

Mercantil, C.A.
Banco Universal and its
Subsidiaries

(Subsidiary of Mercantil Servicios Financieros, C.A.)

Report of Independent Accountants
and Consolidated Financial Statements
December 31, 2008 and 2007

Mercantil, C.A. Banco Universal and its Subsidiaries
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December 31, 2008 and 2007

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Report of Independent Accountants

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

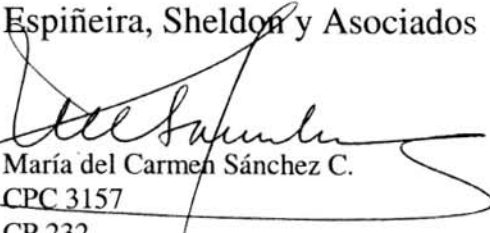
We have audited the consolidated balance sheets of Mercantil, C.A. Banco Universal (the Bank) and its subsidiaries at December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. The preparation of these financial statements 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 rules and instructions 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 (VEN-NIF).

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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with the accounting rules and instructions of the Superintendency of Banks and Other Financial Institutions.

Espiñeira, Sheldon y Asociados


María del Carmen Sánchez C.
CPC 3157
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Caracas, Venezuela
February 17, 2009

Mercantil, C.A. Banco Universal and its Subsidiaries
(Subsidiary of Mercantil Servicios Financieros, C.A.)
Consolidated Balance Sheet
December 31, 2008 and 2007

(Thousands of bolivars)

	2008	2007 (•)
Assets		
Cash and due from banks (Note 3)	<u>7,390,079</u>	<u>6,089,114</u>
Cash	683,375	411,330
Central Bank of Venezuela (BCV)	6,112,483	5,213,546
Venezuelan banks and other financial institutions	584	1,956
Foreign and correspondent banks	251,576	110,709
Pending cash items	342,069	351,888
(Provision for cash and due from banks)	(8)	(315)
Investment securities (Note 4)	<u>6,220,556</u>	<u>3,608,182</u>
Deposits with the Central Bank of Venezuela (BCV) and overnight deposits	5,292,706	1,935,793
Investments in trading securities	-	23,547
Investments in available-for-sale securities	700,075	810,815
Investments in held-to-maturity securities	151,283	743,398
Restricted investments	76,765	94,916
(Provision for investment securities)	(273)	(287)
Loan portfolio (Note 5)	<u>15,338,403</u>	<u>12,432,519</u>
Current	15,628,946	12,614,579
Rescheduled	41,439	18,939
Overdue	124,048	64,497
In litigation	6,259	5,007
(Allowance for losses on loan portfolio)	(462,289)	(270,503)
Interest and commissions receivable	<u>243,124</u>	<u>163,591</u>
Interest receivable on cash and due from banks	2	-
Interest receivable on investment securities	74,795	50,740
Interest receivable on loan portfolio	160,301	111,560
Commissions receivable	20,186	3,768
Interest and commissions receivable on other accounts receivable	27	-
(Allowance for interest receivable and other)	(12,187)	(2,477)
Investments in affiliates (Note 6)	<u>214,162</u>	<u>84,439</u>
Available-for-sale assets (Note 7)	<u>40</u>	<u>19</u>
Property and equipment (Note 8)	<u>221,264</u>	<u>213,134</u>
Other assets (Note 9)	<u>553,851</u>	<u>406,525</u>
Total assets	<u><u>30,181,479</u></u>	<u><u>22,997,523</u></u>
Memorandum accounts (Note 23)		
Contingent debtor accounts	3,262,824	1,785,359
Assets received in trust	7,563,325	6,652,634
Other special trust services	23,263	25,536
Debtor accounts from other special trust services (Housing Loan System)	-	1,316,351
Other debtor accounts from Housing Savings Fund	-	7,683
Other debtor memorandum accounts	37,704,264	30,753,429
Other debtor control accounts	27,303	48,587
	<u>48,580,979</u>	<u>40,589,579</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
(Subsidiary of Mercantil Servicios Financieros, C.A.)
Consolidated Balance Sheet
December 31, 2008 and 2007

<i>(Thousands of bolivars)</i>	2008	2007 (•)
Liabilities and Shareholders' Equity		
Deposits (Note 10)	<u>24,804,865</u>	<u>19,757,310</u>
Demand deposits	<u>13,047,702</u>	<u>10,910,726</u>
Non-interest-bearing checking accounts	6,390,805	5,459,489
Interest-bearing checking accounts	6,656,897	5,451,237
Other demand deposits	654,667	376,369
Savings deposits	8,584,905	6,098,529
Time deposits	852,697	1,069,199
Securities issued by the Bank	53	129
Restricted deposits	269,703	211,470
Rights and participation in investment securities	1,395,138	1,090,888
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat (Note 11)	<u>2,312</u>	<u>1,983</u>
Borrowings (Note 12)	<u>100,511</u>	<u>200,003</u>
Venezuelan financial institutions, up to one year	94,563	104,676
Foreign financial institutions, up to one year	3,097	79,979
Foreign financial institutions, more than one year	-	11,990
Borrowings, more than one year	2,851	3,358
Other liabilities from financial intermediation (Note 13)	<u>71,463</u>	<u>99,839</u>
Interest and commissions payable	<u>19,363</u>	<u>17,963</u>
Expenses payable on deposits	19,076	17,529
Expenses payable on borrowings	287	434
Accruals and other liabilities (Note 14)	<u>2,474,088</u>	<u>829,153</u>
Total liabilities	<u>27,472,602</u>	<u>20,906,251</u>
Shareholders' equity (Note 21)		
Capital stock	268,060	268,060
Contributions pending capitalization	36	36
Capital reserves	247,356	165,261
Retained earnings	2,232,087	1,664,784
Unrealized loss on available-for-sale investments	<u>(38,662)</u>	<u>(6,869)</u>
Total shareholders' equity	<u>2,708,877</u>	<u>2,091,272</u>
Total liabilities and shareholders' equity	<u>30,181,479</u>	<u>22,997,523</u>

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

(•) Amounts expressed in the new currency unit (Note 1)

Mercantil, C.A. Banco Universal and its Subsidiaries
Consolidated Statement of Income
Years ended December 31, 2008 and 2007

(Thousands of bolivars, except
net income per share)

