the balance sheet. Differences resulting from adverse changes in interest rates have a potential impact on financial margins of institutions.

Exchange rate risks arise from fluctuations in the value of financial instruments due to changes in foreign currency exchange rates. The Bank's transactions are mainly in bolivars. However, when the Treasury identifies short or medium-term market opportunities, investments might be deposited in foreign currency instruments, mainly in U.S. dollars, in accordance with regulations set out by the exchange control regime.

The Bank reviews on a daily basis funds provided by cash, overnight deposits, current accounts, maturing deposits and loans, as well as guarantees and margins.

The Bank's investment strategy is aimed at guaranteeing adequate liquidity levels. A significant portion of cash is invested in short-term instruments such as certificates of deposit with 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 risks*

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

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*Fiduciary activities*

The Bank acts as custodian, administrator and manager of third-party investments. Trust fund assets are not included in the Bank's assets. At December 31, 2007 and 2006, trust fund assets amount to Bs 6,652,634 million and Bs 6,775,930 million, respectively, and are shown under memorandum accounts (Note 23).

**3. Cash and Due from Banks**

Below are balances with BCV included at December 31 in cash and due from banks:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Legal reserve in bolivars	4,895,551	2,866,665
Legal reserve in U.S. dollars	30,469	21,324
Demand deposits	<u>287,526</u>	<u>23,156</u>
	<u>5,213,546</u>	<u>2,911,145</u>

Pending cash items are mainly in respect of clearinghouse operations by BCV and other banks.

At December 31, 2007, the Bank is required to maintain a minimum reserve deposit with BCV, equivalent to 17% of the Bank's total deposits and borrowings, with the exception of liabilities with BCV, FOGADE and other financial institutions (15% at December 31, 2006. BCV increased this percentage to 16% as from July 2007 and 17% as from October 2007). This reserve must be made in U.S. dollars when deposits or liabilities are in foreign currency. As from January 21, 2008, the reserve for deposits or borrowings in local and foreign currency should be made in legal tender. The minimum reserve deposit for investments assigned (Notes 4 and 10) is 17% at December 2007 (10.5% in 2006 increased by 0.25% per week up to 17%). As from July 2006, a 30% reserve requirement is applied to marginal increments in deposits and investments assigned. Legal reserve funds do not earn interest for the Bank.

**4. Investment Securities**

Investment securities at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Investments</b>		
Deposits with Banco Central de Venezuela (BCV) and overnight deposits	3,418,416	3,851,253
Investments in trading securities	23,547	-
Investments in available-for-sale securities	810,815	1,434,795
Investments in held-to-maturity securities	967,143	490,801
Restricted investments	<u>94,916</u>	<u>151,048</u>
	5,314,837	5,927,897
<b>Less</b>		
Investments assigned through liquid asset accounts and certificates of participation	(1,706,368)	(2,041,591)
Provision for investment securities	<u>(287)</u>	<u>(259)</u>
	<u>3,608,182</u>	<u>3,886,047</u>

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**a) Deposits with Banco Central de Venezuela (BCV) and overnight deposits**

Deposits with Banco Central de Venezuela (BCV) and overnight deposits at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<u>Book value</u>			
	<u>2007</u>		<u>2006</u>	
Deposits with BCV, maturing between January and February 2008 (maturing in January 2007 at December 31, 2006)	3,275,000	(1)	3,758,000	(1)
Overnight deposits in local currency, maturing in January 2008	133,330	(1)	63,100	(1)
Overnight deposits in foreign currency, maturing in January 2008 (maturing in January 2007 at December 31, 2006)	10,086	(1)	5,153	(1)
Time deposits with Venezuelan financial institutions, maturing in January 2007	-		25,000	(1)
	3,418,416		3,851,253	
<b>Less</b>				
Investments assigned through liquid asset accounts and certificates of participation	(1,482,623)		(1,775,849)	
	<u>1,935,793</u>		<u>2,075,404</u>	

(1) Shown at par value, which is considered as fair value.

Deposits with BCV and overnight deposits at December 31 earn the following annual interest:

	<u>2007</u>		<u>2006</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
	rate	rate	rate	rate
	%	%	%	%
Deposits with BCV	11.00	12.00	6.50	10.00
Overnight deposits in local currency	14.00	20.00	4.10	6.50
Overnight deposits in foreign currency	3.00	4.84	4.40	4.75
Time deposits with Venezuelan financial institutions	-	-	6.50	7.50

Investments assigned at December 31 bear the following annual interest:

	<u>2007</u>		<u>2006</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
	rate	rate	rate	rate
	%	%	%	%
<b>Investments assigned</b>				
Liquid asset accounts	10.00	10.00	6.50	6.50
Certificates of participation	0.25	11.00	0.25	6.00

**b) Investments in trading securities**

Investments in trading securities at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Book value (equivalent to fair value)</u>	<u>Cost</u>	<u>Book value (equivalent to fair value)</u>
	National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing in May 2008, with a par value of Bs 23,412 million	<u>23,441</u>	<u>23,547</u> (1)	-

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

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**c) Investments in available-for-sale securities**

Investments in available-for-sale securities at December 31 comprise the following:

(Millions of bolivars)	2007				2006			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to fair value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to fair value)
<b>Securities issued or guaranteed by the Venezuelan government</b>								
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing between January 2008 and September 2015, with a par value of Bs 534,171 million (maturing between January 2007 and December 2014, with a par value of Bs 1,004,525 million at December 31, 2006)	503,175	7,832	(6,447)	504,560 (1)	1,065,639	7,889	(1,246)	1,072,282 (1)
Principal and Interest Covered Bonds (TICC), maturing between November 2013 and March 2015, with a reference par value of US\$54,697,800, payable in bolivars at the official exchange rate (maturing in April 2017, with a reference par value of US\$145,500, payable in bolivars at the official exchange rate at December 31, 2006)	103,594	105	(193)	103,506 (1)	365	3	-	368 (1)
Fixed-interest securities issued by the Bolivarian Republic of Venezuela, maturing between March 2011 and May 2018, with a par value of Bs 65,340 million	68,828	-	(7,100)	61,728 (1)	-	-	-	-
Treasury notes issued by the Bolivarian Republic of Venezuela, maturing between January and March 2008, with a par value of Bs 45,449 million	44,866	122	(42)	44,946 (1)	224,745	22	(226)	224,541 (1)
	<u>720,463</u>	<u>8,059</u>	<u>(13,782)</u>	<u>714,740</u>	<u>1,290,749</u>	<u>7,914</u>	<u>(1,472)</u>	<u>1,297,191</u>
<b>Investments in financial private-sector companies</b>								
Investments in Venezuelan financial institutions								
Banco Provincial, C.A. (Banco Universal), 20,000,000 of common shares, with a par value of Bs 100 each, 0.23% of its capital stock	2,000	3,320	-	5,320 (2)	-	-	-	-
Other	210	585	-	795	183	585	-	768
	<u>2,210</u>	<u>3,905</u>	<u>-</u>	<u>6,115</u>	<u>183</u>	<u>585</u>	<u>-</u>	<u>768</u>
<b>Investments in non-financial private-sector companies</b>								
MasterCard, 25,231 shares, with a par value of US\$0,0001 each	1,665	7,651	-	9,316 (2)	-	-	-	-
Caja Venezolana de Valores, C.A., 21,616 common shares, with a par value of Bs 66,459 each, 18.01% of its capital stock	128	520	-	648 (3)	128	520	-	648 (3)
Other	54	-	(4)	50	488	6	-	494
	<u>1,847</u>	<u>8,171</u>	<u>(4)</u>	<u>10,014</u>	<u>616</u>	<u>526</u>	<u>-</u>	<u>1,142</u>
<b>Debt securities issued by foreign public and private-sector companies</b>								
Debenture bonds issued by Corporación Andina de Fomento (CAF), maturing between February and March 2012, with a par value of Bs 68,750 million	68,750	-	(5,956)	62,794 (1)	-	-	-	-
Debt securities issued and guaranteed by government agencies of the United States of America, maturing between November 2008 and February 2030, with a par value of US\$5,775,817 (maturing between January 2007 and February 2030, with a par value of US\$26,898,455 at December 31, 2006)	12,838	29	(162)	12,705 (2)	36,718	-	(93)	36,625 (2)
Debt securities issued and guaranteed by government agencies of other countries, maturing between February and April 2008, with a par value of US\$2,056,082	4,426	21	-	4,447 (1)	76,530	1,209	(32)	77,707 (1)
Structured note issued by HSBC Bank USA, maturing in December 2007, with a par value of Bs 21,446 million	-	-	-	-	21,446	-	(84)	21,362 (1)
	<u>86,014</u>	<u>50</u>	<u>(6,118)</u>	<u>79,946</u>	<u>134,694</u>	<u>1,209</u>	<u>(209)</u>	<u>135,694</u>
	810,534	20,185	(19,904)	810,815	1,426,242	10,234	(1,681)	1,434,795
Less: Investments assigned through liquid asset accounts and certificates of participation	-	-	-	-	(230,874)	-	-	(230,874)
	<u>810,534</u>	<u>20,185</u>	<u>(19,904)</u>	<u>810,815</u>	<u>1,195,368</u>	<u>10,234</u>	<u>(1,681)</u>	<u>1,203,921</u>

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- (1) Based on the present value of estimated future cash flows.  
(2) Market value based on prices listed on the stock exchange.  
(3) Equivalent to book value.

Investments in available-for-sale securities at December 31 earn the following annual interest:

	<u>2007</u>		<u>2006</u>	
	<u>Minimum</u> <u>rate</u> <u>%</u>	<u>Maximum</u> <u>rate</u> <u>%</u>	<u>Minimum</u> <u>rate</u> <u>%</u>	<u>Maximum</u> <u>rate</u> <u>%</u>
National Public Debt Bonds in bolivars	10.27	14.09	6.55	12.05
Principal and Interest Covered Bonds (TICC)	7.12	7.12	6.25	6.25
Fixed-interest securities	9.25	9.87	-	-
Treasury notes (effective yield)	0.82	10.21	0.10	5.23
Debt securities issued and guaranteed by government agencies of the United States of America	4.62	7.13	3.02	7.63
Debt securities issued and guaranteed by government agencies of other countries	3.91	3.94	2.25	6.25
Debt securities issued and guaranteed by foreign private-sector companies	8.37	10.25	-	-

Below is the classification of the weighted average maturity at December 31 of investments in available-for-sale securities:

	<u>2007</u>	<u>2006</u>
National Public Debt Bonds in bolivars	28 months	26 months
Principal and Interest Covered Bonds (TICC)	87 months	125 months
Fixed-interest securities	63 months	-
Treasury notes	1 month	2 months
Debt securities issued and guaranteed by government agencies of the United States of America	263 months	111 months
Debt securities issued and guaranteed by government agencies of other countries	2 months	122 months
Debt securities issued and guaranteed by foreign-private-sector companies	51 months	-

Below is the classification of investments in available-for-sale securities at December 31 according to maturity:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Book value</u> <u>(equivalent</u> <u>to fair</u> <u>value)</u>	<u>Cost</u>	<u>Book value</u> <u>(equivalent</u> <u>to fair</u> <u>value)</u>
<i>(Millions of bolivars)</i>				
Up to six months	162,740	162,378	310,327	310,103
Six months to one year	143,307	144,449	119,282	119,293
One to five years	195,936	182,956	883,936	890,417
Five to ten years	294,640	307,569	24,426	25,551
Over ten years	<u>13,911</u>	<u>13,463</u>	<u>88,271</u>	<u>89,431</u>
	<u>810,534</u>	<u>810,815</u>	<u>1,426,242</u>	<u>1,434,795</u>

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The equity account unrealized gain (loss) on available-for-sale investments at December 31 comprises the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Investments in available-for-sale securities	281	8,553
Investments in held-to-maturity securities, reclassified from investments in available-for-sale securities	(8,363)	(96)
Restricted investments	48	(80)
Available-for-sale investments in affiliates	<u>1,165</u>	<u>1,038</u>
	<u>(6,869)</u>	<u>9,415</u>

During the year ended December 31, 2007, the Bank recorded a gain on sale of 22,000 Class “B” Mastercard shares of US\$3,763,901, equivalent to Bs 8,072 million, under other operating income (Note 18). In addition, during the year ended December 31, 2006, the Bank recorded a gain on redemption of 67,966 Class “B” MasterCard shares of US\$2,090,947, equivalent to Bs 4,484 million, under other operating income (Note 18).

During the year ended December 31, 2007, the Bank and its subsidiaries recorded gains and losses of Bs 83,927 million and Bs 93,556 million, respectively, on the sale of available-for-sale securities (Bs 109,500 million and Bs 18,482 million, respectively during the year ended December 31 2006), which are shown under other operating income and other operating expenses, respectively (Notes 18 and 19). The Bank received cash payments for the aforementioned sales of Bs 30,593,909 million (Bs 18,250,885 million during the year ended December 31, 2006).

During the year ended December 31, 2007, the Bank transferred investment securities at their fair value of Bs 749,155 million from the available-for-sale investment portfolio to the held-to-maturity investment portfolio. The unrealized net loss of Bs 9,573 million associated with these investments, recorded in equity at the date of their respective transfers, will be amortized until the maturity date of these securities, as a yield adjustment. During the year ended December 31, 2007, Bs 1,210 million was amortized and recorded in this connection under other operating expenses.

**d) Investments in held-to-maturity securities**

Investments in held-to-maturity securities at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<u>2007</u>			<u>2006</u>		
	Amortized Cost	Unrealized gain (loss)	Fair market value	Amortized cost	Unrealized gain (loss)	Fair market value
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing between October 2008 and April 2010, with a par value of Bs 657,344 million	682,107	(20,117)	661,990 (1)	268,143	957	269,100 (1)
National Public Debt Bonds of the Bolivarian Republic of Venezuela in foreign currency, maturing between August 2010 and April 2025, with a par value of US\$112,627,000 (with a par value of US\$115,721,650 at December 31, 2006)	222,610	(2,559)	220,051 (2)	222,104	-	222,104 (2)
Principal and Interest Covered Bonds (TICC), maturing between April 2017 and March 2019, with a reference par value of US\$28,791,296, payable in bolivars at the official exchange rate	<u>60,310</u>	<u>(6,321)</u>	<u>53,989</u> (2)	-	-	-
	<u>965,027</u>	<u>(28,997)</u>	<u>936,030</u>	<u>490,247</u>	<u>957</u>	<u>491,204</u>

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<i>(Millions of bolivars)</i>	2007			2006		
	Amortized cost	Unrealized gain (loss)	Fair market value	Amortized cost	Unrealized gain (loss)	Fair market value
<b>Time deposits with foreign financial institutions</b>						
Banco del Centro, S.A., with a par value of US\$986,043, maturing in January 2008 (with a par value of US\$255,205, maturing in January 2007 at December 31, 2006)	2,116	-	2,116 (3)	547	-	547 (3)
Other	-	-	-	7	-	7
	<u>2,116</u>	<u>-</u>	<u>2,116</u>	<u>554</u>	<u>-</u>	<u>554</u>
	<u>967,143</u>	<u>(28,997)</u>	<u>938,146</u>	<u>490,801</u>	<u>957</u>	<u>491,758</u>
<b>Less</b>						
Investments assigned through liquid asset accounts and certificates of participation	(223,745)	-	(223,745)	(34,868)	-	(34,868)
	<u>743,398</u>	<u>(28,997)</u>	<u>714,401</u>	<u>455,933</u>	<u>957</u>	<u>456,890</u>

- (1) Based on the present value of estimated future cash flows.  
(2) Market value is determined from trading operations on the secondary market.  
(3) Shown at par value, which is considered as fair value.

Investments in held-to-maturity securities and investments assigned at December 31 earn the following annual interest:

	2007		2006	
	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %
National Public Debt Bonds in local currency	10.27	13.00	6.99	12.05
National Public Debt Bonds in foreign currency	5.37	7.65	5.38	7.65
Principal and Interest Covered Bonds (TICC)	5.25	6.25	-	-
Time deposits with foreign financial institutions	4.00	4.75	5.17	6.34
Investments assigned	10.00	10.00	0.25	6.00

Below is the classification of the weighted average maturity of investments in held-to-maturity securities at December 31:

	2007	2006
National Public Debt Bonds in local currency	17 months	2 months
National Public Debt Bonds in foreign currency	15 months	48 months
Principal and Interest Covered Bonds (TICC)	122 months	-
Time deposits with foreign financial institutions	17 days	3 days

Below is the classification of investments in held-to-maturity securities according to maturity:

<i>(Millions of bolivars)</i>	2007		2006	
	Cost	Fair market value	Cost	Fair market value
Under one year	174,019	173,214	275,121	276,078
One to five years	690,256	673,621	173,569	173,569
Five to ten years	79,019	67,434	41,317	41,317
Over ten years	<u>23,849</u>	<u>23,877</u>	<u>794</u>	<u>794</u>
	<u>967,143</u>	<u>938,146</u>	<u>490,801</u>	<u>491,758</u>

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Debt securities issued by the Bolivarian Republic of Venezuela in local currency at December 31, 2006 include Bs 219,513 million under exchange indexing clauses at variable quarterly yields (options). Variable yields were the higher of: a) 85% of the Market Lending Rate and b) three-month LIBOR plus a 100 basic-point margin, plus the annual bolivar to U.S. dollar devaluation rate. Due to the low liquidity levels of the secondary market for these securities and the absence of a market for these options, management used the Black-Scholes-Merton model for valuation purposes. Results were the following: options maturing in 2006 added no value to bonds; the par value of ordinary bonds maturing in 2007 is 100.08%. These debt securities and options were shown at amortized cost which, at December 31, 2006, was an aggregate 99.85%.