	2008	2007 (•)
Interest income (Note 2)	<u>3,679,378</u>	<u>2,242,167</u>
Income from cash and due from banks	10,556	9,786
Income from investment securities	469,954	370,109
Income from loan portfolio (Note 5)	3,050,370	1,761,925
Income from other accounts receivable	46,526	47,787
Other interest income (Note 23)	101,972	52,560
Interest expense (Note 2)	<u>(1,440,323)</u>	<u>(684,812)</u>
Expenses from deposits	(1,286,276)	(596,784)
Expenses from liabilities with Banco Nacional de Vivienda y Hábitat	(463)	-
Expenses from borrowings	(2,085)	(2,336)
Expenses from other liabilities from financial intermediation (Note 23)	(76,069)	(69,525)
Other interest expense	<u>(75,430)</u>	<u>(16,167)</u>
Gross financial margin	<u>2,239,055</u>	<u>1,557,355</u>
Income from financial assets recovered (Note 5)	42,956	36,824
Expenses from uncollectible accounts and write-down of financial assets (Notes 2 and 5)	<u>(312,542)</u>	<u>(86,490)</u>
Uncollectible loans and other accounts receivable	(312,095)	(86,243)
Provision for cash and due from banks and adjustments	(447)	(247)
Net financial margin	<u>1,969,469</u>	<u>1,507,689</u>
Other operating income (Note 18)	666,708	604,572
Other operating expenses (Note 19)	<u>(161,752)</u>	<u>(157,728)</u>
Financial intermediation margin	<u>2,474,425</u>	<u>1,954,533</u>
Operating expenses	<u>(1,587,038)</u>	<u>(1,248,208)</u>
Salaries and employee benefits	(803,308)	(589,742)
General and administrative expenses (Note 17)	(652,809)	(554,838)
Fees paid to the Deposit Guarantee and Bank Protection Fund	(101,378)	(81,401)
Fees paid to the Superintendency of Banks and Other Financial Institutions	(29,543)	(22,227)
Gross operating margin	<u>887,387</u>	<u>706,325</u>
Income from available-for-sale assets (Note 7)	8,465	6,655
Sundry operating income	133,383	50,720
Expenses from available-for-sale assets (Note 7)	(2,059)	(377)
Expenses from depreciation, amortization and write-down of sundry assets	-	(1,232)
Sundry operating expenses (Note 9)	<u>(98,104)</u>	<u>(76,040)</u>
Net operating margin	929,072	686,051
Extraordinary income	-	10
Extraordinary expenses (Note 20)	<u>(61,144)</u>	<u>(39,593)</u>
Gross income before tax	867,928	646,468
Income tax (Note 15)	<u>(46,972)</u>	<u>(111,516)</u>
Net income	<u>820,956</u>	<u>534,952</u>
Appropriation of net income		
Legal reserve	82,095	31,089
Retained earnings	<u>738,861</u>	<u>503,863</u>
	<u>820,956</u>	<u>534,952</u>
Net income per common share (in bolivars) (Note 2)	<u>3,063</u>	<u>3,420</u>

The accompanying notes are an integral part of the consolidated financial statements
(•) Amounts expressed in the new currency unit (Note 1)

Mercantil, C.A. Banco Universal and its Subsidiaries
Consolidated Statement of Shareholders' Equity
Years ended December 31, 2008 and 2007

<i>(Thousands of bolivars)</i>	Capital stock	Contributions pending capitalization	Capital reserves	Retained earnings		Unrealized gain (loss) on available for-sale investments	Total shareholders' equity
				Restricted surplus	Unappropriated surplus		
Balances at December 31, 2006 (*)	134,112	36	134,172	726,183	514,724	9,415	1,518,642
Net income	-	-	-	-	534,952	-	534,952
Appropriation to legal reserve (Note 21)	-	-	31,089	-	(31,089)	-	-
Capital increase (Note 21)	133,948	-	-	-	-	-	133,948
Cash dividends (Note 21)	-	-	-	-	(79,986)	-	(79,986)
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)	-	-	-	<u>222,244</u>	<u>(222,244)</u>	-	-
Balances at December 31, 2007 (*)	268,060	36	165,261	887,215	777,569	(6,869)	2,091,272
Net income	-	-	-	-	820,956	-	820,956
Appropriation to legal reserve (Note 21)	-	-	82,095	-	(82,095)	-	-
Cash dividends (Note 21)	-	-	-	-	(171,558)	-	(171,558)
Adjustment of available-for-sale investments to market value (Note 4)	-	-	-	-	-	(31,793)	(31,793)
Release of restricted surplus (Note 6)	-	-	-	(35,613)	35,613	-	-
Restricted equity surplus in subsidiaries and affiliates (Note 21)	-	-	-	29,680	(29,680)	-	-
Reclassification of 50% of net income for the year to restricted surplus (Note 21)	-	-	-	<u>354,591</u>	<u>(354,591)</u>	-	-
Balances at December 31, 2008	<u>268,060</u>	<u>36</u>	<u>247,356</u>	<u>1,235,873</u>	<u>996,214</u>	<u>(38,662)</u>	<u>2,708,877</u>

The accompanying notes are an integral part of the consolidated financial statements
 (*) Amounts expressed in the new currency unit (Note 1)

Mercantil, C.A. Banco Universal and its Subsidiaries

Consolidated Statement of Cash Flows

Years ended December 31, 2008 and 2007

<i>(Thousands of bolivars)</i>	2008	2007 (*)
Cash flows from operating activities		
Net income	820,956	534,952
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Equity in affiliates	(32,937)	(16,134)
Allowance for losses on loan portfolio	307,902	85,574
Allowance for interest receivable	3,036	-
Provision for contingent debtor accounts	290	-
Provision for cash and due from banks	447	247
Provision for other accounts receivable	867	669
Debits for uncollectible accounts	(111,859)	(42,811)
Provision for other assets	11,353	9,961
Debit to the provision for other assets	(7,092)	(919)
Deferred income tax	(61,153)	(7,510)
Other provisions	187,629	185,245
Depreciation	45,990	34,199
Amortization of deferred expenses and goodwill	44,760	27,851
Amortization of available-for-sale assets	2,058	161
Accrual for employee termination benefits	86,965	65,576
Payment of employee termination benefits	(85,898)	(65,063)
Net change in		
Deposits with the Central Bank of Venezuela (BCV) and overnight deposits	(3,356,913)	139,611
Interest and commissions receivable	(82,569)	(45,202)
Other assets	(136,508)	(144,124)
Interest and commissions payable	1,400	7,426
Accruals and other liabilities	<u>1,455,935</u>	<u>81,672</u>
Net cash (used in) provided by operating activities	<u>(905,341)</u>	<u>851,381</u>
Cash flows from financing activities		
Net change in		
Deposits	5,047,555	5,060,647
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat	329	1,604
Borrowings	(99,492)	107,492
Other liabilities from financial intermediation	(28,376)	(17,453)
Capital increase	-	133,948
Dividends paid	<u>(171,558)</u>	<u>(79,986)</u>
Net cash provided by financing activities	<u>4,748,458</u>	<u>5,206,252</u>
Cash flows from investing activities		
Loans granted during the year	(23,429,854)	(23,045,863)
Loans collected during the year	20,327,928	19,180,015
Net change in		
Trading securities	23,547	(23,547)
Available-for-sale investments	78,947	376,822
Held-to-maturity investments	592,115	(287,465)
Restricted investments	18,151	56,132
Investments in affiliates	(96,786)	(8,015)
Available-for-sale assets	(2,080)	2,742
Property and equipment	<u>(54,120)</u>	<u>(75,637)</u>
Net cash used in investing activities	<u>(2,542,152)</u>	<u>(3,824,816)</u>
Cash and due from banks		
Net change	1,300,965	2,232,817
At the beginning of the year	<u>6,089,114</u>	<u>3,856,297</u>
At the end of the year	<u><u>7,390,079</u></u>	<u><u>6,089,114</u></u>
Supplementary information on non-cash activities		
Adjustment of available-for-sale investments to market value	<u>31,793</u>	<u>(16,284)</u>
Taxes paid	<u>120,853</u>	<u>61,418</u>
Interest paid	<u>1,438,923</u>	<u>677,386</u>
Income from transactions with derivative financial instruments	<u>34,478</u>	<u>5,950</u>
Reclassification of		
Provision for contingent debtor accounts to allowance for losses on loan portfolio (Note 5)	<u>1,470</u>	<u>2,504</u>
Allowance for losses on loan portfolio to allowance for interest receivable	<u>(3,800)</u>	<u>-</u>

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

(*) Amounts expressed in the new currency unit (Note 1)

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

1. Operations and Regulatory Environment

Reporting entity

Mercantil, C.A. Banco Universal (the Bank), founded in 1925 in the Bolivarian Republic of Venezuela (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, 2008, the Bank, its agency, branch and subsidiaries have 7,704 employees.

The Bank's primary financial statements at December 31, 2008 and 2007 were approved for issue by the Board of Directors on January 12, 2009 and January 14, 2008, 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 rules and instructions of the Superintendency of Banks and Other Financial Institutions (Superintendency of Banks), the Central Bank of Venezuela (Banco Central de Venezuela (BCV) and the 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 the countries where they operate regarding 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 Netherland Antilles. It is supervised and controlled by the Central Bank of the Netherland 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 Federal Reserve Bank and the Superintendency of Banks in Venezuela.

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

New regulations

Regulations require the Bank to earmark a minimum nominal percentage of 47% of its gross loan portfolio at December 31, 2008 to finance loans for agriculture, mortgage, manufacturing, small businesses and tourism (37% at December 31, 2007 for agriculture, small businesses, mortgage and tourism).

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 and credit card operations may not exceed 28% and 33%, respectively. Financial institutions may only charge an additional 3% per annum on amounts overdue from clients. The maximum interest rates for directed loan portfolios at December 31, 2008 and 2007 are as follows: agriculture 13%, microcredits 28%, tourism between 16% and 17%, mortgage 10.11% and manufacturing 19%. As from October 2008, annual interest rates for savings deposits may not fall below 15% calculated on daily balances (10% at December 31, 2007 on minimum monthly balances). Annual interest rates on time deposits for 28 or more days may not fall below 17% (11% at December 31, 2007) (Note 5).

The BCV has regulated service fees charged by banks to customers in respect of savings and current accounts, and leasing, international, and credit and debit card transactions.

In February 2009, the Superintendency of Banks issued regulations on the method for calculating credit card interest. According to the new method, credit card purchases will only begin to bear interest charges one month after purchases are billed.

Currency redenomination

In March 2007, the Venezuelan government established that as from January 1, 2008 the unit of the Venezuelan monetary system (Venezuelan bolivar) would be redenominated at a conversion rate of one thousand current bolivars to one new bolivar.

2. Accounting Principles in Use

For purposes of comparison and presentation, all amounts in the consolidated financial statements for the year ended December 31, 2007 and their notes have been converted to the new currency unit.

In April 2008, the Venezuelan Federation of Public Accountants (FCCPV) approved the adoption of Venezuelan Financial Reporting Standards (VEN-NIF) as the accounting principles of mandatory application in Venezuela as from January 1, 2008. These standards are mainly based on International Financial Reporting Standards issued by the International Accounting Standards Board, except for certain criteria concerning adjustments for inflation, among others. In October 2008, the Superintendency of Banks established that consolidated or combined financial statements prepared under VEN-NIF as supplementary information will be mandatory as from the six-month period ending June 30, 2010. Financial statements for six-month periods ending prior to this date should be presented in conformity with accounting principles generally accepted in Venezuela in effect at December 31, 2007. Management is analyzing the differences between the accounting standards established by the Superintendency of Banks and VEN-NIF.

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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 rules and instructions of the Superintendency of Banks. These rules differ in certain respects from VEN-NIF, mainly as follow:

	Accounting treatment	
	Rules of the Superintendency of Banks	VEN-NIF
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 are consolidated.
Inflation-adjusted financial statements	Shown as supplementary information.	The effects of inflation are recognized in the financial statements provided that inflation for the year exceeds one digit.
Investments assigned through liquid asset accounts and certificates of participation	A portion is shown as a decrease in the balance of investment securities. In addition, a portion of 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 is shown as interest expense.
Balances from transactions with derivative financial instruments	Shown under memorandum accounts. Gains resulting from changes in the market value of derivative financial instruments arising from contracts with related companies are recorded under other deferred income until collected (Notes 9 and 14).	Must be shown in the balance sheet. Gains from changes in the market value of derivative financial instruments are shown in the statement of income.
Allowance for losses on loan portfolio	Determined based on a collectibility assessment for individual loans, a global risk assessment for loans not assessed individually, and a general provision of 1% over loan balances at month end, except for small businesses, which are subject to a general provision of 2%.	Determined based on asset recoverability, considering the fair value of guarantees, and does not provide for a general provision, which would have to be accounted for as a reduction of retained earnings in the statement of shareholders' equity.
Foreign currency balances and transactions	Recognized at the official exchange rate in effect at the transaction date. Foreign currency balances at December 31, 2008 and 2007 are shown at the official exchange rate of Bs 2.145/US\$1 based on the provisions of the applicable exchange agreements described in Note 22. Exchange gains and losses are included in the statement of income for the year.	Foreign currency balances of operations conducted under the exchange control regime currently effective in Venezuela (CADIVI) are valued at the official exchange rate and all other operations are valued based on the future cash flows expected to be derived from the sale of assets or to be required for settlement of liabilities.
Assets received as payment for uncollectible loans and idle assets no longer used in operations	Must be recorded at the lower of assigned value, book value, market value or appraisal value not older than one year, and are amortized using the straight-line method over one to three years. Assets idle for more than 24 months are written out of asset accounts.	Must be recorded at the lower of cost and market value and are classified as property and equipment or available-for-sale assets depending on their use.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007

	<u>Accounting treatment</u>	
	Rules of the Superintendency of Banks	VEN-NIF
Investments in trading and available-for-sale securities	May remain in this category for only 90 days and one year, respectively.	May remain in this category indefinitely.
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 expenses arising in different periods for accounting and tax purposes, except for provisions for losses on other than high risk or unrecoverable loans. A deferred income tax asset is not recognized for any amount exceeding future taxable income.	A deferred tax asset is recognized provided that there is a reasonable expectation of recovery.
Maturity of investment securities	Investment securities or related interest not collected within 30 days of maturity are fully provided for.	Recorded based on collectibility.
Employee stock option plan	The Banks has a long-term stock option plan allowing certain key officers to purchase MERCANTIL shares (Note 16). The Bank makes contributions to Fundación BMA to purchase shares and records them in the results for the year in which they are made.	The related expense is recorded at the fair value of options granted to employees and amortized over the vesting period. The effect of shares repurchased for the stock option plan on the financial statements is also recognized.
Expenses incurred during the currency redenomination process	These expenses were deferred and are amortized according to their nature using the straight-line method over one to six years.	Must be recorded during the year in which they are incurred.
Goodwill	Amortized using the straight-line method over 10 to 20 years. As per instructions of the Superintendency of Banks, as from April 2008 goodwill must be amortized over no more than five years (Note 9).	Should not be amortized but tested for impairment annually or whenever events or circumstances indicate that the value of the respective reporting unit may be impaired. Impairment is determined comparing the book value to the recoverable value of the cash generating unit, and if the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the statement of income.
Interest income	Interest on loans, investments and accounts receivable is recorded as income when earned, except: a) interest receivable on loans more than 30 days overdue; b) interest on overdue or in-litigation loans, or other loans classified as real risk, high risk or unrecoverable; c) interest on current and rescheduled loans expected to be collected in six months or more; and d) overdue interest, all of which are recorded as income when collected. Interest accrued but not collected in respect of overdue loans is fully provided for. Interest on loan installments are fully provided for if repayment is more than 30 days past due.	Interest is recorded as income when earned, until the loan is considered to be uncollectible. It is provided for based on collectibility.