**e) Restricted investments**

Restricted investments at December 31 include the following:

<i>(Millions of bolivars)</i>	<b>2007</b>		<b>2006</b>	
	<b>Cost</b>	<b>Book value (equivalent to market value)</b>	<b>Cost</b>	<b>Book value (equivalent to market value)</b>
<b>As guarantee</b>				
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing in February 2008, with a par value of Bs 34,683 million (maturing in May 2011, with a par value of Bs 4,917 million at December 31, 2006)	34,657	34,679 (1)	4,957	4,955 (1)
Debt securities issued by foreign private-sector companies, maturing in January 2008, with a par value of US\$12,000,000 (maturing in January 2007, with a par value of US\$6,300,000 at December 31, 2006)	25,671	25,671 (1)	13,504	13,504 (1)
Debt securities issued and guaranteed by government agencies of the United States of America, maturing between January 2008 and February 2029, with a par value of US\$7,403,994 (maturing between July 2007 and February 2029, with a par value of US\$10,023,312 at December 31, 2006)	15,886	15,886 (1)	21,480	21,409 (1)
Certificates of deposit issued by Mercantil Commercebank, N.A., maturing in January 2008, with a par value of US\$4,726,167 (maturing between January and March 2007, with a par value of US\$6,532,505 at December 31, 2006)	10,136	10,136 (2)	14,010	14,010 (2)
Treasury notes issued by the Bolivarian Republic of Venezuela, maturing in February 2008, with a par value of Bs 5,000 million (maturing in March 2007, with a par value of Bs 8,073 million at December 31, 2006)	4,899	4,925 (1)	8,009	8,002 (1)
Cash in trust fund (Note 6)	3,226	3,226 (2)	2,771	2,771 (2)
Investment trust with Banco Nacional de México, S.A.	393	393 (3)	397	397 (3)
Investment securities acquired under resale agreement with JP Morgan, maturing in March 2007, with a par value of US\$42 million (Note 23)	-	-	<u>86,000</u>	<u>86,000</u> (2)
	<u>94,868</u>	<u>94,916</u>	<u>151,128</u>	<u>151,048</u>

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

(2) Shown at par value, which is considered as fair value.

(3) Contribution from trust fund for acquisition of Bank representation office premises.

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Restricted investments at December 31 earn the following annual interest:

	<u>2007</u>		<u>2006</u>	
	<u>Minimum</u> <u>rate</u> <u>%</u>	<u>Maximum</u> <u>rate</u> <u>%</u>	<u>Minimum</u> <u>rate</u> <u>%</u>	<u>Maximum</u> <u>rate</u> <u>%</u>
National Public Debt Bonds	10.27	10.27	7.30	7.30
Debt securities issued by foreign private-sector companies	4.26	5.03	-	-
Debt securities issued and guaranteed by the government of the United States of America	4.25	5.63	-	-
Certificates of deposit	3.58	4.33	2.96	4.33
Treasury notes	6.07	6.07	3.46	3.46
Repurchase securities	-	-	10.75	10.75

Below is the classification of the weighted average maturity of restricted investments at December 31:

	<b>2007</b>	<b>2006</b>
National Public Debt Bonds	2 months	4 months
Debt securities issued by foreign private-sector companies	21 days	-
Debt securities issued and guaranteed by the government of the United States of America	16 months	-
Certificates of deposit	30 days	30 days
National treasury notes	2 months	2 months
Repurchase securities	-	2 months

Below is the classification of restricted investments at December 31 according to maturity:

<i>(Millions of bolivars)</i>	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Book value</u>	<u>Cost</u>	<u>Book value</u>
Up to six months	86,086	86,134	142,639	142,607
Six months to one year	4,289	4,289	4,290	4,242
One to five years	3,226	3,226	-	-
Five to ten years	393	393	3,168	3,168
Over ten years	<u>874</u>	<u>874</u>	<u>1,031</u>	<u>1,031</u>
	<u>94,868</u>	<u>94,916</u>	<u>151,128</u>	<u>151,048</u>

The Bank has trademark license agreements for use of Visa, MasterCard and Diners Club International credit cards. Visa and MasterCard agreements require the Bank to deposit collateral in foreign financial institutions. At December 31, 2007 and 2006, the Bank has collateral deposits for US\$4,726,167 and US\$6,532,505 with Mercantil Commercebank, N.A., respectively, shown as restricted investments. During the year ended December 31, 2007, standby letters of credit were pledged for MasterCard International and Visa International transactions at December 31, 2007 amounting to US\$12,901,167 and US\$10,786,241, respectively, recorded under other debtor control accounts (Note 23). Furthermore, in January and February 2008, standby letters of credit were pledged for Visa International and MasterCard International operations amounting to US\$1,588,840 and US\$5,000,000, respectively.

At December 31, 2007, restricted investments include securities of the Coral Gables agency with a market value of US\$19,377,609 (US\$16,281,904 at December 31, 2006), pledged to regulating agencies in compliance with U.S. state laws.

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Securities assigned through liquid asset accounts and certificates of participation are in custody at BCV, Caja Venezolana de Valores, C.A. and Clearstream. Of the total balance at December 31, 2007, Bs 121,614 million is in respect of assignments with government entities (Bs 12,737 million at December 31, 2006).

Interest borne by securities assigned through certificates of participation amounts to Bs 125,637 million for the year ended December 31, 2007 (Bs 198,209 million for the year ended December 31, 2006), of which Bs 2,496 million is in respect of interest borne by investments assigned to government agencies (Bs 27,791 million for the year ended December 31, 2006), shown net of income from investment securities.

In June 2006 the Superintendency of Banks instructed financial institutions with rights and participations in investment securities assigned to the public to proportionally transfer balances of these rights and participations to deposits on a quarterly basis within 20 quarters. In May 2007 the Superintendency of Banks instructed financial institutions to transfer the balance of investments assigned at May 31, 2007 on a monthly basis within 47 months beginning June 2007. The balance pending transfer cannot be equal to or greater than the previous month's balance. At December 31, 2007 and 2006, Bs 1,090,888 million and Bs 259,775 million, respectively, have been transferred in this connection.

The control environment of the Bank and its consolidated subsidiaries includes policies and procedures to determine investment risks by entity and economic sector. At December 31, 2007, the Bank and its consolidated subsidiaries have investment securities issued and guaranteed by the Venezuelan government, deposits with BCV and bonds issued by the government of the United States of America and government agencies representing 32.79%, 61.61% and 0.54%, respectively, of its investment securities portfolio (30.37%, 63.39% and 0.98%, respectively, at December 31, 2006).

**5. Loan Portfolio**

The loan portfolio at December 31 is classified as follows:

<i>(Millions of bolivars)</i>	2007								2006			
	Current	%	Restructured	%	Overdue	%	In litigation	%	Total	%	Total	%
<b>Economic activity</b>												
Commerce	2,845,969	22	2,406	13	15,430	24	817	16	2,864,622	22	2,333,521	26
Agriculture	1,845,344	15	6,436	34	2,914	4	314	6	1,855,008	15	1,182,279	13
Car loans	1,545,424	12	-	-	6,442	10	-	-	1,551,866	12	1,026,378	12
Credit cards	1,524,304	12	-	-	1,058	2	-	-	1,525,362	12	956,734	11
Construction	1,507,732	12	-	-	5,684	9	1,553	31	1,514,969	12	839,171	9
Industry	1,359,185	11	1,966	10	1,146	2	129	3	1,362,426	11	965,989	11
Home purchases	685,405	5	2,944	16	6,171	9	1,939	39	696,459	5	531,322	6
Services	363,023	3	-	-	3,829	6	255	5	367,107	3	309,682	4
Foreign trade	326,391	3	5,187	27	17,930	28	-	-	349,508	3	325,827	4
Other	611,802	5	-	-	3,893	6	-	-	615,695	5	367,548	4
	<u>12,614,579</u>	<u>100</u>	<u>18,939</u>	<u>100</u>	<u>64,497</u>	<u>100</u>	<u>5,007</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>	<u>8,838,451</u>	<u>100</u>
<b>Guarantee</b>												
Unsecured	5,650,694	45	-	-	28,056	44	-	-	5,678,750	45	3,867,339	44
Debenture	3,549,012	28	7,935	42	22,160	34	2,205	44	3,581,312	28	2,285,885	26
Mortgage	2,367,778	19	3,456	18	12,838	20	2,436	49	2,386,508	19	1,658,234	19
Pledge	1,047,095	8	7,548	40	1,443	2	366	7	1,056,452	8	1,026,993	11
	<u>12,614,579</u>	<u>100</u>	<u>18,939</u>	<u>100</u>	<u>64,497</u>	<u>100</u>	<u>5,007</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>	<u>8,838,451</u>	<u>100</u>

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(Millions of bolivars)	2007								2006			
	Current	%	Restructured	%	Overdue	%	In litigation	%	Total	%	Total	%
<b>Maturity</b>												
Up to three months	6,468,017	51	11,300	60	36,562	57	2,030	40	6,517,909	51	4,446,892	50
Three to six months	704,244	6	1,501	8	8,428	13	906	18	715,079	6	758,560	9
Six months to one year	588,197	5	-	-	9,604	15	1,131	23	598,932	5	470,592	5
One to two years	896,538	7	1,802	9	3,787	6	446	9	902,573	7	431,492	5
Two to three years	1,545,191	12	293	1	4,814	7	141	3	1,550,439	12	989,653	11
Three to four years	1,018,279	8	352	2	1,228	2	148	3	1,020,007	8	906,406	10
Four to five years	448,648	4	142	1	72	-	83	2	448,945	4	244,693	3
Over five years	945,465	7	3,549	19	2	-	122	2	949,138	7	590,163	7
	<u>12,614,579</u>	<u>100</u>	<u>18,939</u>	<u>100</u>	<u>64,497</u>	<u>100</u>	<u>5,007</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>	<u>8,838,451</u>	<u>100</u>
<b>Loan</b>												
Promissory notes	6,731,930	53	15,995	84	26,468	41	3,069	61	6,777,462	53	4,989,195	56
Credit cards	3,660,565	29	-	-	7,543	12	-	-	3,668,108	29	2,244,049	25
Installment loans	1,573,084	12	2,944	16	6,194	9	1,938	39	1,584,160	12	1,018,402	12
Letters of credit	313,492	3	-	-	17,930	28	-	-	331,422	3	288,449	3
Factoring and discounts	99,038	1	-	-	-	-	-	-	99,038	1	162,693	2
Financial lease contracts	78,910	1	-	-	1,253	2	-	-	80,163	1	97,161	2
Checking account credits	15,500	-	-	-	2,481	4	-	-	17,981	-	16,896	-
Other	142,060	1	-	-	2,628	4	-	-	144,688	1	21,606	-
	<u>12,614,579</u>	<u>100</u>	<u>18,939</u>	<u>100</u>	<u>64,497</u>	<u>100</u>	<u>5,007</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>	<u>8,838,451</u>	<u>100</u>
<b>Geographical location</b>												
Venezuela	12,417,643	98	18,939	100	64,497	100	5,007	100	12,506,086	98	8,601,219	97
Mexico	78,278	1	-	-	-	-	-	-	78,278	1	139,399	2
Costa Rica	42,156	1	-	-	-	-	-	-	42,156	1	-	-
Cayman Islands	40,044	-	-	-	-	-	-	-	40,044	-	-	-
Brazil	12,868	-	-	-	-	-	-	-	12,868	-	38,013	1
Colombia	12,868	-	-	-	-	-	-	-	12,868	-	11,602	-
United States of America												
Other countries in Latin America and the Caribbean	10,722	-	-	-	-	-	-	-	10,722	-	48,218	-
	<u>12,614,579</u>	<u>100</u>	<u>18,939</u>	<u>100</u>	<u>64,497</u>	<u>100</u>	<u>5,007</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>	<u>8,838,451</u>	<u>100</u>

Below is the classification of the consolidated loan portfolio at December 31 by type of risk in accordance with parameters set by the Superintendency of Banks:

(Millions of bolivars)	2007		2006	
	Total	%	Total	%
<b>Risk</b>				
Normal	12,421,926	98	8,632,561	98
Potential	197,658	2	130,346	1
Real	49,997	-	52,071	1
High	23,548	-	19,692	-
Unrecoverable	9,893	-	3,781	-
	<u>12,703,022</u>	<u>100</u>	<u>8,838,451</u>	<u>100</u>

In 2001 a group of debtors with indexed mortgage loans and credits used for car purchases filed a lawsuit in respect of calculation of interest on these loans. In 2002 a ruling was issued in favor of the debtors, resulting in adjustments to the loan portfolio of Bs 14,562 million and Bs 17,278 million in 2002 and 2003, respectively. The Venezuelan Supreme Tribunal of Justice and other government entities issued new rulings in 2004 to reduce interest and increase the list of debtors whose debts were to be adjusted. As a result, Bs 9,878 million, Bs 12,000 million and Bs 17,000 million were charged to the allowance for losses on loan portfolio, income for 2004 and income for 2005, respectively. At December 31, 2007 and 2006, no refinanced interest is included in the results for the year, nor is there any restricted surplus in respect of mortgage loans or car loan balances.

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At December 31, 2007, the loan portfolio balance includes securities loan agreements (Note 2-p) represented by National Public Debt Bonds, with yields at between 12.17% and 12.43% (Treasury Notes of the Bolivarian Republic of Venezuela, with yields at between 3% and 12% at December 31, 2006), comprising the following:

	2007		2006	
	Par value	Book value (equivalent to market value)	Par value	Book value (equivalent to market value)
<i>(Millions of bolivars)</i>				
<b>Direct financial assets and securities loan agreements</b>				
Other corporations	<u>96,510</u>	<u>96,394</u>	<u>8,073</u>	<u>8,002</u>

The maturities of securities loan agreements are shown below:

	2007	2006
<i>(Millions of bolivars)</i>		
Up to 30 days	<u>96,394</u>	<u>8,002</u>

At December 31, 2007, regulations require commercial and universal banks to earmark at least 37% (31.5% at December 31, 2006) of their gross loan portfolio to finance loans for agriculture, small business, mortgages and tourism as follows:

**Agriculture**

At December 31, 2007, 21% is the minimum financing required for agriculture based on the average of the gross loan portfolio at December 31, 2006 and 2005 (16% at December 31, 2006 on the gross loan portfolio at December 31, 2005). At December 31, 2007, the Bank has earmarked Bs 1,862,640 million in this connection, equivalent to 24.40% of the required base (Bs 1,145,111 million at December 31, 2006, equivalent to 17.14% of its gross loan portfolio at December 31, 2005). Additionally, at least 70% of the total agricultural loan portfolio maintained must be used to finance production activities of priority agricultural products, and the number of new borrowers of the agricultural loan portfolio each month cannot be less than 20% of current borrowers, of which 50% must be individuals.

In January 2008 the People's Power Ministry for Agriculture and Land established the minimum percentage of the agricultural loan portfolio for 2008 to be earmarked monthly to finance agriculture. This portfolio will be steadily increased from February through December 31, 2008 from 14% to 21% of average balances of the gross loan portfolio at December 31, 2006 and 2007. Additionally, it requires that at least 70% of the total agricultural loan portfolio maintained must be used to finance production activities of priority agricultural products for which the percentage of compliance by activity was established, and that the number of new borrowers of the agricultural loan portfolio each month should increase by 20% with respect to total borrowers of the agricultural loan portfolio at prior year end.

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**Small businesses**

At December 31, 2007, 3% is the minimum financing required for small businesses (companies with no more than 10 employees or annual sales of up to 9,000 tax units (T.U.) based on the total loan portfolio at June 30, 2007. At December 31, 2007, Bs 547,169 million has been earmarked in this connection, equivalent to 4.98% of the gross loan portfolio at June 30, 2007.

**Mortgages**

At December 31, 2007, 5% and 5% were the minimum percentage to be earmarked for short-term mortgage loans effectively granted and long-term mortgage loans that have been officially recorded and granted, respectively, for the acquisition, construction and subcontracted construction of primary residences, based on the gross loan portfolio for the previous year, which will be applied according to the borrower's household monthly income. In April 2007 a maximum interest rate of 10.11% was set for these loans (9.87% until April 3, 2007). At December 31, 2007, Bs 537,564 million in short-term loans and Bs 559,716 million in long-term loans were granted, equivalent to 6.26% and 6.51%, respectively, of the established base.

The percentage to be assigned for long-term loans should be 2.5% for families whose monthly income is under 150 T.U. and 2.5% for families whose monthly income is between 150 and 500 T.U. At December 31, 2007, the Bank maintains Bs 121,431 million and Bs 438,285 million in this connection, equivalent to 1.41% and 5.10%, respectively, of the established base.