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	Accounting treatment	
	Rules of the Superintendency of Banks	VEN-NIF
Cash flows	Cash and due from banks are considered cash equivalents.	Investments and deposits maturing within 90 days are considered cash equivalents.
Overdue and in-litigation loans	Loans classified as overdue must be written off within 24 months after inclusion in this category. Loans in litigation must be fully provided for after 24 months in the in-litigation category. In addition, overdue monthly loan installments that have been repaid must be reclassified to the category to which they pertained before being classified as overdue. Likewise, when a debtor repays pending loan installments of a loan in litigation, thereby terminating the lawsuit, the Bank must reclassify the loan to the category to which it pertained before being classified as in litigation or overdue.	Recorded based on collectibility.
Translation of financial statements of the branch and agency abroad	The asset, liability and equity accounts of the branch and agency abroad are translated at the official exchange rate. Income accounts are translated at the average exchange rate for the year. The effect from translation is included in the results for the year.	The asset, liability and equity accounts of the branch and agency abroad are translated at the value of the future cash flows in bolivars expected to be derived from the sale of assets or to be required for settlement of liabilities. Income accounts must be translated at the average expected cash flow value for the year.
Leasehold improvements	Recorded as amortizable expenses and included under other assets.	Recorded under property and equipment.
Discounts or premiums on held-to-maturity investments.	Amortized over the term of the security with a debit or credit to gain or loss on investment securities under other operating income or other operating expenses, respectively.	Must be accounted for as part of the security's yield and, therefore, must be recognized under interest income.
Permanent losses on held-to-maturity securities	When permanent losses arising from impairment in the fair value of investment securities are recorded, any subsequent recovery in fair value does not affect the new cost basis.	Any recovery of impairment previously expensed may be recorded as income.
Provisions	The Accounting Manual establishes timeframes to record provisions for bank reconciling items, pending items and accounts receivable forming part of other assets, interest receivable and disposal of certain assets, among others.	Provisions are recorded based on best estimates of collection or recovery. No timeframes are established for creating provisions for these items.
Reclassification of held-to-maturity securities to available-for-sale securities	Reclassifications of held-to-maturity securities must be approved by the Superintendency of Banks.	When reclassifications are for significant amounts and transfer is due to a change in their original intended use not qualified as an isolated, external, nonrecurring or unusual event affecting MERCANTIL, all investments remaining in this category should be reclassified to available-for-sale securities.

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Below is a summary of the accounting principles in use that do not differ from accounting principles generally accepted in Venezuela (VEN-NIF):

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 to present the consolidated financial statements in accordance with the 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 expenses reported for the years 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:

Contingent debtor accounts

The provision for 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.

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

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 claims

The Bank sets aside a provision for legal and tax contingencies considered probable and reasonably quantifiable based on the opinion of its legal advisors and facts at the assessment date. The outcome of these processes could differ from that expected (Notes 15 and 16).

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c) Investment securities

Investment securities are classified upon acquisition, based on their nature and intended use, as deposits with the Central Bank of 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 the Central Bank of Venezuela (BCV) and overnight deposits

Excess liquidity deposited at the Central Bank of 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.

Investment securities purchased from BCV with the firm contractual commitment to resell them at an agreed time and price are recorded at an agreed value to be maintained during the contract term.

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.

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 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.

The Bank assesses at each balance sheet date, or sooner if circumstances require it, whether there is any objective evidence that a financial asset or group of financial assets is impaired. An impairment in the fair value of held-to-maturity and available-for-sale securities is charged to the results for the period when management considers that it is other than temporary. Certain factors identified as indicators of impairment are, among others: 1) a prolonged period where fair value remains substantially below cost, 2) the financial difficulty of the issuer, 3) a fall in the issuer's credit rating, 4) the disappearance of an active market for the security, and 5) the Bank's intention and ability to hold the investment long enough to allow for recovery of fair value. For the years ended December 31, 2008 and 2007, the Bank has identified no permanent impairment in the value of its investments (Note 4).

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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).

d) 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.

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.

e) Investments in affiliates

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

f) 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. Gains or losses on the sale of personal and real property are shown in the consolidated statement of income.

The Bank assesses possible impairment in the value of its long-lived assets when events or changes in circumstances indicate that their carrying value may not be recoverable.

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g) 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.

h) 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.

i) 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).

j) Employee benefits

Accrual for employee termination 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).

k) Employee benefit plans

Retirement pension plan

The Bank has a long-term defined benefit plan covering all eligible employees which is managed by Fundación BMA. Related costs and liabilities are calculated using actuarial methods and are recorded in the results for the year. The net costs of the pension plan are based on actuarial assumptions that 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. Under the Supplementary Savings Plan, employees contribute between 1% and 5% of their basic monthly salary and MERCANTIL doubles the employee's contribution up to a maximum of 10%.

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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.

l) Investment 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).

m) Direct financial assets and liabilities

These are short sale agreements in which the Bank is the lender and the client is the borrower. 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.

n) Recognition of revenue and expenses

Income, costs and expenses are recorded as earned or incurred. Interest collected in advance is included under accruals and other liabilities as deferred income and recorded as income when earned (Note 14).

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

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

o) Net income per share

For the year ended December 31, 2008, net income per share has been determined by dividing net income for the year by the number of outstanding shares. For the year ended December 31, 2007, net income per share was determined by dividing net income for the year by the weighted average of fully paid outstanding shares.

p) Dividends

Cash dividends are recorded as liabilities when approved at a Shareholders' Meeting.

q) 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

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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, comprised of direct trusts maintained through a related company abroad, are recorded at the market value at year end.

r) 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 risk mainly comprises two types of risk: price and liquidity. Price risk includes interest rate, exchange rate and share price risks.

Interest rate risk arises from temporary differences between assets and liabilities shown in the balance sheet. Differences resulting from adverse changes in interest rates have a potential impact on 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.

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Operational risk

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

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

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, 2008 and 2007, trust fund assets amount to Bs 7,563,325,000 and Bs 6,652,634,000, respectively, and are shown under memorandum accounts (Note 23).

3. Cash and Due from Banks

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

<i>(Thousands of bolivars)</i>	2008	2007
Legal reserve in bolivars	6,012,930	4,895,551
Legal reserve in U.S. dollars	9,815	30,469
Demand deposits	<u>89,738</u>	<u>287,526</u>
	<u>6,112,483</u>	<u>5,213,546</u>

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

The Bank is required to maintain a minimum reserve deposit with BCV equivalent to 17% of the Bank's total deposits and borrowings, including deposits classified as investments assigned (Notes 4 and 11) but excluding liabilities to BCV, FOGADE and other financial institutions. The legal reserve for deposits and borrowings in local and foreign currency should be made in bolivars. The legal reserve for deposits or borrowings in foreign currency should be made in U.S. dollars until January 2008. The marginal increase of deposits and investments assigned as from July 2006 was subject to a legal reserve of 30% until January 2009 and of 27% as from that date. Legal reserve funds do not earn interest for the Bank.

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4. Investment Securities

Investment securities at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Investments		
Deposits with the Central Bank of Venezuela (BCV) and overnight deposits	6,141,320	3,418,416
Investments in available-for-sale securities	700,075	810,815
Investments in held-to-maturity securities	546,235	967,143
Restricted investments	76,765	94,916
Investments in trading securities	<u>-</u>	<u>23,547</u>
	7,464,395	5,314,837
Less		
Investments assigned through liquid asset accounts and certificates of participation	(1,243,566)	(1,706,368)
Provision for investment securities	<u>(273)</u>	<u>(287)</u>
	<u><u>6,220,556</u></u>	<u><u>3,608,182</u></u>

a) Deposits with the Central Bank of Venezuela (BCV) and overnight deposits

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

<i>(Thousands of bolivars)</i>	<u>Book value</u>	
	2008	2007
Deposits with BCV, maturing between January and February 2009 (maturing between January and February 2008 at December 31, 2007)	6,030,000 (1)	3,275,000 (1)
Time deposits with Venezuelan financial institutions, maturing in January 2009	75,000 (1)	-
Overnight deposits in foreign currency, maturing in January 2009 (maturing in January 2008 at December 31, 2007)	29,320 (1)	10,086 (1)
Overnight deposits in local currency, maturing in January 2009	<u>7,000</u>	<u>133,330 (1)</u>
	6,141,320	3,418,416
Less		
Investments assigned through liquid asset accounts and certificates of participation	<u>(848,614)</u>	<u>(1,482,623)</u>
	<u><u>5,292,706</u></u>	<u><u>1,935,793</u></u>