**Tourism**

At December 31, 2007, the minimum percentage to be earmarked for these loans is 3% of the gross loan portfolio at December 31, 2006 (2.5% at December 31, 2006 of the gross loan portfolio at December 31, 2005). At December 31, 2007, Bs 269,898 million was earmarked for these loans, of which Bs 157,953 million is in respect of loans held in the Bank's loan portfolio and Bs 111,945 million in respect of authenticated and officially recorded credit commitments, recorded in memorandum accounts as loan commitments (Note 25), which represents 3.14% of the gross loan portfolio at December 31, 2006 (Bs 169,971 million at December 31, 2006, equivalent to 2.5% of the gross loan portfolio at December 31, 2005).

The Bank has allowances for losses on loan portfolio exceeding the minimum requirements set by the Superintendency of Banks. Below is the movement of the allowance for losses on loan portfolio at December 31:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Balance at the beginning of the year	229,017	172,763
Allowance for the year, including the branch, agencies and subsidiaries abroad	85,574	74,438
Decrease in branch allowance	(3,781)	(11,032)
Debits for uncollectible accounts	(42,811)	(14,436)
Reclassification of allowance for contingent accounts	<u>2,504</u>	<u>7,284</u>
Balance at the end of the year	<u>270,503</u>	<u>229,017</u>

At December 31, 2007, the inactive loan portfolio (overdue and in litigation), which has ceased to bear interest, amounts to Bs 69,504 million (Bs 62,565 million at December 31, 2006), of which Bs 17,930 million is in respect of overdue letters of credit (Bs 25,531 million at December 31, 2006). During the year ended December 31, 2007, interest accrued but not recorded in respect of this inactive loan portfolio amounted to Bs 26,533 million (Bs 10,016 million during the year ended December 31,

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2006). In addition, interest income for the year ended December 31, 2007 includes Bs 22,255 million (Bs 10,549 million for the year ended December 31, 2006) for interest collected on this portfolio that had been deferred in previous years.

During the year ended December 31, 2007, the Bank wrote off unrecoverable loans of Bs 42,811 million (Bs 14,436 million during the year ended December 31, 2006) against the allowance for losses on loan portfolio. The Bank also collected Bs 32,888 million in respect of loans written off as uncollectible in previous years (Bs 48,127 million at December 31, 2006), included in the consolidated statement of income under income from financial assets recovered. This account also includes Bs 3,781 million in respect of the decrease in the allowance for losses on loan portfolio of the Curaçao branch (Bs 11,032 million during the year ended December 31, 2006).

The control environment of the Bank and its consolidated subsidiaries includes policies and procedures to determine credit risks by client and economic sector. Concentration of risk is limited since loans are granted to a variety of economic sectors and a large number of clients. At December 31, 2007 and 2006, the loan portfolio of the Bank and its consolidated subsidiaries does not have significant risk concentrations in terms of individual clients, groups of related companies and economic sectors.

**6. Investments in Affiliates**

a) Investments in unconsolidated affiliates at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Investments in Venezuelan non-financial institutions</b>		
Inversiones y Valores Mercantil VI, C.A., 33,139 fully-paid common shares, with a par value of Bs 100,000 each, 19.5% of its capital stock	61,429	47,115
Mercantil Merinvest, C.A., 3,997,500 fully-paid common shares, with a par value of Bs 1,000 each, 19.5% of its capital stock	18,088	11,513
Inversiones Platco, C.A., 30,000 fully-paid common shares, with a par value of Bs 100,000 each, 50% of its capital stock	3,000	-
Proyecto Conexus, C.A., 343,334 fully-paid common shares, with a par value of Bs 100 each, 33.33% of its capital stock	1,858	1,598
Mondex de Venezuela, C.A., 15,006,619 fully-paid common shares, with a par value of Bs 100 each, 42.39% of its capital stock	-	1,783
Other	<u>64</u>	<u>64</u>
	84,439	62,073
Provision for investments in affiliates	<u>-</u>	<u>(1,783)</u>
	<u><b>84,439</b></u>	<u><b>60,290</b></u>

During the year ended December 31, 2007, the Bank increased the capital stock of Mercantil Merinvest, C.A. by assigning cash and securities at market value of Bs 7,410 million to this affiliate. In addition, in September 2007 the Bank received Bs 2,664 million in respect of cash dividends paid by Mercantil Merinvest, C.A. (Note 21).

During the year ended December 31, 2007, the subsidiary Inversiones y Valores Mercantil V, C.A. swapped securities directly with third parties, exchanging 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 it subsequently sold, giving rise to a gain of approximately Bs 34,122 million, included under gain on sale of investment securities for the year (Note 18).

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During the year ended December 31, 2006, the subsidiary Holding Mercantil Colombiana, C.A. was notified of a claim filed against it in the amount of approximately Bs 9,200 million. At December 31, 2006, a settlement was reached with the plaintiff.

In July 2006 the Bank was notified of an unfavorable ruling in connection with a claim filed by a client. The Bank has been ordered to pay approximately Bs 36,458 million for general 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 December 2006 the plaintiff appealed the legal action taken by the Bank and the substantiation process was completed on February 7, 2007. In the opinion of Bank management and its legal advisors, this ruling contains legal vices and, therefore, it is expected to be annulled and a new ruling issued.

b) For information purposes, below is a summary of the combined financial statements of the Bank's branch in Curaçao and the Coral Gables, FL agency, denominated in U.S. dollars, and the Colombian subsidiaries of Inversiones y Valores Mercantil V, C.A., denominated in Colombian pesos. Colombian pesos are stated at their equivalent amount in U.S. dollars based on the exchange rates indicated in Note 2-c:

**Balance Sheet**

	<u>2007</u>	<u>2006</u>		
	<u>Branch and</u>	<u>Branch and</u>	<u>Subsidiaries</u>	<u>Total</u>
	<u>agency</u>	<u>agencies</u>	<u>in Colombia</u>	
<i>(Thousands of U.S. dollars)</i>				
<b>Assets</b>				
Cash and due from banks	21,077	4,986	91	5,077
Investment securities	31,108	24,797	205	25,002
Loan portfolio	102,513	114,754	-	114,754
Interest and commissions receivable	784	624	-	624
Available-for-sale assets	-	-	1,268	1,268
Property and equipment	1	-	373	373
Other assets	<u>387</u>	<u>385</u>	<u>17</u>	<u>402</u>
Total assets	<u>155,870</u>	<u>145,546</u>	<u>1,954</u>	<u>147,500</u>
<b>Liabilities and Shareholders' Equity</b>				
Deposits	50,060	45,616	-	45,616
Borrowings	8,213	8,126	1,003	9,129
Interest and commissions payable	218	228	-	228
Other liabilities	<u>2,553</u>	<u>4,302</u>	<u>142</u>	<u>4,444</u>
Total liabilities	<u>61,044</u>	<u>58,272</u>	<u>1,145</u>	<u>59,417</u>
Shareholders' equity	<u>94,826</u>	<u>87,274</u>	<u>809</u>	<u>88,083</u>
Total liabilities and shareholders' equity	<u>155,870</u>	<u>145,546</u>	<u>1,954</u>	<u>147,500</u>

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**Statement of Income**

	<u>Years ended December 31,</u>			
	<u>2007</u>	<u>2006</u>		
<i>(Thousands of U.S. dollars)</i>	<b>Branch and agency</b>	<b>Branch and agencies</b>	<b>Subsidiaries in Colombia</b>	<b>Total</b>
Gross financial margin	4,131	4,246	509	4,755
Operating income (expense), net	1,204	(802)	382	(420)
Extraordinary income (expense), net	<u>(1,991)</u>	<u>-</u>	<u>(574)</u>	<u>(574)</u>
Net income	<u>3,344</u>	<u>3,444</u>	<u>317</u>	<u>3,761</u>

During the year ended December 31, 2006, the Bank sold in cash at market value its shares in the subsidiaries Promotora W 2005, C.A., Mercantil Promotora de Valores 2005 III, C.A. and Mercantil Promotora de Valores 2005 VI, C.A. to Mercantil Servicios Financieros, C.A. and certain subsidiaries. These sales amounted to Bs 149,084 million. During the year ended December 31, 2006, the Bank sold in cash at market value its shares in Mercantil Promotora de Valores 2005 IV, C.A. to Seguros Mercantil, C.A. for Bs 128,639 million, resulting in a gain of Bs 3,550 million that was recorded in equity under unrealized gain.

**7. Available-for-sale Assets**

Available-for-sale assets at December 31 comprise the following:

	<u>2007</u>			<u>2006</u>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
<i>(Millions of bolivars)</i>						
Real property received as payment	77	(58)	19	3,370	(619)	2,751
Personal property received as payment	<u>-</u>	<u>-</u>	<u>-</u>	<u>190</u>	<u>(19)</u>	<u>171</u>
	<u>77</u>	<u>(58)</u>	<u>19</u>	<u>3,560</u>	<u>(638)</u>	<u>2,922</u>

During the year ended December 31, 2007, the Bank sold assets received as payment with a net book value of Bs 39 million (Bs 1,273 million during the year ended December 31, 2006) at a gain of Bs 858 million (2,530 million during the year ended December 31, 2006), and fully amortized assets received as payment that had been recorded under memorandum accounts at a gain of Bs 5,735 million (Bs 9,096 million during the year ended December 31, 2006). These gains are shown in the consolidated statement of income under income from available-for-sale assets.

During the year ended December 31, 2007, the Bank sold part of its idle assets, including real property which was available for sale, giving rise to a gain of Bs 60 million (Bs 1,050 during the year ended December 31, 2006), shown in the consolidated statement of income under income from available for sale assets. Some of these assets were fully amortized.

During the year ended December 31, 2007, the Bank recorded amortization expenses in respect of available-for-sale assets of Bs 161 million (Bs 1,139 million during the year ended December 31, 2006), included in the consolidated statement of income under expenses from available-for-sale assets.

Fully amortized available-for-sale assets are recorded under memorandum accounts (Note 23).

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**8. Property and Equipment**

Property and equipment at December 31 comprises the following:

<i>(Millions of bolivars)</i>	<u>2007</u>			<u>2006</u>		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
Furniture and equipment	216,375	(123,961)	92,414	183,934	(98,555)	85,379
Buildings and facilities	71,957	(14,479)	57,478	72,631	(12,617)	60,014
Work in progress	51,524	-	51,524	14,622	-	14,622
Land	1,382	-	1,382	1,548	-	1,548
Other assets	<u>11,156</u>	<u>(820)</u>	<u>10,336</u>	<u>10,740</u>	<u>(607)</u>	<u>10,133</u>
	<u>352,394</u>	<u>(139,260)</u>	<u>213,134</u>	<u>283,475</u>	<u>(111,779)</u>	<u>171,696</u>

During the year ended December 31, 2007, the Bank recorded depreciation expense of Bs 34,199 million (Bs 25,358 million during the year ended December 31, 2006), included in the consolidated statement of income under general and administrative expenses (Note 17).

At December 31, 2007, property and equipment comprising buildings, facilities and land of Bs 58,860 million have an estimated market value of Bs 759,285 million, based on valuations performed by independent appraisers in December 2005.

At December 31, 2007, work in progress is mainly in respect of construction or remodeling of Bank offices; other assets are mainly in respect of works of art.

Below are the original useful lives and average remaining useful lives by type of asset:

	<b>Original useful life (Years)</b>	<b>Average remaining useful life (Years)</b>
Buildings	40	32.46
Main office	40	24.55
Furniture	10	4.01
Computer hardware	4	1.67
Other equipment	8	4.08
Vehicles	5	1.14

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**9. Other Assets**

Other assets at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Goodwill on acquisition of shareholding in Interbank, C.A. (Banco Universal), net of accumulated amortization of Bs 42,928 million (Bs 39,367 million at December 31, 2006) (Note 2-k)	85,294	91,856
Goodwill on acquisition of shareholding in Inversiones y Valores Mercantil VI, C.A., net of accumulated amortization of Bs 4,996 million (Bs 2,776 million at December 31, 2006) (Note 2-k)	17,210	19,430
Goodwill on acquisition of shareholding in Mercantil Merinvest, C.A., net of accumulated amortization of Bs 1,124 million (Bs 624 million at December 31, 2006) (Note 2-k)	3,870	4,370
Deferred expenses, net of accumulated amortization of Bs 55,374 million (Bs 43,932 million at December 31, 2006) (Note 2-j)	79,097	36,560
Software, net of accumulated amortization of Bs 66,084 million (Bs 59,358 million at December 31, 2006)	23,185	12,573
Pending items and main office, branches and agencies	46,515	7,500
Prepaid taxes	41,941	28,120
Other accounts receivable	23,435	31,945
Prepaid advertising	20,713	10,024
Insurance and other prepaid expenses	15,315	11,270
Rights on shopping mall premises (Note 14)	13,429	13,429
Advances to suppliers	12,580	1,107
Deferred income tax (Note 15)	10,417	2,907
Expenses from currency redenomination (Note 1)	9,222	-
Transactions with derivative instruments (Notes 14 and 24)	5,950	3,166
Other	14,004	25,052
Provision for other assets	<u>(15,652)</u>	<u>(6,609)</u>
	<u>406,525</u>	<u>292,700</u>

In 2000 the Bank acquired a majority shareholding in Interbank, C.A. (Banco Universal), giving rise to goodwill of Bs 131,223 million. The Bank and Interbank, C.A. were later merged and former shareholders have provided guarantees covering a 5 to 10-year period for asset recovery and resolution of certain contingencies.

In 2005 the Bank acquired a 19.5% shareholding in Inversiones y Valores Mercantil VI, C.A. and Mercantil Merinvest, C.A. and recorded goodwill of Bs 22,206 million and Bs 4,994 million, respectively, in respect of the excess cost over book value of shares acquired, calculated in accordance with criteria set by the Superintendency of Banks. The purchase price was determined based on valuations by independent appraisers. Goodwill is amortized using the straight-line method over 10 years (Note 2-k).

In 2006 a subsidiary of the Bank sold land to a third party at a market value of Bs 39,191 million, giving rise to deferred income of Bs 26,200 million. This land will be developed into a shopping mall within approximately three years. Another subsidiary simultaneously acquired, at the same price, 20% of the mall premises to be used as the Bank's main office and other facilities. In November 2006 the subsidiary sold 31.2% of these rights to the Bank at a market value of Bs 13,429 million, resulting in deferred income of Bs 7,592 million. The remaining 68.8% was sold to Mercantil Servicios Financieros, C.A. at a market value of Bs 30,000 million, resulting in a gain of Bs 20,526 million (Note 14).

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Pending items and main office, branches and agencies mainly relate to lending operations between Bank offices, which are pending identification and final recording at monthly cutoff. Most of these operations clear during the first few days of the following month. Balances of these accounts are provided for in accordance with aging criteria set by the Superintendency of Banks. Deposits with these characteristics are included under accruals and other liabilities (Note 14). At December 31, 2007, the balance of pending items and main office, branches and agencies mainly includes checks that had not been cleared and trust fund cash of Bs 12,754 million and Bs 14,138 million, respectively (Bs 4,555 million and Bs 15 million, respectively, at December 31, 2006). The balance also includes Bs 9,386 million in respect of in-transit operations related to credit cards (Bs 204 million at December 31, 2006).

Prepaid taxes mainly include payment of income tax, tax withholdings and municipal taxes.

Other accounts receivable mainly include accounts receivable in respect of transfer claims and disbursements recoverable from customers.

The balance of deferred expenses mainly includes expenses for office setup, leasehold improvements and projects to be capitalized, which include technology updates, equipment and software. At December 31, 2007, deferred expenses and advances to suppliers include Bs 1,136 million and Bs 6,345 million, respectively, related to the adoption of the new corporate image (Note 1).

Amortization of deferred expenses and goodwill during the year ended December 31, 2007 amounted to Bs 27,851 million (Bs 22,606 million during the year ended December 31, 2006) and is shown under general and administrative expenses (Note 17).

The balance of advances to suppliers mainly includes advances paid to technology and construction in progress suppliers.

Expenses incurred during the currency redenomination process of approximately Bs 9,222 million in respect of disbursements made by the Bank to acquire, adapt or improve hardware or for advisory, training, travel and other personnel expenses, publicity, software and security were deferred and will be amortized or depreciated over one to six years.

During the year ended December 31, 2007, the Bank recorded expenses from the provision for other assets of Bs 9,961 million, shown in the consolidated statement of income under sundry operating expenses.

## 10. Deposits

Deposits at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Demand deposits	10,910,726	8,301,089
Savings deposits	6,098,529	4,711,588
Time deposits	1,069,199	992,548

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Deposits at December 31 bear interest at rates shown below:

Type of deposit	2007				2006			
	Deposits in bolivars		Deposits in U.S. dollars		Deposits in bolivars		Deposits in U.S. dollars	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
	rate %	rate %	rate %	rate %	rate %	rate %	rate %	rate %
Interest-bearing checking accounts	0.50	5.25	0.35	1.00	0.50	5.00	0.35	0.70
Savings deposits	9.87	10.00	0.45	1.00	6.50	7.50	0.45	1.59
Time deposits	10.00	11.25	1.49	6.57	6.50	6.50	0.15	6.57
Restricted deposits	0.50	11.00	1.49	5.10	0.50	7.50	1.84	5.00
Rights and certificates of participation in investment securities	0.50	11.00	-	-	0.25	6.00	-	-

Below is the classification of time deposits by maturity at December 31:

(Millions of bolivars)	2007		2006	
		%		%
Up to 30 days	822,956	76	818,354	83
31 to 60 days	102,044	10	159,893	16
61 to 90 days	112,729	11	10,317	1
91 to 180 days	31,349	3	1,107	-
181 to 360 days	121	-	49	-
Over 360 days	-	-	2,822	-
	<u>1,069,199</u>	<u>100</u>	<u>992,542</u>	<u>100</u>

At December 31, 2007, deposits include Bs 1,091,002 million (Bs 828,885 million at December 31, 2006) from the Venezuelan government and other government agencies, equivalent to 5.5% of total deposits (5.6% at December 31, 2006).