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

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

	<u>2008</u>		<u>2007</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>
Deposits with BCV	13.00	14.00	11.00	12.00
Time deposits with Venezuelan financial institutions	15.00	15.00	-	-
Overnight deposits in foreign currency	0.25	1.80	3.00	4.84
Overnight deposits in local currency	15.00	15.00	14.00	20.00

Investments assigned at December 31 bear the following annual interest:

	<u>2008</u>		<u>2007</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>
Investments assigned				
Liquid asset accounts	17.00	17.00	10.00	10.00
Certificates of participation	0.25	15.00	0.25	11.00

b) Investments in trading securities

Investments in trading securities at December 31 comprise the following:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Book value</u> <u>(equivalent</u> <u>to market</u> <u>value)</u>	<u>Cost</u>	<u>Book value</u> <u>(equivalent</u> <u>to market</u> <u>value)</u>
<i>(Thousands of bolivars)</i>				
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing in May 2008, with a par value of Bs 23,412,000	<u>-</u>	<u>-</u>	<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:

<i>(Thousands of bolivars)</i>	2008				2007			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Securities issued or guaranteed by the Venezuelan government								
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	228,952	-	(62,012)	166,940 (1)	-	-	-	-
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing between June 2009 and November 2015, with a par value of Bs 181,147,000 (maturing between January 2008 and September 2015, with a par value of Bs 534,171,000 at December 31, 2007)	182,637	295	(6,537)	176,395 (1)	503,175	7,832	(6,447)	504,560 (1)
Principal and Interest Covered Bonds (TICC), maturing between November 2013 and March 2019, with a reference par value of US\$77,307,000, payable in bolivars at the official exchange rate (maturing between November 2013 and March 2015, with a reference par value of US\$54,697,000, payable in bolivars at the official exchange rate at December 31, 2007)	159,420	5,978	(7)	165,391 (1)	103,594	105	(193)	103,506 (1)
Treasury Notes issued by the Bolivarian Republic of Venezuela, maturing between January and March 2009, with a par value of Bs 47,963,687 (maturing between January and March 2008, with a par value of Bs 45,449,000 at December 31, 2007)	47,122	493	(1)	47,614 (1)	44,866	122	(42)	44,946 (1)
Fixed-interest securities issued by the Bolivarian Republic of Venezuela, maturing in December 2012, with a par value of Bs 100,000 (maturing between March 2011 and May 2018, with a par value of Bs 65,340,000 at December 31, 2007)	<u>100</u>	<u>-</u>	<u>(9)</u>	<u>91 (1)</u>	<u>68,828</u>	<u>-</u>	<u>(7,100)</u>	<u>61,728 (1)</u>
	<u>618,231</u>	<u>6,766</u>	<u>(68,566)</u>	<u>556,431</u>	<u>720,463</u>	<u>8,059</u>	<u>(13,782)</u>	<u>714,740</u>
Investments in financial private-sector companies								
Investments in Venezuelan financial institutions								
Banco Provincial, C.A. (Banco Universal), 20,000,000 common shares with a par value of Bs 0.1 each, equivalent to 0.23% of its capital stock	2,000	-	-	2,000 (2)	2,000	3,320	-	5,320 (2)
Other	<u>196</u>	<u>585</u>	<u>-</u>	<u>781</u>	<u>210</u>	<u>585</u>	<u>-</u>	<u>795</u>
	<u>2,196</u>	<u>585</u>	<u>-</u>	<u>2,781</u>	<u>2,210</u>	<u>3,905</u>	<u>-</u>	<u>6,115</u>
Investments in non-financial private-sector companies								
MasterCard, 1,930 shares with a par value of US\$0.0001 each, equivalent to 0.00148% of its capital stock (25,231 shares at December 31, 2007)	127	1,147	-	1,274 (2)	1,665	7,651	-	9,316 (2)
Caja Venezolana de Valores, C.A., 21,616 common shares with a par value of Bs 66.46 each, equivalent to 18.01% of its capital stock	128	520	-	648 (3)	128	520	-	648 (3)
Other	<u>21</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>54</u>	<u>-</u>	<u>(4)</u>	<u>50</u>
	<u>276</u>	<u>1,667</u>	<u>-</u>	<u>1,943</u>	<u>1,847</u>	<u>8,171</u>	<u>(4)</u>	<u>10,014</u>

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	2008				2007			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
<i>(Thousands of bolivars)</i>								
Debt securities issued by foreign public and private-sector companies								
Debt securities issued and guaranteed by government agencies of the United States of America, maturing between September 2027 and September 2038, with a par value of US\$39,080,000 (maturing between November 2008 and February 2030, with a par value of US\$5,775,000 at December 31, 2007)	85,033	707	(243)	85,497 (2)	12,838	29	(162)	12,705 (2)
Debenture bonds issued by Corporación Andina de Fomento (CAF), maturing between February and March 2012, with a par value of Bs 25,250,000 (with a par value of Bs 68,750,000 at December 31, 2007)	26,102	-	(2,080)	24,022 (1)	68,750	-	(5,956)	62,794 (1)
Debt securities issued and guaranteed by government agencies of other countries, maturing in January 2009, with a par value of US\$2,056,000 (maturing between February and April 2008, with a par value of US\$2,056,000 at December 31, 2007)	<u>4,805</u>	<u>-</u>	<u>(7)</u>	<u>4,798 (1)</u>	<u>4,426</u>	<u>21</u>	<u>-</u>	<u>4,447 (1)</u>
	<u>115,940</u>	<u>707</u>	<u>(2,330)</u>	<u>114,317</u>	<u>86,014</u>	<u>50</u>	<u>(6,118)</u>	<u>79,946</u>
Debt securities issued by Venezuelan private-sector companies								
Debt securities issued by Venezuelan private-sector companies, maturing in January 2009, with a par value of Bs 25,000,000	<u>22,613</u>	<u>1,990</u>	<u>-</u>	<u>24,603 (2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>759,256</u>	<u>11,715</u>	<u>(70,896)</u>	<u>700,075</u>	<u>810,534</u>	<u>20,185</u>	<u>(19,904)</u>	<u>810,815</u>

- (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.

At December 31, 2008, the market value of securities of the Bolivarian Republic of Venezuela issued and payable in U.S. dollars is lower than cost by Bs 62 million. This loss is included in shareholders' equity as an unrealized loss on available-for-sale securities. The Bank considers that this difference is temporary since it is related to, among other things, the current state of world financial markets and the recent high volatility of international oil prices which, in the opinion of management, do not significantly affect payment capabilities of the issuer. Therefore, this difference has not been recognized in the consolidated statement of income. In addition, the Bank has the ability to hold these securities for a sufficient period of time to recover unrealized losses. At February 17, 2009, the cost of these securities exceeds its market value by Bs 61 million.

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

	2008		2007	
	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %
National Public Debt Bonds in foreign currency	3.79	7.65	-	-
National Public Debt Bonds in local currency	13.36	14.97	10.27	14.09
Principal and Interest Covered Bonds (TICC)	5.25	7.13	7.12	7.12
Treasury Notes (effective yield)	2.06	13.14	0.82	10.21
Fixed-interest securities	9.38	9.88	9.25	9.87
Debt securities issued and guaranteed by government agencies of the United States of America	2.88	7.00	4.62	7.13
Debt securities issued by foreign private-sector companies	12.16	12.97	8.37	10.25
Debt securities issued and guaranteed by government agencies of other countries	3.50	3.50	3.91	3.94

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

	2008	2007
National Public Debt Bonds in foreign currency	28 months	-
National Public Debt Bonds in local currency	21 months	28 months
Principal and Interest Covered Bonds (TICC)	71 months	87 months
Treasury Notes	7 months	1 month
Fixed-interest securities	48 months	63 months
Debt securities issued and guaranteed by government agencies of the United States of America	330 months	263 months
Debt securities issued and guaranteed by foreign-private-sector companies	- months	51 months
Debt securities issued and guaranteed by government agencies of other countries	1 month	2 months

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

	<u>2008</u>		<u>2007</u>	
	Cost	Book value (equivalent to market value)	Cost	Book value (equivalent to market value)
<i>(Thousands of bolivars)</i>				
Up to 6 months	135,860	133,693	162,740	162,378
6 months to 1 year	37,289	36,799	143,307	144,449
1 to 5 years	345,360	304,884	195,936	182,956
5 to 10 years	148,409	129,584	294,640	307,569
Over 10 years	<u>92,338</u>	<u>95,115</u>	<u>13,911</u>	<u>13,463</u>
	<u>759,256</u>	<u>700,075</u>	<u>810,534</u>	<u>810,815</u>

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

	2008	2007
<i>(Thousands of bolivars)</i>		
Investments in available-for-sale securities	(59,181)	281
Investments in held-to-maturity securities, reclassified from investments in available-for-sale securities	(5,401)	(8,363)
Restricted investments	24,911	48
Available-for-sale investments in affiliates	<u>1,009</u>	<u>1,165</u>
	<u>(38,662)</u>	<u>(6,869)</u>

During the year ended December 31, 2008, the Bank recorded a gain of US\$6,456,000, equivalent to Bs 13,846,000, on the sale of 23,301 Class “B” MasterCard shares, shown under other operating income (Note 18) (22,000 shares for US\$3,763,901, equivalent to Bs 8,072,000, shown under other operating income during the year ended December 31, 2007).

In March 2008, Visa Inc. made a public offer of shares, assigning to the Bank 623,163 Class “C” Series I shares. During the year ended December 31, 2008, the Bank recorded a gain of US\$14,974,000, equivalent to Bs 32,114,000, on the sale of 350,128 of these shares, shown under sundry operating income. The remaining 273,025 shares were accounted for as investment securities, resulting in a gain of approximately Bs 25 million.

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During the year ended December 31, 2008, the Bank and its subsidiaries recorded gains and losses of Bs 133,326,000 and Bs 79,760,000, respectively, on the sale of available-for-sale securities (Bs 83,927,000 and Bs 93,556,000, respectively, during the year ended December 31, 2007), which are shown under other operating income and other operating expenses, respectively (Notes 18 and 19) and include the gain on sale of Visa and MasterCard shares. The Bank received cash payments for the aforementioned sales of Bs 11,494,000,000 (Bs 30,593,909,000 during the year ended December 31, 2007).

During the year ended December 31, 2007, the Bank transferred investment securities at their fair value of Bs 749,155,000 from the available-for-sale investment portfolio to the held-to-maturity investment portfolio. The unrealized net loss of Bs 9,573,017 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 years ended December 31, 2008 and 2007, Bs 3,016,000 and Bs 1,596,015, respectively, have been 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:

	2008			2007		
	Cost	Amortized cost	Fair market value	Cost	Amortized cost	Fair market value
<i>(Thousands of bolivars)</i>						
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing between January 2009 and April 2010, with a par value of Bs 376,746,000 (maturing between October 2008 and April 2010, with a par value of Bs 657,344,000 at December 31, 2007)	395,364	385,319	372,792 (1)	688,856	682,107	661,990 (1)
Principal and Interest Covered Bonds (TICC), maturing between April 2017 and March 2019, with a reference par value of US\$76,641,000, payable in bolivars at the official exchange rate (reference par value of US\$28,791,000, payable in bolivars at the official exchange rate at December 31, 2007)	158,755	158,755	158,562 (2)	60,298	60,310	53,989 (2)
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	-	-	-	210,224	222,610	220,051 (2)
	<u>554,119</u>	<u>544,074</u>	<u>531,354</u>	<u>959,378</u>	<u>965,027</u>	<u>936,030</u>
Time deposits with foreign financial institutions						
Mercantil Bank (Panamá), S.A., with a par value of US\$1,007,000, maturing in February 2009 (with a par value of US\$986,000, maturing in January 2008 at December 31, 2007)	2,161	2,161	2,161 (3)	2,116	2,116	2,116 (3)
	<u>556,280</u>	<u>546,235</u>	<u>533,515</u>	<u>961,494</u>	<u>967,143</u>	<u>938,146</u>
Less						
Investments assigned through liquid asset accounts and certificates of participation	(394,952)	(394,952)	(394,952)	(223,745)	(223,745)	(223,745)
	<u>161,328</u>	<u>151,283</u>	<u>138,563</u>	<u>737,749</u>	<u>743,398</u>	<u>714,401</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.

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During the year ended December 31, 2008, the Bank transferred investment securities at their amortized cost of Bs 229 million from the held-to-maturity securities portfolio to the available-for-sale securities portfolio, resulting in a loss from valuation of Bs 64 million, recorded in shareholders' equity under unrealized loss on available-for-sale investments. This transfer was approved by the Superintendency of Banks.

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

	<u>2008</u>		<u>2007</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 local currency	13.36	15.25	10.27	13.00
Principal and Interest Covered Bonds (TICC)	5.25	6.25	5.25	6.25
National Public Debt Bonds in foreign currency	-	-	5.37	7.65
Time deposits with foreign financial institutions	0.90	0.90	4.00	4.75
Investments assigned	17.00	17.00	10.00	10.00

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

	2008	2007
Principal and Interest Covered Bonds (TICC)	104 months	122 months
Time deposits with foreign financial institutions	57 days	17 days
National Public Debt Bonds in local currency	11 months	17 months
National Public Debt Bonds in foreign currency	-	15 months

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

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair</u> <u>value</u>	<u>Cost</u>	<u>Fair</u> <u>value</u>
<i>(Thousands of bolivars)</i>				
Under 1 year	225,317	219,970	174,019	173,214
1 to 5 years	162,163	154,982	690,256	673,621
5 to 10 years	133,560	133,164	79,019	67,434
Over 10 years	<u>25,195</u>	<u>25,399</u>	<u>23,849</u>	<u>23,877</u>
	<u>546,235</u>	<u>533,515</u>	<u>967,143</u>	<u>938,146</u>