At December 31, 2007, restricted deposits relate to guarantee time deposits and dormant savings and checking accounts amounting to Bs 211,470 million (Bs 125,045 million at December 31, 2006).

**11. Deposits and Liabilities with Banco Nacional de Ahorro y Préstamo (BANAP)**

Deposits and liabilities with BANAP at December 31 comprise the following:

(Millions of bolivars)	2007	2006
Demand deposits with BANAP	1,885	266
Other accounts payable to BANAP	<u>98</u>	<u>113</u>
	<u>1,983</u>	<u>379</u>

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**12. Borrowings**

Borrowings at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<u>2007</u>			<u>2006</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>
<b>Borrowings with Venezuelan financial institutions</b>						
Credit balances with correspondent banks	102,181	-	102,181	49,127	-	49,127
Deposits						
Demand deposits	<u>2,495</u>	<u>-</u>	<u>2,495</u>	<u>6,251</u>	<u>-</u>	<u>6,251</u>
	<u>104,676</u>	<u>-</u>	<u>104,676</u>	<u>55,378</u>	<u>-</u>	<u>55,378</u>
<b>Borrowings with foreign financial institutions</b>						
Loans from foreign financial institutions, with annual interest at between 4% and 9.63% (annual interest at between 6.00% and 9.63% at December 31, 2006)	<u>79,979</u>	<u>11,990</u>	<u>91,969</u>	<u>19,755</u>	<u>12,404</u>	<u>32,159</u>
<b>Borrowings</b>						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	3,358	3,358	-	4,433	4,433
Borrowings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>540</u>	<u>540</u>
	<u>-</u>	<u>3,358</u>	<u>3,358</u>	<u>-</u>	<u>4,973</u>	<u>4,973</u>
	<u>184,655</u>	<u>15,348</u>	<u>200,003</u>	<u>75,133</u>	<u>17,377</u>	<u>92,510</u>

Maturities of borrowings, up to one year, at December 31 are as follows:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Up to 30 days	173,918	72,982
31 to 60 days	10,737	-
91 to 180 days	-	2,151
	<u>184,655</u>	<u>75,133</u>

Maturities of borrowings, more than one year, at December 31 are as follows:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Years</b>		
2007	-	2,086
2008	1,738	812
2009	894	1,349
2010	672	672
2011 and beyond	<u>12,044</u>	<u>12,458</u>
	<u>15,348</u>	<u>17,377</u>

To finance the acquisition of a building in New York (U.S.A.), where the Bank's agency has its offices, a mortgage loan maturing in July 2011 was taken out at 9.63%. At December 31, 2007, the loan balance is US\$5,590,697, equivalent to Bs 11,990 million (US\$5,783,613, equivalent to Bs 12,404 million at December 31, 2006). The building serves as guarantee for the loan.

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**13. Other Liabilities from Financial Intermediation**

Other liabilities from financial intermediation at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Letters of credit issued	95,932	108,044
Futures operations	3,666	6,621
Other	<u>241</u>	<u>2,627</u>
	<b><u>99,839</u></b>	<b><u>117,292</u></b>

**14. Accruals and Other Liabilities**

Accruals and other liabilities at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Financial liabilities indexed to securities (securities loan agreements) (Note 5)	177,236	15,007
Taxes (Note 15)	120,981	63,297
Suppliers and other accounts payable	114,339	109,441
Provision for contingencies and other (Notes 15 and 23)	110,722	93,746
Collected and withheld taxes	94,273	79,564
Employee benefits and profit sharing	62,093	46,739
Provision for operating risks	48,892	41,000
<b>Deferred income</b>		
Deferred interest	31,190	24,771
Deferred gain on rights and sale of property and other	14,034	14,026
Other deferred income (Note 9)	2,547	31
Pending items and main office, branches and agencies (Note 9)	24,691	36,052
Labor contributions	11,030	17,221
Law on Narcotic and Psychotropic Substances (Note 28)	8,585	9,909
Provision for the Law for the Advancement of Science, Technology and Innovation	4,500	6,948
Provision for Supplementary Savings Plan (Note 16)	<u>4,040</u>	<u>4,000</u>
	<b><u>829,153</u></b>	<b><u>561,752</u></b>

At December 31, 2007 and 2006, the Bank maintains provisions for operating risks of Bs 48,892 million and Bs 41,000 million, respectively, determined on the basis of methodologies for risk management assessment, measurement and control. Provisions for contingencies and other operating risks are recorded in the consolidated statement of income under sundry operating expenses.

In June 2007 the Board of Directors of Inversiones y Valores Mercantil V, C.A.'s subsidiary, Trillansa, S.A., resolved to sell a group of assets to a third party; therefore, Bs 1,520 million was released from the related provision.

At a Special Shareholders' Meeting of Trillansa, S.A. held in October 2007, 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 647 million.

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,

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as well as undetermined contingencies and liquidator fees, was calculated at Bs 3,226 million to be managed under a trust fund agreement.

At December 31, 2007, technology and innovation investment projects have been executed by the Bank to cover the 0.5% contribution of gross income obtained in the country during the preceding year required by the Law for the Advancement of Science, Technology and Innovation. At December 31, 2007, a provision of Bs 4,500 million (Bs 6,948 million at December 31, 2006) is maintained in this connection.

At December 31, 2007, the Bank has securities loan agreements represented by Treasury Notes of the Bolivarian Republic of Venezuela and National Public Debt Bonds for Bs 177,236 million, with a par value of Bs 178,765 million and yield at between 6.85% and 12.43%, maturing between January and February 2008 (Bs 15,007 million, with a par value of Bs 15,000 million and a 6.25% yield, maturing in February 2007 at December 31, 2006).

Deferred income mainly consists of interest collected in advance on the loan portfolio, commissions and operations with derivative financial instruments.

New labor-related laws and their regulations that have financial effects have recently been introduced in Venezuela, such as the Occupational Hazard and Injury Prevention and Employment and Workplace Safety and Health Law, the Housing Loan Law, the Employee Benefit Law, the Reform of Venezuelan Labor Law Regulations and the Family Protection Law. Bank management and its legal advisors have assessed and interpreted these laws, setting aside the required provisions.

**15. Taxes**

Tax expense at December 31 comprises the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Income tax</b>		
Current		
Venezuela	117,725	63,939
Foreign	<u>1,301</u>	<u>1,162</u>
	119,026	65,101
Deferred		
Venezuela	<u>(7,510)</u>	<u>(1,507)</u>
	<u>111,516</u>	<u>63,594</u>

**Venezuelan Income Tax Law**

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

The Bank's tax year ends on December 31. For the year ended December 31, 2007, the main differences between estimated book income and taxable income arise from the net effect of the annual inflation adjustment, shareholdings, provisions and accruals that are normally tax-deductible in subsequent periods, nontaxable income and the effect of tax-exempt income from National Public

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Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela, as provided for in the 1999 Income Tax Reform Law. For the year ended December 31, 2007, the Bank estimated income tax expense of Bs 106,584 million.

The following is a reconciliation between book expense and tax expense for the year ended December 31, 2007:

Statutory tax rate	34%
<i>(Millions of bolivars)</i>	
Notional tax expense based on book income computed at the tax rate in effect	212,308
<b>Difference between notional tax expense and actual tax expense</b>	
Net effect of shareholdings	(19,432)
Effect of the annual inflation adjustment	(123,075)
Net effect of National Public Debt Bonds exemption	(8,519)
Nondeductible provisions	
Loan portfolio, net	15,921
Other provisions	14,199
Other	<u>8,571</u>
Effect of applying tax rate to taxable income in Venezuela	99,973
Effect of applying tax rate to foreign-earned taxable income	<u>6,611</u>
Effect of applying tax rate to taxable income in Venezuela, plus foreign-earned taxable income	<u>106,584</u>

At December 31, 2007, the Bank's subsidiaries have tax loss carryforwards of Bs 52,874 million, of which Bs 19,306 million is in respect of territorial losses, of which Bs 15,629 million and Bs 3,677 million may be used until 2008 and 2010, and Bs 33,568 million is in respect of extraterritorial losses, of which Bs 33,567 million and Bs 1 million may be used until 2008 and 2010, respectively.

**Bank debit tax**

In March 2002 the Venezuelan government enacted the Bank Debit Tax Law. This tax was levied upon debits or withdrawals made from checking and savings accounts, custody deposits, or any other type of demand deposit, liquid asset funds, trust funds and other financial market funds or financial instruments. Venezuelan banks and other financial institutions were also required to pay this tax on transactions such as investments, interbank loans, and personnel and operating expenses, among others. Bank debit tax was set at 0.50% and repealed in February 2006. Bank debit tax expense for the year ended December 31, 2006 amounted to Bs 581 million.

**Transfer pricing**

Venezuelan Income Tax Law introduced transfer-pricing regulations in 2001. According to these regulations, taxpayers that conduct transactions with related parties abroad are required to calculate income, costs and deductions applying certain methodologies set out in the Law, report results obtained through special returns, and keep supporting documentation and information related to transfer pricing calculation for these transactions. The Bank and its subsidiaries have filed transfer-pricing returns for information purposes.

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#### **Tax on Financial Transactions for Incorporated and Unincorporated Entities**

In October 2007 the Venezuelan government enacted by Decree-Law the Tax on Financial Transactions for Incorporated and Unincorporated Entities. This tax is levied upon debits or withdrawals made from current and savings accounts, custody deposits or any other type of demand deposits, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by incorporated and unincorporated entities with Venezuelan banks and other financial institutions. The tax rate was set at 1.5% as from November 1, 2007 until December 31, 2008. The Bank is the customers' collection agent with the National Treasury. During the year ended December 31, 2007, the Bank and its subsidiaries incurred tax expense of approximately Bs 20,279 million, included under general and administrative expenses (Note 17).

#### **Contingencies**

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

The Bank and its merged financial institutions have received additional income tax assessments from the Tax Authorities amounting to Bs 21,771 million, mostly resulting from disallowance of certain income claimed as 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. The Bank also received additional tax assessments of Bs 3,341 million in respect of unwithheld and late payments of value added tax (VAT). The Bank appealed alleging most of these assessments are not well grounded in law. The tax courts have not ruled on some of these assessments; those that went in favor of the Bank were appealed by the National Treasury and rulings are pending.

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

Bank management identified a maximum risk of Bs 20,612 million in connection with the aforementioned assessments based on inadmissibility of monetary restatement and interest charges; hence a provision has been set aside to cover this amount (Note 14).

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

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**16. 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 Pension 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 the Bank and its subsidiaries for the year ended December 31, 2007 amount to Bs 22,000 million (Bs 62,000 million for the year ended December 31, 2006).

**b) Supplementary Defined Benefit Pension 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.

At December 31, 2007, the Bank maintains a provision for an amount equivalent to the present value of the Supplementary Defined Benefit Pension Plan obligations not covered by the assets of the external fund supporting the Plan.

**c) Post-retirement benefits**

The Supplementary Retirement Pension Plan and the Supplementary Savings Plan include certain additional post-retirement benefits for employees of the Bank and its subsidiaries in Venezuela meeting certain conditions in respect of age and years of service, mainly health insurance, with costs and obligations determined based on actuarial methods. These benefits are recorded in the statement of income for the year.

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

	<u>Supplementary</u> <u>pension plan</u>		<u>Post-retirement benefits</u>	
	2007	2006	2007	2006
<i>(Millions of bolivars)</i>				
<b>Variation of projected benefit obligation</b>				
Benefit obligation at January 1	30,448	69,580	17,299	8,267
Service cost	183	1,202	1,059	727
Interest expense	3,151	5,362	1,850	1,564
Actuarial gain	1,685	16,772	6,019	(1,505)
Plan reduction (gain)	-	(8,919)	-	-
Payment of obligation for transfer of assets	-	(8,701)	-	-
Transfer of obligations	-	(39,780)	-	-
Plan modification	-	-	-	9,770
Paid benefits	<u>(3,717)</u>	<u>(3,340)</u>	<u>(1,473)</u>	<u>(908)</u>
Projected benefit obligation	<u>31,750</u>	<u>32,176</u>	<u>24,754</u>	<u>17,915</u>

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<i>(Millions of bolivars)</i>	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Variation in plan assets</b>				
Fair value of assets at the beginning	30,620	53,077	8,399	8,267
Yield on assets	2,789	5,369	(256)	904
Contribution	-	9,038	-	5,529
Payment of obligation for transfer of assets	(2,237)	(7,453)	2,237	-
Transfer of obligations	-	(24,456)	-	(5,092)
Paid benefits	<u>(3,717)</u>	<u>(3,340)</u>	<u>-</u>	<u>(908)</u>
Fair value of plan assets at the end	<u>27,455</u>	<u>32,235</u>	<u>10,380</u>	<u>8,700</u>
<b>Financial position at year end</b>				
Present value of obligations (DBO)	(31,750)	(32,176)	(24,754)	(17,915)
Assets of external fund supporting the plan	<u>27,455</u>	<u>32,235</u>	<u>10,380</u>	<u>8,700</u>
Projected obligation (less assets)	(4,295)	59	(14,374)	(9,215)
Unrecognized past service cost	-	-	8,040	9,215
Unrecognized actuarial (gain) loss	<u>13,835</u>	<u>24,986</u>	<u>4,442</u>	<u>(1,670)</u>
	<u>9,540</u>	<u>25,045</u>	<u>(1,892)</u>	<u>(1,670)</u>
<b>Components of net benefit cost</b>				
Service cost	183	1,202	1,059	727
Interest expense	3,151	5,362	1,850	1,564
Expected yield from plan assets	(2,789)	(4,086)	256	(621)
Effect of decrease and payment	-	(5,357)	-	-
Amortization of unrecognized past service cost	-	-	858	555
Amortization of actuarial loss	<u>11,559</u>	<u>3,962</u>	<u>-</u>	<u>-</u>
Net benefit cost for the year	<u>12,104</u>	<u>1,083</u>	<u>4,023</u>	<u>2,225</u>

Assumptions used to determine benefit obligations for the year ended:

	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	%	%	%	%
Discount rate	12.50	12.50	12.50	11.00
Salary increase	13.50	13.50	13.50	12.00
<b>Yield on assets</b>				
Bolivars	13.00	15.00	13.00	15.00
U.S. dollars	6.50	6.50	6.50	6.50
Increase of medical expense for the year	15.50	13.50	15.50	13.50

Plan costs for 2008 are estimated at Bs 10,524 million.

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

MERCANTIL and certain subsidiaries offer a long-term stock option plan to eligible officers approved by the Board of Directors' Compensation Committee. These shares are allotted over three-year periods and awarded annually. Fundación BMA manages the plan and sets up trust funds with the shares on behalf of members once these shares have been assigned and subsequently awarded to eligible officers based on individual allotments approved in accordance with plan regulations. During each administrative phase and until the shares are actually acquired by officers, cash dividends declared in respect of these shares are received by Fundación BMA and stock dividends by the participants. According to the long-term incentive nature of the plan, officers must be active employees of the Bank in order to exercise their purchase options within the time periods established. If they are not, or if the allotted shares are not purchased within the established time periods, the

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entitlements are cancelled. At December 31, 2007, 207 employees are participating in this plan. During the year ended December 31, 2007, the Bank contributed Bs 3,500 million for this plan.

Below is a breakdown of shares included in the plan at December 31, 2007, which are deposited in the Mercantil Seguros, C.A. trust fund:

Phase	Approval date	Number of shares (4)		Option price		Deadline for option exercise
		Class "A"	Class "B"	Class "A"	Class "B"	
				(In bolivars)		
III	2001	188,225 (1)	157,560 (1)	7,000	6,000	2006, 2007 and 2008
IV	2004	841,518 (1)	701,590 (1)	25,000	25,000	2009 and 2010
V	2007	308,825 (2)	540,834 (2)	47,650	47,650	2010
Shares available		<u>176,686</u> (3)	<u>65,631</u> (3)			
Total shares in trust funds		<u>1,515,254</u> (4)	<u>1,465,615</u> (4)			

(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) Shares available.

(4) Includes stock dividends.

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.

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

	Shares awarded		
	Class "A"	Class "B"	Total
<b>Balance at December 31, 2006</b>	321,949	260,842	582,791
Options awarded	604,769	504,150	1,108,919
Stock dividends	329,173	274,702	603,875
Options exercised	<u>(216,089)</u>	<u>(172,233)</u>	<u>(388,322)</u>
<b>Balance at June 30, 2007</b>	1,039,802	867,461	1,907,263
Options awarded	(4,815)	(4,031)	(8,846)
Options recovered	(5,462)	(4,554)	(10,016)
Adjustment of awards due to currency redenomination	<u>218</u>	<u>274</u>	<u>492</u>
<b>Balance at December 31, 2007</b>	<u>1,029,743</u>	<u>859,150</u>	<u>1,888,893</u>

Of the options in effect at December 31, 2007, 345,785 options were available to be exercised (5,827,901 options at December 31, 2006, which after the increase in par value of the shares in December 2007 (Note 21), are equivalent to 582,790 options).

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

	Share volatility %	Risk-free rate %	Time (Years)	Option value (In bolivars)
Phase I	78.6	28.6	7.8	7,721
Phase II	68.7	21.0	6.0	386
Phase III	35.8	26.9	7.5	1,458
Phase IV	31.4	8.3	2.4	3,095

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

**17. General and Administrative Expenses**

General and administrative expenses comprise the following:

<i>(Millions of bolivars)</i>	<b>Years ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Advertising	87,825	72,896
Transportation of valuables and communications	80,972	64,130
External services, fees and other	68,450	64,873
Taxes and duties (Note 15)	60,432	27,977
Maintenance of property and equipment	50,836	32,588
Sundry general expenses	44,426	23,772
Services and supplies	35,502	29,888
Depreciation of property and equipment (Note 8)	34,199	25,358
Transportation and surveillance	22,599	21,847
Amortization of deferred expenses (Note 9)	18,570	13,324
Software licenses	15,700	16,782
Leases	12,585	10,275
Amortization of goodwill (Note 9)	9,281	9,282
Other	<u>13,461</u>	<u>13,171</u>
	<b><u>554,838</u></b>	<b><u>426,163</u></b>

**18. Other Operating Income**

Other operating income comprises the following:

<i>(Millions of bolivars)</i>	<b>Years ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Commissions on services (Note 23)	455,858	316,599
Gain on sale of investment securities (Notes 4 and 19)	83,927	109,500
Commissions on trust funds (Note 24)	36,733	36,333
Income from equity in affiliates	16,134	36,668
Exchange gain (Note 22)	11,829	37,121
Exchange and currency arbitration gains (Note 22)	<u>91</u>	<u>77</u>
	<b><u>604,572</u></b>	<b><u>536,298</u></b>

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**19. Other Operating Expenses**

Other operating expenses comprise the following:

<i>(Millions of bolivars)</i>	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Loss on sale of investment securities (Notes 4 and 18)	93,556	18,482
Commissions on services	57,158	43,175
Exchange loss (Note 22)	7,014	21,015
Loss from equity in affiliates	<u>          -</u>	<u>  1,046</u>
	<b><u>157,728</u></b>	<b><u>83,718</u></b>

**20. Extraordinary Expenses**

Extraordinary expenses comprise the following:

<i>(Millions of bolivars)</i>	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Loss from theft, robbery and fraud	28,430	12,237
Donations made by the Bank (Note 25)	9,602	10,263
Other	1,246	1,504
Loss from sundry claims	<u>  315</u>	<u>  212</u>
	<b><u>39,593</u></b>	<b><u>24,216</u></b>

**21. Shareholders' Equity**

**a) Capital stock and authorized capital**

At December 31, 2007, the Bank's paid-in capital amounts to Bs 268,060 million and is represented by 146,198,516 Class "A" common shares and 121,861,717 Class "B" common shares with limited voting rights, with a par value of Bs 1,000 each (paid-in capital of Bs 134,112 million represented by 731,486,166 Class "A" common shares and 609,636,696 Class "B" common shares at December 31, 2006, with a par value of Bs 100 each).

At a Shareholders' Meeting on September 14, 2007, it was resolved to increase paid-in capital by Bs 133,948 million through the issue of 730,498,994 Class "A" common shares and 608,980,474 Class "B" common shares with a par value of Bs 100 each.

At a Shareholders' Meeting on December 10, 2007, it was resolved to increase the par value of the Bank's shares to Bs 1,000 each through conversion of 10 common shares into one new common share. From January 1, 2008, when currency redenomination became effective, the par value of shares is Bs 1.

At December 31, 2007 and 2006, the Bank complies with minimum paid-in capital requirements for universal banks of Bs 40,000 million.

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**b) Retained earnings and dividends**

Below is a summary of cash dividends declared and paid on common shares for the years reported:

Type of dividend	Date of approval by Board of Directors	Amount per share Bs	Frequency or payment date
Ordinary	March 2006	26.10	April 2006
Ordinary	August 2006	26.10	September 2006
Ordinary	April 2007	29.82	April 2007
Ordinary	October 2007	29.82	October 2007

Paid-in surplus includes mainly share premiums. This amount may not be distributed to the shareholders as cash dividends and may only be used for stock dividends.

In 1999 the Superintendency of Banks established a requirement to set aside an equity reserve of 50% of income for each year to restricted surplus, exclusively for capital increase purposes. At December 31, 2007, the Bank recorded Bs 222,244 million (Bs 169,846 million at December 31, 2006), equivalent to 50% of the net result at that date, under restricted surplus.

At December 31, 2007, restricted surplus of Bs 887,215 million (Bs 726,183 million at December 31, 2006) includes Bs 115,246 million (Bs 176,457 million at December 31, 2006), in respect of income from subsidiaries and affiliates, which will only be available when these subsidiaries and affiliates declare and distribute the related dividends or the investment is sold. During 2007 the Bank released restricted surplus of Bs 120,586 million in respect of cash dividends received from the subsidiary Mercantil Merinvest, C.A. and subsidiaries sold at December 31, 2006 (Note 6).

**c) Appropriation to legal reserve**

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

**d) Risk-based capital ratios**

Ratios required and maintained by the Bank at December 31, calculated based on its published financial statements in accordance with the rules of the Superintendency of Banks, are shown below:

	2007		2006	
	Maintained %	Required %	Maintained %	Required %
Equity to risk-weighted assets and contingent operations	14.0	12	13.9	12
Shareholders' equity to total assets	9.6	8	9.8	8

On March 20, 2007, the Superintendency of Banks issued Resolution No. 058/07, incorporating a scheme for gradually excluding goodwill from the index of the equity solvency calculation; this consists in dividing goodwill for March 2007 into 48 parts, which will be deducted from equity on a monthly basis before March 31, 2011.

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**22. Financial Assets and Liabilities in Foreign Currency**

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

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

On March 2, 2005, the Ministry of Finance and BCV established new official exchange rates, as from that date, of Bs 2,144.60/US\$1 (purchase) and Bs 2,150/US\$1 (sale) (formerly Bs 1,915.20/US\$1 and Bs 1,920/US\$1, respectively).

The Bank's consolidated balance sheet at December 31 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-c:

<i>(In millions)</i>	<u>2007</u>		<u>2006</u>	
	<b>Equivalent in bolivars</b>	<b>US\$</b>	<b>Equivalent in bolivars</b>	<b>US\$</b>
<b>Assets</b>				
Cash and due from banks	148,567	69	137,679	64
Investment securities, net	480,933	224	482,003	225
Loan portfolio	470,133	219	469,339	219
Interest and commissions receivable	11,834	6	7,538	4
Other assets	<u>5,087</u>	<u>2</u>	<u>3,734</u>	<u>2</u>
Total assets	<u>1,116,554</u>	<u>520</u>	<u>1,100,293</u>	<u>514</u>
<b>Liabilities</b>				
Deposits	107,269	50	97,839	46
Borrowings	90,350	42	34,539	16
Other liabilities from financial intermediation	95,937	45	103,430	48
Interest and commissions payable	624	-	489	-
Accruals and other liabilities	<u>37,057</u>	<u>17</u>	<u>33,321</u>	<u>16</u>
Total liabilities	<u>331,237</u>	<u>154</u>	<u>269,618</u>	<u>126</u>

The estimated effect from the increase of every Bs 100/US\$1 in the exchange rate of Bs 2,150/US\$1 at December 31, 2007 would be an increase of Bs 52,000 million in assets and Bs 36,600 million in shareholders' equity.

At December 31, 2006, the Bank had National Public Debt Bonds denominated in bolivars with exchange indexation clauses amounting to Bs 219,513 million (Note 4).

At December 31, 2007, memorandum accounts include foreign currency sales commitments of US\$41,536,928 and Total Return Swap with an economic value of US\$64,427,703 (foreign currency sales commitments of US\$45,547,756 and Total Return Swap with an economic value of US\$99,553,313 at December 31, 2006).

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During the year ended December 31, 2007, net exchange gains resulting from revaluation of monetary position in foreign currency amount to Bs 4,815 million (Bs 16,106 million during the year ended December 31, 2006) (Notes 18 and 19). At December 31, 2006, total assets and liabilities in foreign currency include Ps 1,811 million in respect of net assets of the Bank's subsidiaries in Colombia, equivalent to US\$808,839.

At December 31, 2007, the Bank has a net monetary asset position in foreign currency of US\$236,989,980, equivalent to Bs 508,249 million (US\$161,904,402, equivalent to Bs 347,221 million at December 31, 2006), calculated based on the rules laid down by BCV. This position does not exceed the maximum limit set by BCV, which is 30% of the Bank's equity of the previous month, equivalent to US\$276,040,624 (US\$203,615,477 at December 31, 2006). The aforementioned calculation does not include a portion of the capital and income of the branch and agency abroad and, as from August 2007, Principal and Interest Covered Bonds (TICC) issued by the Bolivarian Republic of Venezuela during 2007 and 2006, with a reference value in foreign currency and payable in bolivars at the official exchange rate, which at December 31, 2007 amount to approximately Bs 163,816 million.

**23. Memorandum Accounts**

Memorandum accounts at December 31 comprise the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Contingent debtor accounts</b>		
Letters of credit	405,890	516,648
Guarantees granted	311,997	373,898
Transactions with derivative instruments	388,427	388,551
Tourist industry sector loan commitment (Note 5)	111,945	122,428
Investments in securities under repurchase agreement (Note 4)	-	86,000
Other contingencies	<u>567,101</u>	<u>267,548</u>
	<u>1,785,360</u>	<u>1,755,073</u>
Assets received in trust	<u>6,652,634</u>	<u>6,775,930</u>
Other special trust services	<u>25,536</u>	<u>27,876</u>
<b>Debtor accounts from other special trust services (Housing Mutual Fund)</b>		
Cash and due from banks	858	5,712
Investment securities	188,765	81,804
Loan portfolio	1,117,554	891,355
Interest receivable	5,667	4,842
Available-for-sale assets	1,559	592
Other	<u>1,948</u>	<u>1,314</u>
	<u>1,316,351</u>	<u>985,619</u>
Other debtor accounts (Housing Mutual Fund)	<u>7,683</u>	<u>9,606</u>
<b>Other debtor memorandum accounts</b>		
Guarantees received	18,459,466	13,410,018
Unused lines of credit	3,922,530	3,575,412
Valuable received in custody	1,306,305	1,319,469
Collections	118,677	40,492
Consigned cash received from BCV (BsF)	1,011,533	-
Other control accounts	<u>5,934,918</u>	<u>5,911,844</u>
	<u>30,753,429</u>	<u>24,257,235</u>
Other debtor control accounts	<u>48,587</u>	<u>66,066</u>

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At December 31, 2007, consigned cash received from BCV is in respect of bills and coins received by the Bank from BCV due to the currency redenomination process (Note 1).

#### **a) Contingent debtor accounts and unused lines of credit**

##### ***Credit-related financial instruments***

The Bank has significant outstanding commitments related to letters of credit, guarantees granted, lines of credit and credit card limits to meet the needs of its customers 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 the Bank are recorded under memorandum accounts.

##### ***Guarantees granted***

After conducting a credit risk analysis, the Bank provides guarantees to certain customers according to their line of credit. These guarantees are issued to a beneficiary who may execute the guarantee if the customer fails to comply with the terms of the agreement. These guarantees mature within a year and earn annual commissions between 0.25% and 3% of their value. Commissions are recorded monthly while the guarantees are 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. The Bank charges a fee of between 0.125% and 2% of the amount of the letter of credit and records the latter under assets once it is used by the customer. Unused letters of credit and other similar liabilities are included under memorandum accounts.

##### ***Derivative financial instruments***

The Bank enters into non-hedging futures contracts for the purchase and sale of securities at a fixed price based on interest rates. Gains and losses resulting from these contracts during the year ended December 31, 2007 amounted to Bs 32,421 million and Bs 35,131 million, respectively (Bs 11,595 million and Bs 10,258 million, respectively, during the year ended December 31, 2006), recorded in the consolidated statement of income under other interest income and expenses from other liabilities from financial intermediation, respectively.

The Bank entered into swap agreements with Mercantil Servicios Financieros, C.A. in respect of the total economic value of cash flows generated by securities (Total Return Swaps) of Bs 138,172 million (Bs 213,502 million at December 31, 2006). The Bank undertakes to transfer the net economic value represented by bonds in U.S. dollars issued by the Bolivarian Republic of Venezuela to Mercantil Servicios Financieros, C.A. and will receive the economic value of bonds in bolivars issued by the Bolivarian Republic of Venezuela. According to this agreement, net cash flows will be swapped on the date interest or principal is paid by the issuer of the securities traded. During the year ended December 31, 2007, the difference between the economic values of both securities resulted in a gain and loss for the Bank of Bs 14,267 million and Bs 22,864 million, respectively, recorded under other interest income and expenses from other liabilities from financial intermediation, respectively (a gain of Bs 9,409 million and a loss of Bs 8,381 million for the year ended December 31, 2006).

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The status of open transactions with derivative financial instruments at December 31 is the following:

	<u>2007</u>		<u>2006</u>	
	Millions of bolivars	Maturity	Millions of bolivars	Maturity
<b>Non-hedging futures</b>				
Contracts				
Securities				
Purchases	162,911	January and June 2008	162,076	January and February 2007
Sales	<u>87,344</u>	January 2008	<u>12,973</u>	January 2007
	<u>250,255</u>		<u>175,049</u>	
Total Return Swap	<u>138,172</u>	January 2008 and May 2010	<u>213,502</u>	January 2007 and April 2010
	<u>388,427</u>		<u>388,551</u>	

Below is the concentration of purchases and sales of futures by type of economic activity at December 31:

<i>(Millions of bolivars)</i>	<u>2007</u>		<u>2006</u>	
		%		%
Services	248,271	99	147,069	84
Financial	<u>1,984</u>	<u>1</u>	<u>27,980</u>	<u>16</u>
	<u>250,255</u>	<u>100</u>	<u>175,049</u>	<u>100</u>

The risk to which the Bank is exposed relates to noncompliance by third parties with the terms laid down in the contracts, as well as variations in the price of securities and interest rates. The Bank has a control environment that includes policies and procedures for rating exchange and interest rate risks and monitoring derivative financial instruments, as well as assessing credit risks related to other parties.

***Lines of credit***

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

Credit cards are issued for three years and are renewable. However, the Bank reserves the right to cancel a credit commitment with a particular customer at any time. Nominal credit card interest rates are variable and for the years ended December 31, 2007 and 2006 were 28% per annum (Note 1).

The Bank's exposure to credit loss in the event of noncompliance by customers 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 the Bank for these commitments are the same as those for granting loans.

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

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At December 31, 2007, in accordance with the Accounting Manual, the Bank has set aside general and specific provisions for contingent debtor accounts of Bs 8,976 million (Bs 10,628 million at December 31, 2006) (Note 14).

**b) Assets received in trust**

Trust fund accounts at December 31 include the following balances, according to the combined financial statements of the trust:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash and due from banks (Note 10)	91,198	127,837
Investment securities	3,772,566	4,199,636
Loan portfolio	2,338,041	1,982,789
Interest and commissions receivable	35,180	28,213
Available-for-sale assets	1,554	-
Assets received for administration	3,173	4,907
Other assets	<u>410,922</u>	<u>432,548</u>
Total assets	<u>6,652,634</u>	<u>6,775,930</u>
<b>Liabilities</b>		
Fees and other accounts payable	4,600	16,290
Other liabilities	<u>7,091</u>	<u>68,223</u>
Total liabilities	11,691	84,513
<b>Shareholders' equity</b>	<u>6,640,943</u>	<u>6,691,417</u>
Total liabilities and shareholders' equity	<u>6,652,634</u>	<u>6,775,930</u>

Trust fund equity at December 31 is classified as follows:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
<b>Trust fund</b>		
Employee termination benefits	3,869,906	2,982,121
Administration	1,778,439	2,110,162
Investment	410,314	1,024,561
Guarantee	388,278	394,586
Savings fund	<u>194,006</u>	<u>179,987</u>
	<u>6,640,943</u>	<u>6,691,417</u>
<b>Trust fund</b>		
Private sector	3,835,797	4,182,539
Public sector	<u>2,805,146</u>	<u>2,508,878</u>
	<u>6,640,943</u>	<u>6,691,417</u>

At December 31, 2007, trust funds deposited by government agencies and the private sector represent 42.24% and 57.76%, respectively (62.51% and 37.49%, respectively, at December 31, 2006).