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e) Restricted investments

Restricted investments at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008			2007		
	Cost	Book value (equivalent to market value)		Cost	Book value (equivalent to market value)	
As guarantee						
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing between July and September 2009, with a par value of Bs 32,995,000 (maturing in February 2008, with a par value of Bs 34,683,000 at December 31, 2007)	32,789	32,672 (1)		34,657	34,679 (1)	
Debt securities issued by foreign private-sector companies, maturing in January 2009, with a par value of US\$3,000,000 (maturing in January 2008, with a par value of US\$12,000,000 at December 31, 2007)	6,433	6,433 (1)		25,671	25,671 (1)	
Treasury Notes issued by the Bolivarian Republic of Venezuela, maturing in March 2009, with a par value of Bs 5,000,000 (maturing in February 2008, with a par value of Bs 5,000,000 at December 31, 2007)	4,881	4,891 (1)		4,899	4,925 (1)	
Investment securities acquired under resale agreements with BCV	3,617	3,617 (1)		-	-	
Investment trust with Banco Nacional de México	310	310 (3)		393	393 (3)	
Debt securities issued and guaranteed by government agencies of the United States of America, maturing in February 2029, with a par value of US\$340,000 (maturing between January 2008 and February 2029, with a par value of US\$7,403,000 at December 31, 2008)	738	712 (1)		15,886	15,886 (1)	
Certificates of deposit issued by Mercantil Commercebank, N.A., maturing in February 2009, with a par value of US\$25,000 (maturing in January 2008, with a par value of US\$4,726,000 at December 31, 2007)	54	54 (2)		10,136	10,136 (2)	
Cash in trust fund (Note 6)	<u>3,032</u>	<u>3,032 (2)</u>		<u>3,226</u>	<u>3,226 (2)</u>	
	<u>51,854</u>	<u>51,721</u>		<u>94,868</u>	<u>94,916</u>	
Investments in non-financial private-sector companies						
Visa Inc., 273,035 shares with a par value of US\$43 each, equivalent to 0.0178% of its capital stock	-	25,044 (4)		-	-	
	<u>51,854</u>	<u>76,765</u>		<u>94,868</u>	<u>94,916</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.

(4) Equivalent to book value.

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Restricted investments at December 31 earn the following annual interest:

	<u>2008</u>		<u>2007</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	14.16	14.72	10.27	10.27
Debt securities issued by foreign private-sector companies	-	-	4.26	5.03
Treasury Notes (effective yield)	8.73	8.73	6.07	6.07
Investments in securities under repurchase agreements	15.00	15.00	-	-
Debt securities issued and guaranteed by the government of the United States of America	1.56	1.56	4.25	5.63
Certificates of deposit	1.39	1.39	1.39	1.39

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

	2008	2007
National Public Debt Bonds	7 months	2 months
Debt securities issued by foreign private-sector companies	5 days	21 months
Treasury Notes	2 months	2 months
Investments in securities under repurchase agreements	5 months	-
Debt securities issued and guaranteed by the government of the United States of America	245 months	16 months
Certificates of deposit	1 month	30 days

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

<i>(Thousands of bolivars)</i>	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Book value</u>	<u>Cost</u>	<u>Book value</u>
Up to 6 months	18,018	43,070	86,086	86,134
6 months to 1 year	32,789	32,672	4,289	4,289
1 to 5 years	-	-	3,226	3,226
5 to 10 years	-	-	393	393
Over 10 years	<u>1,047</u>	<u>1,023</u>	<u>874</u>	<u>874</u>
	<u>51,854</u>	<u>76,765</u>	<u>94,868</u>	<u>94,916</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, 2008 and 2007, the Bank has collateral deposits of US\$25,000 and US\$4,726,000 with Mercantil Commercebank, N.A., respectively, shown as restricted investments. In addition, at December 31, 2008, stand-by letters of credit were pledged for MasterCard International and Visa International transactions amounting to US\$24,401,000 and US\$12,375,000, respectively (stand-by letters of credit pledged for MasterCard International and Visa International transactions amounting to US\$17,901,000 and US\$12,375,000, respectively, at December 31, 2007), recorded under other debtor control accounts (Note 23).

At December 31, 2008, restricted investments include securities of the Coral Gables agency with a market value of US\$3,331,000 (US\$19,377,000 at December 31, 2007), 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, 2008, Bs 4,940,000 is in respect of assignments with government entities (Bs 121,614,000 at December 31, 2007).

Interest borne by securities assigned through certificates of participation amounts to Bs 149,358,000 for the year ended December 31, 2008 (Bs 125,637,000 during the year ended December 31, 2007), of which Bs 2,795,000 is in respect of interest borne by investments assigned to government agencies (Bs 2,496,000 during the year ended December 31, 2007), 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, 2008 and 2007, Bs 1,395,139,000 and Bs 1,090,888,000, 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, 2008, 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 15.25%, 80.84% and 1.15%, respectively, of its investment securities portfolio (32.79%, 61.61% and 0.54%, respectively, at December 31, 2007).

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5. Loan Portfolio

The loan portfolio at December 31 is classified as follows:

(In bolivars)	2008								2007			
	Current	%	Restructured	%	Overdue	%	In litigation	%	Total	%	Total	%
Economic activity												
Commercial	3,642,797	23	3,277	8	45,810	37	2,383	38	3,694,267	23	2,864,622	22
Agriculture	2,316,603	15	29,746	72	10,710	8	564	9	2,357,623	15	1,855,008	15
Construction	2,025,609	13	-	-	5,787	5	51	1	2,031,447	13	1,514,969	12
Credit cards	1,943,498	12	-	-	1,545	1	-	-	1,945,043	12	1,525,362	12
Car loans	1,753,799	11	-	-	15,825	13	-	-	1,769,624	11	1,551,866	12
Industrial	1,533,639	10	689	2	2,747	2	585	9	1,537,660	10	1,362,426	11
Home purchases	1,050,086	7	2,540	6	7,147	6	2,346	38	1,062,119	7	696,459	5
Services	431,608	3	-	-	4,525	4	330	5	436,463	3	367,107	3
Foreign trade	218,706	1	5,187	12	22,318	18	-	-	246,211	1	349,508	3
Other	712,601	5	-	-	7,634	6	-	-	720,235	5	615,695	5
	<u>15,628,946</u>	<u>100</u>	<u>41,439</u>	<u>100</u>	<u>124,048</u>	<u>100</u>	<u>6,259</u>	<u>100</u>	<u>15,800,692</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>
Guarantee												
Unsecured	6,502,998	42	-	-	62,469	50	-	-	6,565,467	42	5,678,750	45
Debenture	4,995,740	32	33,142	80	33,964	27	2,248	36	5,065,094	32	3,581,312	28
Mortgage	3,200,554	20	2,650	6	25,548	21	3,391	54	3,232,143	20	2,386,508	19
Pledge	929,654	6	5,647	14	2,067	2	620	10	937,988	6	1,056,452	8
	<u>15,628,946</u>	<u>100</u>	<u>41,439</u>	<u>100</u>	<u>124,048</u>	<u>100</u>	<u>6,259</u>	<u>100</u>	<u>15,800,692</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>
Maturity												
Up to 3 months	8,459,883	54	24,486	59	59,668	48	1,628	26	8,545,665	54	6,517,909	51
3 to 6 months	829,360	5	460	1	20,793	17	1,621	26	852,234	5	715,079	6
6 months to 1 year	513,690	3	1,339	3	32,466	26	1,469	23	548,964	4	598,932	5
1 to 2 years	1,405,881	9	4,432	11	8,034	7	1,371	22	1,419,718	9	902,573	7
2 to 3 years	1,504,225	10	6,152	15	1,444	1	-	-	1,511,821	10	1,550,439	12
3 to 4 years	1,136,189	7	173	-	1,363	1	-	-	1,137,725	7	1,020,007	8
4 to 5 years	459,066	3	617	2	279	-	57	1	460,019	3	448,945	4
Over 5 years	1,320,652	9	3,780	9	1	-	113	2	1,324,546	8	949,138	7
	<u>15,628,946</u>	<u>100</u>	<u>41,439</u>	<u>100</u>	<u>124,048</u>	<u>100</u>	<u>6,259</u>	<u>100</u>	<u>15,800,692</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>
Loan												
Promissory notes	8,335,269	53	38,899	94	66,975	54	3,913	63	8,445,056	54	6,777,462	53
Credit cards	4,515,243	29	-	-	17,712	14	-	-	4,532,955	29	3,668,108	29
Installment loans	2,255,767	15	2,540	6	7,147	6	2,346	37	2,267,800	14	1,584,160	12
Letters of credit	175,595	1	-	-	22,318	18	-	-	197,913	1	331,422	3
Factoring and discounts	87,220	1	-	-	-	-	-	-	87,220	1	99,038	1
Financial lease contracts	53,157	-	-	-	3,059	3	-	-	56,216	-	80,163	1
Checking account credits	14,260	-	-	-	2,604	2	-	-	16,864	-	17,981	-
Other	192,435	1	-	-	4,233	3	-	-	196,668	1	144,688	1
	<u>15,628,946</u>	<u>100</u>	<u>41,439</u>	<u>100</u>	<u>124,048</u>	<u>100</u>	<u>6,259</u>	<u>100</u>	<u>15,800,692</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>
Geographic location												
Venezuela	15,415,201	99	41,439	100	124,048	100	6,259	100	15,586,947	99	12,506,086	98
Peru	55,259	1	-	-	-	-	-	-	55,259	1	-	-
Mexico	47,181	-	-	-	-	-	-	-	47,181	-	78,278	1
Brazil	39,461	-	-	-	-	-	-	-	39,461	-	12,868	-
Cayman Islands	30,024	-	-	-	-	-	-	-	30,024	-	40,044	-
United States of America	10,723	-	-	-	-	-	-	-	10,723	-	-	-
Honduras	10,723	-	-	-	-	-	-	-	10,723	-	-	-
Guatemala	4,289	-	-	-	-	-	-	-	4,289	-	-	-
Colombia	-	-	-	-	-	-	-	-	-	-	12,868	-
Costa Rica	-	-	-	-	-	-	-	-	-	-	42,156	1
Other countries in Latin America	16,085	-	-	-	-	-	-	-	16,085	-	10,722	-
	<u>15,628,946</u>	<u>100</u>	<u>41,439</u>	<u>100</u>	<u>124,048</u>	<u>100</u>	<u>6,259</u>	<u>100</u>	<u>15,800,692</u>	<u>100</u>	<u>12,703,022</u>	<u>100</u>