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Investment securities included in trust fund accounts at December 31 comprise the following:

	2007		2006	
	Book value	Fair market value	Book value	Fair market value
<i>(Millions of bolivars)</i>				
<b>1) Debt securities issued by foreign private-sector companies</b>				
Debt securities issued by foreign private-sector companies, with annual yield at between 6.43% and 12.99%, maturing between January and February 2008, and a par value of US\$19,070,000 (annual yield at between 2.61% and 8.25%, maturing between January 2007 and February 2008, and a par value of US\$15,119,000 at December 31, 2006)	41,272	41,258 (1)	34,009	33,994 (1)
<b>2) Debt securities issued by Venezuelan private-sector companies</b>				
Debt securities issued by Venezuelan private-sector companies, with annual yield at between 0.23% and 13.23%, maturing between June 2008 and August 2012, and a par value of Bs 361,476 million (annual yield at between 4.32% and 14.15%, maturing between July 2006 and June 2011, and a par value of Bs 153,006 million at December 31, 2006)	358,658	362,429 (1)	140,238	149,896 (1)
<b>3) Securities issued or guaranteed by the Venezuelan government</b>				
National Public Debt Bonds, with annual interest at between 10.23% and 17.9%, maturing between January 2008 and October 2020, and a par value of Bs 1,790,950 million (annual interest at between 6.55% and 12.05%, maturing between January 2007 and October 2020, and a par value of Bs 2,428,186 million at December 31, 2006)	1,828,716	1,780,995 (1)	2,582,272	2,584,699 (1)
Principal and Interest Covered Bonds (TICC), with annual interest at between 5.25% and 6.25%, maturing between April 2017 and March 2019, and a reference par value of US\$173,208,500, payable in bolivars at the official exchange rate (reference par value of US\$82,390,000, payable in bolivars at the official exchange rate at December 31, 2006)	437,145	308,006 (1)	212,699	208,587 (1)
National Public Debt Bonds in foreign currency, with 7% annual interest, maturing between March 2015 and 2038, and a par value of US\$7,000,000	16,327	16,325 (1)	-	-
Venezuelan Securities (TCCs) in foreign currency issued by Banco Central de Venezuela, maturing between December 2008 and August 2012, and a par value of US\$963,321	2,069	2,066 (3)	2,055	2,055 (3)
National Public Debt Bonds in foreign currency, with 6.36% annual interest, maturing in April 2011 and a par value of US\$202,000 (6.37% annual interest, maturing in April 2011 and a par value of US\$321,000 at December 31, 2006)	452	394 (1)	727	686 (1)
National Public Debt Bonds in foreign currency, with 7% annual interest, maturing in December 2018 and a par value of US\$18,000	39	33 (1)	39	40 (1)
National Public Debt Bonds in foreign currency, with 7.65% annual interest, maturing in April 2025 and a par value of US\$9,000	19	17 (1)	19	21 (1)
Treasury Notes issued by the Bolivarian Republic of Venezuela, with annual interest at between 3.98% and 6.75%, maturing between January and June 2007, and a par value of Bs 167,464 million	-	-	166,366	166,236 (1)
National Public Debt Bonds in foreign currency, with 9.38% annual interest, maturing in January 2034 and a par value of US\$9,000,000	-	-	23,517	25,578 (1)
National Public Debt Bonds in foreign currency, with annual interest at between 5.38% and 6.37%, maturing between August 2010 and April 2011, and a par value of US\$10,420,000	-	-	22,155	22,157 (1)
	<u>2,284,767</u>	<u>2,107,836</u>	<u>3,009,849</u>	<u>3,010,059</u>
<b>4) Debt securities issued by foreign public-sector agencies</b>				
Bonds issued by foreign public-sector agencies (governments in Europe, Latin America and Canada), with annual yield at between 3.75% and 9%, maturing between July 2007 and October 2015, and a par value of US\$16,635,900 (annual yield at between 3% and 9.88%, maturing between January 2007 and January 2014, and a par value of US\$16,601,000 at December 31, 2006)	53,740	53,124 (2)	49,281	48,158 (2)
Debt securities issued and guaranteed by government agencies of the United States of America, with annual yield at between 3.37% and 8.13%, maturing between January and December 2008, and a par value of US\$36,807,921 (annual yield at between 3% and 8.13%, maturing between January 2007 and August 2016, and a par value of US\$27,218,336 at December 31, 2006)	47,065	47,345 (2)	60,495	60,675 (2)
	<u>100,805</u>	<u>100,469</u>	<u>109,776</u>	<u>108,833</u>
<b>5) Investments issued by Venezuelan non-financial private-sector companies</b>				
Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), 2,863,037 common shares, with a par value of Bs 36.90 each (11,446,853 common shares, with a par value of Bs 36.90 each at December 31, 2006)	17,700	7,054 (4)	12,123	109,707 (4)
Servicio Panamericano de Protección, C.A., 16,730,642 common shares, with a par value of Bs 133 each	12,548	40,296 (5)	12,548	11,022 (7)
Automercados Plaza, C.A., 460,393 shares with a par value of Bs 1,000 each	460	8,145 (6)	-	-
Other	516	729	979	1,085
	<u>31,224</u>	<u>56,224</u>	<u>25,650</u>	<u>121,814</u>
<b>6) Restricted investments</b>				
Time deposits, with 3.65% annual interest, maturing in January 2008, and a par value of US\$15,398,698 (3.63% annual interest, maturing in January 2007 and a par value of US\$9,211,901 at December 31, 2006)	11,578	11,578 (2)	19,754	19,754 (2)
<b>7) Mutual fund investments</b>	669,378	656,536 (2)	621,600	624,805 (2)

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	2007		2006	
	Book value	Fair market value	Book value	Fair market value
<i>(Millions of bolivars)</i>				
<b>8) Investments in Venezuelan banks and other financial institutions</b>				
Time deposits, with annual interest at between 11.50% and 12%, maturing between January and February 2008 (annual interest at between 7% and 10.5%, maturing between January and March 2007 at December 31, 2006)	244,780	244,780 (3)	217,402	217,402 (3)
Debenture bonds	-	-	12,203	13,108 (1)
Subordinated debt	9,900	9,832 (1)	-	-
Other investments	224	4,633 (4)	169	6,776 (4)
	<u>254,904</u>	<u>259,245</u>	<u>229,774</u>	<u>237,286</u>
<b>9) Other investments</b>	<u>19,978</u>	<u>19,848</u> (2)	<u>8,986</u>	<u>8,931</u> (2)
	<u><u>3,772,564</u></u>	<u><u>3,615,423</u></u>	<u><u>4,199,636</u></u>	<u><u>4,315,372</u></u>

- (1) Based on the present value of estimated future cash flows.  
(2) Market value based on confirmation from custodian.  
(3) Shown at par value.  
(4) Market value based on prices listed on the Caracas Stock Exchange.  
(5) Equity value based on financial statements at December 31, 2005.  
(6) Equity value based on audited financial statements at January 31, 2006.

Investments classified by maturity at December 31 are as follows:

	2007		2006	
	Book value	Fair market value	Book value	Fair market value
<i>(Millions of bolivars)</i>				
Up to six months	1,389,517	1,375,574	1,323,112	1,325,504
Six months to one year	695,460	688,968	432,154	431,128
One to five years	1,161,441	1,124,254	2,042,841	2,056,005
Over five years	486,964	357,997	368,925	367,351
No fixed maturity	39,184	68,631	32,604	135,384
	<u>3,772,566</u>	<u>3,615,424</u>	<u>4,199,636</u>	<u>4,315,372</u>

Investment securities at December 31 comprise the following:

	2007	2006
<i>(Millions of bolivars)</i>		
Non-directed	2,657,446	3,132,990
Directed	<u>1,115,120</u>	<u>1,066,646</u>
	<u><u>3,772,566</u></u>	<u><u>4,199,636</u></u>

Trust fund-related resources at December 31 comprise the following:

	2007		2006	
	Directed	Non-directed	Directed	Non-directed
<i>(Thousands of bolivars)</i>				
Investments in foreign private-sector companies	791,008	42,994	764,452	271,388
Deposits with other Venezuelan banks	244,780	-	217,402	-
Securities issued or guaranteed by the Venezuelan government	36,265	2,245,894	40,176	2,708,463
Investments in Venezuelan private-sector companies	31,489	368,558	24,862	153,139
Deposits with other foreign banks	11,578	-	19,754	-
	<u>1,115,120</u>	<u>2,657,446</u>	<u>1,066,646</u>	<u>3,132,990</u>

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Mercantil Servicios de Inversión, C.A. (MSI), subsidiary of Mercantil Servicios Financieros, C.A., is authorized by the Venezuelan National Securities and Exchange Commission (CNV) to provide investment services and manage investment portfolios. The trust fund has engaged MSI as a specialist to optimize yields on investments of trustors. For the provision of this service, the trust fund (principal), grants MSI (agent), Special Powers for Portfolio Management and Disposition. Trustee responsibility is not delegated as part of the service for which MSI charges 0.125% a year of the portfolio. During the year ended December 31, 2007, the Bank paid MSI approximately Bs 3,944 million in this connection (Bs 2,504 million during the year ended December 31, 2006).

Based on internal procedures of Banco Central de Venezuela (BCV), and since the trust fund has no legal identity, the Bank purchases securities from BCV in primary auctions for the trust fund and other customers. The Bank does not make any charges to the trust fund in this connection.

The trust fund loan portfolio at December 31 comprises the following:

<i>(Millions of bolivars)</i>	<b>2007</b>	<b>2006</b>
Loans to beneficiaries of employee termination benefit trust funds	2,234,036	1,721,837
Mortgages	59,689	53,564
Company loans	42,970	29,070
Loans to government agencies	1,247	603
Student loans	-	177,602
Other	<u>99</u>	<u>113</u>
	<u>2,338,041</u>	<u>1,982,789</u>

Loans to beneficiaries mainly consist of loans granted to trustors whose employee termination benefits are deposited in a trust fund as collateral. These interest-free loans are in respect of employee termination benefit trust fund plans of public and private-sector companies and have no fixed maturity.

At December 31, 2007, loans to beneficiaries of employee termination benefit trust funds include Bs 195,074 million and Bs 6,217 million in respect of loans granted to the Bank and Mercantil Seguros, C.A. employees, respectively, on employee termination benefit balances (Bs 140,162 million at December 31, 2006).

At December 31, 2007, mortgage loans include approximately Bs 22,868 million (Bs 27,475 million at December 31, 2006) in respect of guaranteed loans granted in accordance with administration trust funds using resources from public entities, mainly the National Urban Development Fund (FONDUR) and the National Housing Institute (INAVI). In addition, this account includes approximately Bs 36,821 million (Bs 26,089 million at December 31, 2006) in respect of mortgage loans to beneficiaries of employee termination benefit trust funds.

At December 31, 2007, company loans include Bs 42,000 million (Bs 28,100 million at December 31, 2006) in respect of loans granted by the trust fund using resources from public-sector trust funds maturing between 90 and 330 days with annual interest at between 20% and 28% (maturing between 30 and 180 days with annual interest at between 10% and 15% at December 31, 2006).

At December 31, 2006, student loans related to a loan administration agreement with Fundación Gran Mariscal de Ayacucho (Fundayacucho). These loans were granted using Fundayacucho resources. This agreement expired during the year ended December 31, 2007.

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Other assets received in trust mainly comprise guarantees received for administration, accounts receivable from government entities, withdrawal of prepaid benefits, prepaid interest and other accounts receivable.

The trust fund acts as trustee for employee termination benefit contracts of employees of the Bank and Mercantil Seguros, C.A. amounting to Bs 240,383 million and Bs 10,801 million, respectively, at December 31, 2007 (Bs 180,574 million and Bs 7,537 million, respectively, at December 31, 2006).

Trust fund-related resources used to grant loans to companies (loan portfolio) are directed trusts, recorded and valued as specified by the Superintendency of Banks.

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

The Venezuelan Housing Loan Law, effective May 2005, repealed the Housing Policy Law and Title IV of the General Law of Banks and Other Financial Institutions as regards Banco Nacional de Ahorro y Préstamo (BANAP). As a result, Banco Nacional de Vivienda y Hábitat (BANAVIH) was created to replace BANAP. According to the Venezuelan Social Security Law, BANAVIH will assume BANAP's activities and responsibilities. Moreover, housing programs, direct subsidies, eligibility, the Guarantee Fund and Rescue Fund are subject to this Law. These programs are aimed mostly at families requesting housing loans. Monthly contributions from employers, employees and workers from the private and public sectors are deposited in a Mandatory Housing Savings Fund account for each employee. These funds will be used to grant short and long-term mortgages for acquisition, construction and improvement of primary residences. On June 1, 2005, BANAVIH transferred approximately Bs 98,956 million from the Bank's individual account in the Mandatory Housing Savings Fund to the Fund's global account. As from that date, the Bank receives all monthly contributions from employers and employees for transfer to BANAVIH's global account.

At December 31, 2007, the loan portfolio of the Mandatory Housing Savings Fund earned 9.31% annual interest (from September 5, 2006). At December 31, 2007, this loan portfolio is distributed among 41,918 debtors (39,131 debtors at December 31, 2006).

During the year ended December 31, 2007, the Bank recorded income of Bs 21,805 million (Bs 23,897 million at December 31, 2006) in respect of fiduciary commission collected from BANAVIH for managing funds for Mandatory Housing Fund activities (Note 18).

At December 31, 2007, the Mandatory Housing Savings Fund includes 4,103,654 dependent employees and 274,087 independent contributors (2,846,644 and 241,230, respectively, at December 31, 2006).

**d) Other debtor accounts**

Other control accounts are mainly in respect of electronic securities and guarantees. At December 31, 2007, these accounts also include approximately US\$134,639,606, equivalent to Bs 288,748 million, in respect of the balance receivable from CADIVI for payments in foreign currency made by the Bank on behalf of customers for credit card use (US\$25,299,022, equivalent to Bs 54,393 million at December 31, 2006).

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**24. Balances and Transactions with Related Companies**

In the normal course of business, the Bank conducts commercial transactions with its shareholder, affiliates and related companies, the effects of which are included in the consolidated financial statements. Because of those relationships, these transactions may have taken place on terms other than those that would characterize transactions between unrelated companies.

Below is a breakdown of the Bank's balances with related companies:

**a) Balance Sheet**

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<i>(Millions of bolivars)</i>		
<b>Cash and due from banks</b>	<u>66,096</u>	<u>117,204</u>
Mercantil Commercebank, N.A.	65,881	117,204
Mercantil Bank Curaçao, N.V.	132	-
Mercantil Bank (Schweiz) A.G.	47	-
Banco del Centro, S.A.	36	-
<b>Investment securities</b>	<u>96,626</u>	<u>74,423</u>
Short-term investments (Note 4)		
Mercantil Commercebank, N.A.	10,136	14,010
Banco del Centro, S.A.	2,116	547
Investments in shares		
Inversiones y Valores Mercantil VI, C.A.	61,428	47,115
Mercantil Merinvest, C.A.	18,088	11,153
Inversiones Platco, C.A.	3,000	-
Proyectos Conexus, C.A. (Note 6)	1,858	1,598
<b>Other assets</b>	<u>8,857</u>	<u>18,947</u>
Mercantil Servicios Financieros, C.A. (Note 9)	5,206	3,139
Fideicomiso Mercantil Banco Universal	3,313	15,577
Mercantil Commercebank, N.A.	208	227
Mercantil Merinvest, C.A.	105	-
Todo 1 Services Inc.	21	-
BMC Bank & Trust Ltd.	3	2
Mercantil Seguros, C.A.	1	-
Banco del Centro, S.A.	-	2
<b>Total assets</b>	<u><b>171,579</b></u>	<u><b>210,574</b></u>
<b>Deposits</b>	<u>254,204</u>	<u>117,222</u>
Checking accounts	<u>114,641</u>	<u>56,241</u>
Non-interest bearing checking accounts	<u>41,434</u>	<u>2,463</u>
Mercantil Seguros, C.A.	16,480	1,597
Cestaticket Accor Services, C.A.	11,537	-
Servicio Panamericano de Protección, C.A.	7,103	-
Inversiones Veninversa, C.A.	3,806	-
Innovex, C.A.	752	-
Mercantil Merinvest, C.A.	617	-
Mercantil Merinvest Casa de Bolsa, C.A.	433	173
Fundación Mercantil	100	236
Mercantil Sociedad Administradora de Entidades de Inversión Colectiva, C.A.	97	-
Mercantil Servicios de Inversión, C.A.	85	-
Fundación BMA	82	-
Mercantil Inversiones y Valores, C.A.	55	209
Servibien, C.A.	37	74
Promotora W 2005, C.A.	22	8
Mercantil Servicios Financieros, C.A.	10	68
Mercantil Promotora de Valores 2005 III, C.A.	3	3
Mercantil Promotora de Valores 2005 IV, C.A.	3	3
Other	212	92

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<i>(Millions of bolivars)</i>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Interest-bearing checking accounts	<u>73,207</u>	<u>53,778</u>
Fideicomiso Mercantil Banco Universal	73,148	53,778
Fundación BMA	59	-
Savings accounts	<u>3,174</u>	<u>1,493</u>
Fundación Mercantil	1,719	1,493
Fundación BMA	1,455	-
Time deposits	<u>136,389</u>	<u>59,488</u>
Fundación BMA	95,162	-
Mercantil Servicios Financieros, C.A.	21,081	32,811
Mercantil Seguros, C.A.	12,082	6,804
Servicio Panamericano de Protección, C.A.	5,000	-
Fundación Mercantil	1,000	-
Mercantil Inversiones y Valores, C.A.	768	13,675
Promotora W 2005, C.A.	43	5,648
Other	1,253	550
<b>Borrowings</b>	<u>16,843</u>	<u>18,998</u>
Mercantil Bank Curaçao, N.V.	16,843	16,844
Banco del Centro, S.A.	-	2,154
<b>Other liabilities from financial intermediation</b>	<u>3,382</u>	<u>6,432</u>
Mercantil Servicios Financieros, C.A.	3,382	6,432
<b>Other liabilities</b>	<u>5,490</u>	<u>396</u>
Mercantil Servicios Financieros, C.A. (Note 14)	5,206	31
Mercantil Bank Curaçao, N.V.	236	267
Fundación Mercantil	46	-
Promotora W 2005, C.A.	-	98
Other	<u>2</u>	<u>-</u>
<b>Total liabilities</b>	<u>279,919</u>	<u>143,048</u>

**b) Statement of Income**

<i>(Millions of bolivars)</i>	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Interest income</b>	<u>31,734</u>	<u>29,360</u>
Income from cash and due from banks	<u>1,224</u>	<u>2,319</u>
Mercantil Commercebank, N.A.	1,067	836
Banco del Centro, S.A.	157	1,483
Income from investment securities	<u>41</u>	<u>12</u>
Banco del Centro, S.A.	41	12
Other interest income	<u>30,469</u>	<u>27,029</u>
Mercantil Servicios Financieros, C.A.	29,825	26,110
Mercantil Commercebank, N.A.	644	919
<b>Interest expense</b>	<u>26,782</u>	<u>14,812</u>
Mercantil Servicios Financieros, C.A.	25,494	13,462
Mercantil Bank Curaçao, N.V.	1,128	1,101
Banco del Centro, S.A.	-	249
Mercantil Merinvest, C.A.	5	-
Other	<u>155</u>	<u>-</u>

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<i>(Millions of bolivars)</i>	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating income</b>	<u>61,022</u>	<u>60,047</u>
Fideicomiso Mercantil Banco Universal	32,739	33,212
Inversiones y Valores Mercantil VI, C.A.	14,255	10,844
Mercantil Seguros, C.A.	10,496	3,499
Mercantil Merinvest, C.A.	1,658	3,381
Mercantil Promotora de Valores 2005 IV, C.A.	791	2,720
Proyecto Conexus, C.A.	591	296
Mercantil Servicios Financieros, C.A.	491	-
Promotora W 2005, C.A.	-	3,657
Mercantil Promotora de Valores 2005 III, C.A.	-	2,438
Other	1	-
<b>Operating expenses</b>	<u>4,977</u>	<u>21,290</u>
Mercantil Commercebank, N.A.	2,703	4,645
Mercantil Bank Curaçao, N.V.	989	832
Banco del Centro, S.A.	788	-
Mercantil Services Corporation	494	386
Mercantil Merinvest Casa de Bolsa, C.A.	3	42
Todo 1 Venezuela, C.A.	-	15,385
<b>Extraordinary expenses</b>	<u>9,387</u>	<u>7,753</u>
Fundación Mercantil (Note 25)	<u>9,387</u>	<u>7,753</u>

**c) Memorandum Accounts**

<i>(Millions of bolivars)</i>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Memorandum accounts</b>	<u>138,172</u>	<u>215,115</u>
Derivative financial instruments		
Mercantil Servicios Financieros, C.A.	138,172	213,502
Mercantil Merinvest Casa de Bolsa, C.A.	-	1,613

**d) Trust Fund**

<i>(Millions of bolivars)</i>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash and due from banks</b>	<u>73,180</u>	<u>127,836</u>
Mercantil, C.A. Banco Universal	73,148	127,810
Mercantil Commercebank, N.A.	32	26
<b>Investment securities</b>	<u>12,772</u>	<u>24,921</u>
Servicio Panamericano de Protección, C.A.	12,548	12,548
Mercantil Servicios Financieros, C.A.	224	12,373
<b>Other assets</b>		
Mercantil Bank Curaçao, N.V.	<u>25,969</u>	<u>25,969</u>
<b>Total assets</b>	<u>111,921</u>	<u>178,726</u>
<b>Fees payable</b>		
Mercantil, C.A. Banco Universal	<u>3,313</u>	<u>15,577</u>
<b>Total liabilities</b>	<u>3,313</u>	<u>15,577</u>

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#### **e) Transactions**

The Bank's most significant transactions with related companies are described below:

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

Expenses payable to Mercantil Commercebank, N.A. and Mercantil Services Corporation are mainly in respect of data processing, personnel administration and consulting services, and were incurred by the Bank's offices abroad.

At December 31, 2007 and 2006, the Branch in Curaçao assigned US\$1 million and US\$8.5 million, respectively, in participations in loans sold to related banks. At December 31, 2007 and 2006, the Branch had US\$42 million and US\$59 million, respectively, in participation in loans acquired from the agency and related banks. Purchase and sale transactions with related banks of participations in loans were conducted with unrelated borrowers under the same terms used by the Branch for granting loans.

Mercantil Merinvest Casa de Bolsa, C.A. (Merinvest), subsidiary of Mercantil Servicios Financieros, C.A., as security broker, provides services to the trust fund by transacting purchases and sales of securities with different customers. These transactions are in cash at market prices. During the year ended December 31, 2007, the trust fund conducted purchases and sales of securities through Merinvest, resulting in a gain of Bs 673 million (Bs 2,758 million during the year ended December 31, 2006).

At December 31, 2007, the trust fund has investments of approximately Bs 224 million in respect of directed trust funds (Bs 12,204 million in respect of directed trust funds and Bs 168 million in respect of non-directed trust funds at December 31, 2006) in Mercantil Servicios Financieros, C.A. In addition, during April and May 2007, the trust fund entered into securities loan agreements with Merinvest represented by National Public Debt Bonds of Bs 6,593 million, giving rise to income of Bs 53 million.

At December 31, 2007 and 2006, fees payable include commissions payable to the Bank as set out in trust fund agreements signed by trustors and the trust. The commission is calculated on funds deposited in fiduciary funds and is deducted from each trustor's individual investment; therefore, it is shown net of financial income. During the year ended December 31, 2007, the Bank recorded income of Bs 32,772 million and has Bs 3,313 million receivable in respect of these commissions (Bs 33,212 million and Bs 15,577 million, respectively, in 2006).

In 2007 other operating income includes Bs 6,062 million in respect of the Customer Service Call Center (CAM) provided for Mercantil Seguros, C.A. In addition, other operating income includes Bs 4,434 million in respect of commissions from the sale of Mercantil Seguros, C.A. products.

At December 31, 2007, the trust maintains investment portfolios in foreign currency at BMC Bank and Trust of Bs 739,258 million (Bs 701,579 million at December 31, 2006).

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During the year ended December 31, 2007, the Bank traded investment securities, mainly National Public Debt Bonds held as available-for-sale investments, in cash at market values with related companies for Bs 7,208,084 million and Bs 6,928,771 million, respectively (Bs 9,465,856 million and Bs 10,417,823 million, respectively, during the year ended December 31, 2006), resulting in net losses of Bs 31,089 million (net gains of Bs 10,777 million during the year ended December 31, 2006), included under other operating expenses and other operating income, respectively (Notes 19 and 18).

The Bank has been engaged as auxiliary trustee for trust funds at Mercantil Seguros, C.A. according to the terms of the respective agreement.

In March 2007 the Bank purchased tax credits from Mercantil Servicios Financieros, C.A., Mercantil Seguros, C.A. and Inversiones Veninversa, C.A., at nominal amounts, of Bs 3,210 million, Bs 1,020 million and Bs 2,352 million, respectively.

**25. Fundación Mercantil**

The Bank sponsors the “Fundación Mercantil” founded in December 1988 to promote educational, cultural, artistic, social, religious and scientific programs, either directly or through donations and contributions to third parties. The Bank made contributions during the year ended December 31, 2007 of Bs 9,387 million (Bs 7,758 million during the year ended December 31, 2006), shown under extraordinary expenses.

**26. Maturity of Financial Assets and Liabilities**

Financial assets and liabilities at December 31, 2007 are classified according to maturity as follows:

<i>(Millions of bolivars)</i>	June 30, 2008	December 31, 2008	June 30, 2009	December 31, 2009	June 30, 2010	December 31, 2010	June 30, 2011	December 31, 2011	Beyond 2012	Total
<b>Assets</b>										
Cash and due from banks	6,089,429	-	-	-	-	-	-	-	-	6,089,429
Investment securities	1,986,224	320,642	231,726	194,837	165,883	132,813	83,432	1,727	491,186	3,608,470
Loan portfolio	7,232,987	598,931	398,296	504,278	487,846	1,062,595	375,512	644,494	1,398,084	12,703,023
Interest and commissions receivable	<u>166,068</u>	-	-	-	-	-	-	-	-	<u>166,068</u>
Total financial assets	<u>15,474,708</u>	<u>919,573</u>	<u>630,022</u>	<u>699,115</u>	<u>653,729</u>	<u>1,195,408</u>	<u>458,944</u>	<u>646,221</u>	<u>1,889,270</u>	<u>22,566,990</u>
<b>Liabilities</b>										
Deposits	19,746,192	4,934	5,970	214	-	-	-	-	-	19,757,310
Liabilities with BANAP	1,983	-	-	-	-	-	-	-	-	1,983
Borrowings	184,655	1,738	389	505	364	308	11,990	47	7	200,003
Other liabilities from financial intermediation	99,766	73	-	-	-	-	-	-	-	99,839
Interest and commissions payable	<u>17,963</u>	-	-	-	-	-	-	-	-	<u>17,963</u>
Total financial liabilities	<u>20,050,559</u>	<u>6,745</u>	<u>6,359</u>	<u>719</u>	<u>364</u>	<u>308</u>	<u>11,990</u>	<u>47</u>	<u>7</u>	<u>20,077,098</u>

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**27. Fair Value of Financial Instruments**

Below are book and fair values of financial instruments maintained by the Bank at December 31:

<i>(Millions of bolivars)</i>	2007		2006	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Cash and due from banks	6,089,114	6,089,114	3,856,297	3,856,297
Investment securities	3,608,182	3,604,013	3,886,047	3,886,047
Loan portfolio, net of allowance	12,432,519	12,432,519	8,609,434	8,609,434
Interest and commissions receivable, net of allowance	<u>163,591</u>	<u>163,591</u>	<u>118,389</u>	<u>118,389</u>
	<u>22,293,406</u>	<u>22,289,237</u>	<u>16,470,167</u>	<u>16,470,167</u>
<b>Liabilities</b>				
Deposits	19,757,310	19,757,310	14,696,663	14,696,663
Deposits and liabilities with BANAP	1,983	1,983	379	379
Borrowings	200,002	200,002	92,510	92,510
Other liabilities from financial intermediation	99,839	99,839	117,292	117,292
Interest and commissions payable	<u>17,963</u>	<u>17,963</u>	<u>10,537</u>	<u>10,537</u>
	<u>20,077,097</u>	<u>20,077,097</u>	<u>14,917,381</u>	<u>14,917,381</u>
<b>Memorandum accounts</b>				
Contingent debtor accounts	<u>1,785,359</u>	<u>1,785,539</u>	<u>1,755,073</u>	<u>1,755,073</u>

In the normal course of operations, the Bank maintains financial instruments with off-balance sheet risks to meet the financial needs of its clients. The Bank's maximum exposure at December 31 is represented by the following commitments:

<i>(Millions of bolivars)</i>	2007	2006
Unused lines of credit	3,922,530	3,575,413
Guarantees granted	311,997	373,898
Letters of credit issued but not negotiated (standby)	315,843	411,830
Letters of credit confirmed but not negotiated	90,047	104,817
Other contingencies	<u>567,101</u>	<u>267,548</u>
	<u>5,207,518</u>	<u>4,733,506</u>

The fair value of a financial instrument is defined as the amount for which an instrument could be exchanged between two knowledgeable, willing parties, other than in a forced transaction, involuntary liquidation or distress sale. Fair values for financial instruments with no available quoted market prices have been estimated using the present value of future cash flows of these financial instruments, based on the official exchange rate, 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 estimate the value of other income-generating activities or future business activities; that is, they do not represent the Bank's value 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**

Financial instruments, including derivatives, are recorded in the consolidated balance sheet under assets or liabilities at their respective market value.

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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 due to their short-term maturity. These instruments include cash and due from banks, deposits with no fixed maturity and short-term maturity, other liabilities from financial intermediation with short-term maturity, and commissions and interest receivable and payable.

#### **Investment securities**

The fair value of investment securities was determined using the present value of future cash flows of investment securities, quoted market prices, reference prices determined from trading operations on the secondary market and quoted market prices of financial instruments with similar characteristics.

#### **Loan portfolio**

Most of the Bank's loan portfolio earns interest at variable rates that are revised frequently, generally between 30 and 90 days for most of the short-term portfolio. Allowances are made for loans with some risk of recovery. Therefore, in management's opinion, the net book value of this loan portfolio approximates its fair value.

#### **Deposits and long-term liabilities**

Deposits and long-term liabilities earn interest at variable rates. Therefore, Bank management considers fair value to be equivalent to book value.

### **28. Money Laundering Prevention**

The Law on Narcotic and Psychotropic Substances was enacted in December 2005. In compliance with this Law, the Bank has set aside an allowance of 1% of its annual net income for the purpose of preparing employee-oriented programs for the prevention of drug abuse and traffic (Note 14). In compliance with Resolution No. 185-01 of the Superintendency of Banks dated September 12, 2001, in effect as from December 20, 2001, the Bank not only created a Money Laundering Prevention Unit, but also appointed a Money Laundering Prevention Enforcement Officer. This Unit is responsible for analyzing, monitoring and informing the Committee for the Prevention of Money Laundering appointed by the Executive Committee of any possible money laundering activities. Furthermore, the Bank has also appointed compliance officials for the different areas of the Bank exposed to risk who are responsible for enforcing and supervising money laundering prevention and monitoring regulations.

### **29. Supplementary Information - Consolidated Inflation-Adjusted Financial Statements**

The Bank has prepared supplementary financial statements in conformity with generally accepted accounting principles published by the Venezuelan Federation of Public Accountants, incorporating the effect of differences with rules of the Superintendency of Banks (Note 2).

Supplementary inflation-adjusted financial information has been prepared based on Revised Statement of Accounting Principles No. 10 (DPC 10) "Rules for the preparation of financial statements adjusted for the effects of inflation." The purpose of this restatement using the General Price Level (GPL) method is to present financial statements in currency of uniform purchasing power to take account of changes in the Consumer Price Index (CPI) for the Metropolitan Area of Caracas published by Banco Central de Venezuela (BCV). Consequently, the supplementary financial statements do not purport to

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reflect market or realizable values of nonmonetary assets, which will normally differ from amounts adjusted on the basis of price indices.

Below is a summary of the consolidated financial statements of Mercantil, C.A. Banco Universal, prepared in conformity with generally accepted accounting principles:

**Supplementary Consolidated Balance Sheet**  
**December 31, 2007 and 2006**

*(Millions of constant bolivars at  
December 31, 2007)*

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash and due from banks	6,089,114	4,722,362
Investment securities	5,500,797	7,432,766
Loan portfolio	12,432,519	10,542,980
Interest and commissions receivable	163,659	145,148
Investments in affiliates	100,421	86,114
Available-for-sale assets	25	3,661
Property and equipment	614,448	605,364
Other assets	<u>698,388</u>	<u>643,257</u>
<b>Total assets</b>	<b><u>25,599,371</u></b>	<b><u>24,181,652</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits	21,459,860	20,495,350
Deposits and liabilities with Banco Nacional de Ahorro y Préstamo	1,983	464
Borrowings	200,003	113,287
Other liabilities from financial intermediation	262,466	341,879
Interest and commissions payable	17,965	12,904
Accruals and other liabilities	<u>880,896</u>	<u>711,306</u>
<b>Total liabilities</b>	<b><u>22,823,173</u></b>	<b><u>21,675,190</u></b>
<b>Shareholders' equity</b>		
Capital stock	268,060	134,112
Capital inflation adjustment	1,750,289	1,736,317
Paid-in surplus	124,269	124,269
Capital reserves	754,347	723,259
Retained earnings	995,438	909,852
Unrealized gain (loss) on available-for-sale investments	(7,953)	10,794
Share premium	43,527	31,581
Repurchased shares reserved for employee stock option plan	(28,742)	(40,685)
Initial cumulative result from exposure to inflation	<u>(1,123,037)</u>	<u>(1,123,037)</u>
<b>Total shareholders' equity</b>	<b><u>2,776,198</u></b>	<b><u>2,506,462</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>25,599,371</u></b>	<b><u>24,181,652</u></b>

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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**Supplementary Consolidated Statement of Income**  
**Years ended December 31, 2007 and 2006**

*(Millions of constant bolivars at  
December 31, 2007)*

	<b>2007</b>	<b>2006</b>
<b>Interest income</b>	2,644,392	2,218,395
<b>Interest expense</b>	<u>(902,546)</u>	<u>(802,968)</u>
<b>Gross financial margin</b>	<u>1,741,846</u>	<u>1,415,427</u>
Income from financial assets recovered	40,966	85,848
Expenses from uncollectible accounts and write-down of financial assets	<u>(100,089)</u>	<u>(96,454)</u>
<b>Net financial margin</b>	<u>1,682,723</u>	<u>1,404,821</u>
Other operating income	662,976	673,121
Other operating expenses	<u>(177,618)</u>	<u>(155,050)</u>
<b>Financial intermediation margin</b>	<u>2,168,081</u>	<u>1,922,892</u>
<b>Operating expenses</b>	<u>(1,488,154)</u>	<u>(1,391,569)</u>
<b>Gross operating margin</b>	<u>679,927</u>	<u>531,323</u>
Income from available-for-sale assets	7,660	17,112
Sundry operating income	54,805	109,836
Expenses from available-for-sale assets	(475)	(1,961)
Expenses from depreciation, amortization and write-down of sundry assets	(1,234)	(59)
Sundry operating expenses	<u>(82,684)</u>	<u>(129,901)</u>
<b>Net operating margin</b>	<u>657,999</u>	<u>526,350</u>
Extraordinary income	5,605	66
Extraordinary expenses	<u>(48,039)</u>	<u>(29,096)</u>
<b>Gross income before tax and loss from net monetary position</b>	615,565	497,320
Income tax	(108,558)	(90,413)
Loss from net monetary position	<u>(300,175)</u>	<u>(150,620)</u>
<b>Net income</b>	<u>206,832</u>	<u>256,287</u>
<b>Appropriation of net income</b>		
Legal reserve	31,088	-
Retained earnings	<u>175,744</u>	<u>256,287</u>
	<u>206,832</u>	<u>256,287</u>

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Supplementary Consolidated Statement of Shareholders' Equity**  
**Years ended December 31, 2007 and 2006**

<i>(Millions of constant bolívares at December 31, 2007)</i>	Capital stock	Inflation adjustment	Paid-in surplus	Capital reserves	Equity adjustments	Retained earnings		Unrealized gain (loss) on available- for-sale investments	Share premium	Repurchased shares reserved for employee stock option plan	Initial result from exposure to inflation	Total shareholders' equity
						Restricted surplus	Unappropriated surplus					
<b>Balances at December 31, 2005</b>	134,112	1,736,317	124,269	723,259	17,291	(43,069)	790,361	39,496	36,564	(44,245)	(1,123,037)	2,391,318
Net income for the year	-	-	-	-	-	-	256,287	-	-	-	-	256,287
Cash dividends	-	-	-	-	-	-	(93,727)	-	-	-	-	(93,727)
Adjustment of available-for-sale investments to market value	-	-	-	-	-	-	-	(26,306)	-	-	-	(26,306)
Translation adjustment of net assets of subsidiary abroad	-	-	-	-	(17,291)	-	-	-	-	-	-	(17,291)
Repurchased shares reserved for employee stock option plan	-	-	-	-	-	-	-	-	(4,983)	3,560	-	(1,423)
Restricted equity surplus in subsidiaries and affiliates	-	-	-	-	-	35,462	(35,462)	-	-	-	-	-
Reclassification of 50% of net income for the year to restricted surplus	-	-	-	-	-	119,095	(119,095)	-	-	-	-	-
Reclassification of unappropriated surplus to restricted surplus	-	-	-	-	-	491,461	(491,461)	-	-	-	-	-
Unrealized monetary gain (loss)	-	-	-	-	-	-	-	(2,396)	-	-	-	(2,396)
<b>Balances at December 31, 2006</b>	134,112	1,736,317	124,269	723,259	-	602,949	306,903	10,794	31,581	(40,685)	(1,123,037)	2,506,462
Net income for the year	-	-	-	-	-	-	206,832	-	-	-	-	206,832
Cash dividends	-	-	-	-	-	-	(90,158)	-	-	-	-	(90,158)
Capital increase	133,948	13,972	-	-	-	-	-	-	-	-	-	147,920
Appropriation to legal reserve	-	-	-	31,088	-	-	(31,088)	-	-	-	-	-
Adjustment of available-for-sale investments to market value	-	-	-	-	-	-	-	(18,458)	-	-	-	(18,458)
Repurchased shares reserved for employee stock option plan	-	-	-	-	-	-	-	-	11,946	11,943	-	23,889
Restricted equity surplus in subsidiaries and affiliates	-	-	-	-	-	1,986	(1,986)	-	-	-	-	-
Reclassification of 50% of net income for the year to restricted surplus	-	-	-	-	-	92,993	(92,993)	-	-	-	-	-
Release of restricted surplus mainly of subsidiaries sold	-	-	-	-	-	(180,510)	180,510	-	-	-	-	-
Unrealized monetary gain (loss)	-	-	-	-	-	-	-	(289)	-	-	-	(289)
<b>Balances at December 31, 2007</b>	<u>268,060</u>	<u>1,750,289</u>	<u>124,269</u>	<u>754,347</u>	<u>=====</u>	<u>517,418</u>	<u>478,020</u>	<u>(7,953)</u>	<u>43,527</u>	<u>(28,742)</u>	<u>(1,123,037)</u>	<u>2,776,198</u>

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
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**Supplementary Consolidated Statement of Cash Flows**  
**Years ended December 31, 2007 and 2006**

*(Millions of constant bolivars at  
December 31, 2007)*

	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Net income	206,832	256,287
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in affiliates	(5,930)	11,759
Allowance for losses on loan portfolio and contingent debtor accounts	99,102	95,936
Write-off of uncollectible accounts	(45,603)	(19,957)
Provision for cash and due from banks	249	55
Provision for investment securities	(26)	3,894
Provision for other accounts receivable	738	463
Provision for other assets	10,586	5,745
Debits to the provision for other assets	(1,390)	-
Deferred income tax	(21,804)	6,083
Other provisions	184,869	194,862
Depreciation	76,597	64,644
Amortization of deferred expenses and goodwill	58,787	49,596
Amortization of available-for-sale assets	259	1,811
Accrual for employee termination benefits	74,352	63,135
Payment of employee termination benefits	(74,816)	(85,416)
Net change in		
Interest and commissions receivable	(19,249)	6,930
Other assets	(101,561)	(124,675)
Interest and commissions payable	5,061	(19,006)
Accruals and other liabilities	(14,815)	(57,835)
Net cash provided by operating activities	<u>432,238</u>	<u>454,311</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	964,510	4,002,959
Deposits and liabilities with Banco Nacional de Ahorro y Préstamo	1,519	(60,997)
Borrowings	86,716	(753,734)
Other liabilities from financial intermediation	(79,413)	126,964
Capital increase	147,920	-
Repurchased shares reserved for employee stock option plan	11,943	3,560
Share premium	11,946	(4,983)
Dividends paid	(90,158)	(93,727)
Net cash provided by financing activities	<u>1,054,983</u>	<u>3,220,042</u>
<b>Cash flows from investing activities</b>		
Loans granted during the year	(24,367,776)	(7,659,370)
Loans collected during the year	22,424,739	6,726,401
Net change in		
Investments in trading securities	(23,547)	-
Available-for-sale investments	1,057,287	128,213
Held-to-maturity investments	(626,578)	62,720
Restricted investments	88,258	(161,275)
Investments in affiliates	(8,377)	(40,150)
Available-for-sale assets	3,377	4,473
Property and equipment	(85,681)	(52,745)
Net cash used in investing activities	<u>(1,538,298)</u>	<u>(991,733)</u>
<b>Cash and cash equivalents</b>		
Net change	(51,077)	2,682,620
At the beginning of the year	<u>9,703,175</u>	<u>7,020,555</u>
At the end of the year	<u>9,652,098</u>	<u>9,703,175</u>

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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*(Millions of constant bolivars at  
December 31, 2007)*

	<b>2007</b>	<b>2006</b>
Translation adjustment of net assets of subsidiary abroad	<u>          -</u>	<u>  (17,291)</u>
Adjustment of available-for-sale investments to market value	<u>  18,458</u>	<u>    26,306</u>
Taxes paid	<u>  52,128</u>	<u>  781,670</u>
Interest paid	<u>  912,010</u>	<u>          -</u>
Income from transactions with derivative financial instruments	<u>    5,206</u>	<u>    6,209</u>
<b>Reclassification</b>		
Allowance for losses on loan portfolio to provision for contingent debtor accounts, net of amounts recovered	<u>          -</u>	<u>    (594)</u>

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

**Inflation rate**

The inflation rate for the year ended December 31, 2007 was 22.46% (16.97% for the year ended December 31, 2006).

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

Monetary assets and liabilities at December 31, 2007, including amounts in foreign currency are, by their nature, shown in terms of purchasing power at that date. For comparative purposes, monetary assets and liabilities at December 31, 2006 have been adjusted for the effects of inflation and are expressed in terms of purchasing power at December 31, 2007. The result from monetary position reflects the loss or gain resulting from maintaining a net monetary asset or net monetary liability position during an inflationary period and is shown in the consolidated statement of income under loss from net monetary position.

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
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**Analysis of consolidated monetary result**

An analysis of the consolidated monetary result is provided below:

<i>(Millions of constant bolívars at December 31, 2007)</i>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Net monetary asset position at the beginning of the year	<u>1,353,555</u>	<u>1,112,054</u>
<b>Transactions that increased net monetary asset position</b>		
Income	3,416,404	3,104,378
Capital increase	147,920	-
Repurchased shares reserved for employee stock option plan	23,889	-
Deferred income tax	21,804	-
Realization of deferred credits	5,397	1,526
Disposal of available-for-sale assets, net	3,378	4,473
Net change in investment securities	<u>-</u>	<u>114,265</u>
Subtotal	<u>3,618,792</u>	<u>3,224,642</u>
<b>Transactions that decreased net monetary asset position</b>		
Expenses	(2,810,381)	(2,565,157)
Cash dividends	(90,158)	(93,727)
Net change in other assets	(86,272)	(58,689)
Additions to property and equipment, net	(85,681)	(52,745)
Unrealized gain (loss) on available-for-sale investments	(18,458)	(26,306)
Net change in investment securities	(14,779)	-
Net change in investments in affiliates	(14,307)	(11,100)
Deferred income tax	-	(6,083)
Translation adjustment of subsidiaries and affiliates	-	(17,291)
Repurchased shares reserved for employee stock option plan	<u>-</u>	<u>(1,423)</u>
Subtotal	<u>(3,120,036)</u>	<u>(2,832,521)</u>
Estimated net monetary asset position	1,852,311	1,504,175
Net monetary asset position at the end of the year	<u>(1,552,136)</u>	<u>(1,353,555)</u>
Loss from net monetary position	<u>300,175</u>	<u>150,620</u>

**Adoption of International Financial Reporting Standards**

In January 2004 the Venezuelan Federation of Public Accountants (FCCPV) resolved to adopt International Financial Reporting Standards (IFRS) and their interpretations, issued by the International Accounting Standards Board (IASB). In August 2006 the FCCPV set IFRS adoption for large-sized entities as from 2008 and as from 2010 for small and medium-sized entities. Until the FCCPV definitely approves the adoption schedule, the Bank is unable to determine the impact of this matter on its financial statements prepared in conformity with accounting principles generally accepted in Venezuela.

**Available-for-sale assets**

Available-for-sale assets are recorded at restated cost less accumulated amortization.

**Income tax**

The Bank records a deferred income tax asset when, in the opinion of management, there is reasonable expectation that future tax results will allow its realization.

**Shareholders' equity**

All equity accounts are shown in constant currency at December 31, 2007. Dividends are stated in constant currency based on the date they were paid.

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**Statement of income**

Operating income and expenses have been restated based on the dates on which they were earned or incurred. Costs and expenses related to nonmonetary items have been adjusted in terms of 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 sale price and restated book value.

**Cash and cash equivalents**

For purposes of supplementary financial information, in conformity with generally accepted accounting principles, the Bank considers as cash and cash equivalents cash and due from banks and investments maturing within 90 days of Bs 3,562,984 million at December 31, 2007 (Bs 4,980,813 million at December 31, 2006).

Below is a breakdown of items including nonmonetary balances:

**a) Investment securities**

	December 31, 2007			December 31, 2006		
	Cost	Unrealized gain (loss)	Book value (equivalent to market value)	Cost	Unrealized gain (loss)	Book value (equivalent to market value)
<i>(Millions of constant bolivars at December 31, 2007)</i>						
<b>Investments in available-for-sale securities</b>						
Securities issued or guaranteed by the Venezuelan government, investments in foreign banks and other financial institutions, and debt securities issued by foreign public and private-sector companies	788,616	(7,584)	781,032	1,703,524	9,831	1,713,355
<b>Investments in non-financial companies</b>						
MasterCard	1,665	7,651	9,316	-	-	-
Superoctanos, C.A.	3,588	-	3,588	3,587	-	3,587
Caja Venezolana de Valores, C.A.	1,781	704	2,485	1,780	705	2,485
Compañía Anónima Nacional Teléfonos de Venezuela (CANTV)	11	(8)	3	11	4	15
Other	59	-	59	587	-	587
	<u>7,104</u>	<u>8,347</u>	<u>15,451</u>	<u>5,965</u>	<u>709</u>	<u>6,674</u>
	<u>795,720</u>	<u>763</u>	<u>796,483</u>	<u>1,709,489</u>	<u>10,540</u>	<u>1,720,029</u>

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
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<i>(Millions of constant bolivars at December 31, 2007)</i>	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Book value</u>	<u>Cost</u>	<u>Book value</u>
Deposits with Banco Central de Venezuela and overnight deposits	<u>3,418,415</u>	<u>3,418,415</u>	<u>4,716,185</u>	<u>4,716,185</u>
Investments in held-to-maturity securities	<u>976,908</u>	<u>946,776</u>	<u>612,842</u>	<u>613,906</u>
Restricted investments	<u>289,198</u>	<u>289,311</u>	<u>387,699</u>	<u>387,600</u>
Provision for investment securities		<u>(3,867)</u>		<u>(3,894)</u>

**b) Property and equipment**

<i>(Millions of constant bolivars at December 31, 2007)</i>	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Buildings and facilities	682,578	683,453
Furniture and equipment	522,171	506,217
Work in progress	59,654	17,815
Land	8,059	8,262
Other assets	54,717	54,269
Accumulated depreciation	<u>(712,731)</u>	<u>(664,652)</u>
	<u>614,448</u>	<u>605,364</u>

The restated net value of property and equipment at December 31, 2007 includes Bs 383,658 million (Bs 412,204 million at December 31, 2006) in respect of real property used as Bank premises. The net historic cost of this property is Bs 60,640 million (Bs 66,340 million at December 31, 2006). At December 31, 2007, buildings, facilities and land of Bs 350,219 million have an estimated market value of Bs 670,505 million, based on valuations made by independent appraisers in December 2005.

**Mercantil, C.A. Banco Universal and its Subsidiaries**  
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**c) Other assets**

<i>(Millions of constant bolivars at December 31, 2007)</i>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Goodwill on acquisition of shareholding in Interbank, C.A. (Banco Universal), net of accumulated amortization of Bs 176,588 million (Bs 148,205 million at December 31, 2006)	317,428	345,812
Goodwill on acquisition of shareholding in Inversiones y Valores Mercantil VI, C.A., net of accumulated amortization of Bs 6,277 million (Bs 3,488 million at December 31, 2006)	21,621	24,411
Goodwill on acquisition of shareholding in Mercantil Merinvest, C.A., net of accumulated amortization of Bs 1,620 million (Bs 900 million at December 31, 2006)	5,582	6,301
Deferred expenses, net of accumulated amortization of Bs 144,921 million (Bs 128,151 million at December 31, 2006)	97,829	51,124
Software, net of accumulated amortization of approximately Bs 202,890 million (Bs 193,498 million at December 31, 2006)	30,578	19,901
Pending items and main office, branches and agencies	46,521	9,190
Prepaid taxes	42,058	34,435
Other items from operations with derivative financial instruments	35,160	46,119
Other accounts receivable	23,435	39,134
Prepaid advertising	20,890	12,100
Rights on shopping mall premises	16,747	16,747
Insurance and other prepaid expenses	15,830	13,860
Deferred income tax	13,692	-
Advances to suppliers	12,580	1,356
Accounts receivable from other credit card issuing institutions	7,559	22,109
Advances and guarantee deposits	3,067	1,884
Stationery and office supplies	2,446	5,639
Other	1,017	1,228
Provision for other assets	<u>(15,652)</u>	<u>(8,093)</u>
	<b><u>698,388</u></b>	<b><u>643,257</u></b>

**d) Accruals and other liabilities**

<i>(Millions of constant bolivars at December 31, 2007)</i>	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Direct financial liabilities	177,236	18,378
Provision for contingencies and other	131,408	146,960
Taxes	121,072	69,004
Suppliers and other accounts payable	114,549	152,620
Collected and withheld taxes	94,273	97,435
Employee benefits and profit sharing	61,873	34,849
Provision for operating risks	48,892	51,411
Spot purchases	41,052	4,352
<b>Deferred income</b>		
Deferred interest	32,271	30,752
Deferred income from rights, asset and other sales	5,407	7,880
Pending items and main office, branches and agencies	24,708	44,046
Labor contributions	11,030	21,084
Law on Narcotic and Psychotropic Substances	8,585	12,134
Provision for the Law for the Advancement of Science, Technology and Innovation	4,500	8,508
Provision for supplementary savings plan	4,040	4,898
Deferred income tax	-	6,995
	<b><u>880,896</u></b>	<b><u>711,306</u></b>