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

<i>(Thousands of bolivars)</i>	<u>2008</u>		<u>2007</u>	
	Total	%	Total	%
Risk				
Normal	15,288,754	97	12,421,926	98
Potential	142,979	1	197,658	2
Real	307,092	2	49,997	-
High	42,311	-	23,548	-
Unrecoverable	<u>19,556</u>	<u>-</u>	<u>9,893</u>	<u>-</u>
	<u>15,800,692</u>	<u>100</u>	<u>12,703,022</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 14,562,000 and Bs 17,278,000 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 9,878,000 was debited from the allowance for losses on the loan portfolio, and Bs 12,000,000 and Bs 17,000,000 were charged to income for 2004 and 2005, respectively. At December 31, 2008 and 2007, 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.

At December 31, 2008, the loan portfolio balance includes securities loan agreements (Note 2) represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela with yield at between 14.16% and 14.72% (Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela with yield at between 12.17% and 12.43% at December 31, 2007), comprising the following:

<i>(Thousands of bolivars)</i>	<u>2008</u>		<u>2007</u>	
	Par value	Book value (equivalent to market value)	Par value	Book value (equivalent to market value)
Direct financial assets and securities loan agreements				
Other corporations	<u>150,520</u>	<u>148,749</u>	<u>96,510</u>	<u>96,394</u>

The maturities of securities loan agreements at December 31 are shown below:

<i>(Thousands of bolivars)</i>	<u>2008</u>	<u>2007</u>
Up to 30 days	121,650	96,394
31 to 60 days	<u>27,099</u>	<u>-</u>
	<u>148,749</u>	<u>96,394</u>

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At December 31, 2008, regulations require commercial and universal banks to earmark a minimum nominal percentage of 47% of their gross loan portfolio to finance loans for agriculture, small businesses, mortgages, manufacturing and tourism (37% for agriculture, small businesses, mortgages and tourism at December 31, 2007), as follows:

Agriculture

At December 31, 2008, 21% is the minimum financing required for agriculture based on the average of the gross loan portfolio at December 31, 2007 and 2006 (21% at December 31, 2007 on the gross loan portfolio at December 31, 2006 and 2005). At December 31, 2008, the Bank has earmarked Bs 2,357,623,254, equivalent to 22.38% of the required base (Bs 1,862,640,000 at December 31, 2007, equivalent to 24.40% of its gross loan portfolio at December 31, 2006 and 2005).

In January 2008, the People's Power Ministry for Agriculture and Land, and the People's Power Ministry for Economy and Finance 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, 2007 and 2006. Additionally, it requires that at least 70% of the total agricultural loan portfolio must be used to finance production activities of priority agricultural products for which percentages compliance by activity were established, and 30% to finance non-priority products. In addition, 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, of which 50% must be individual borrowers.

At December 31, 2008, the Bank has earmarked 98.60% of its agricultural loan portfolio to finance primary production and commercial activities for priority agricultural products and 1.4% for non-priority agricultural products. In addition, at December 31, 2008, the Bank has a total of 2,283 debtors in the agricultural loan portfolio, of which 767 are new borrowers for the year. Of the total amount of new borrowers, 613 are individuals.

Small businesses

At December 31, 2008, 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) based on the total loan portfolio at June 30, 2008. At December 31, 2008, Bs 628,536,000 has been earmarked in this connection, equivalent to 4.40% of the gross loan portfolio at June 30, 2008 (Bs 547,169,000 at December 31, 2007, equivalent to 4.98% of the gross loan portfolio at June 30, 2007). At December 31, 2008, the small business loan portfolio comprises 13,008 debtors (12,328 debtors at December 31, 2007). At December 31, 2008, 14,913 loans have been granted (14,514 loans at December 31, 2007).

Mortgages

At December 31, 2008, 4% and 6% 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, 2008, Bs 625,875,000 in short-term loans and Bs 804,371,000 in long-term loans were granted, equivalent to 5.01% and 6.45%, respectively, of the established base.

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At December 31, 2008, the Bank's mortgage loan portfolio amounted to Bs 1,430 million, comprising 2,819 debtors (1,522 debtors at December 31, 2007) and 2,859 loans (1,543 loans at December 31, 2007).

Tourism

At December 31, 2008, the minimum percentage to be earmarked for these loans is 3% of the gross loan portfolio at December 31, 2007 (3% at December 31, 2007 of the gross loan portfolio at December 31, 2006). At December 31, 2008, Bs 386,538,000 was earmarked for these loans, representing 3.10% of the gross loan portfolio at December 31, 2007 (Bs 269,898,000 at December 31, 2007, equivalent to 3.14 % of the gross loan portfolio at December 31, 2006). At December 31, 2008, the tourism loan portfolio comprises 31 debtors (36 debtors at December 31, 2007). During the year ended December 31, 2008, 85 loans were granted (48 loans at December 31, 2007).

Manufacturing

In April 2008, BCV issued a resolution requiring banks not only to maintain the percentage of their gross loan portfolio earmarked at December 31, 2007 to finance manufacturing activities, but to increase it to at least 10% by December 31, 2008. BCV established a maximum interest rate of 19% for these types of loans. At December 31, 2007, the percentage for financing manufacturing activities was 10.02%. At December 31, 2008, the manufacturing loan portfolio amounts to Bs 1,399,022,000, representing 11.21% of the gross loan portfolio at December 31, 2007.

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

<i>(Thousands of bolivars)</i>	2008	2007
Balance at the beginning of the year	270,503	229,017
Provided in the year, including the branch, agencies and subsidiaries abroad	307,902	85,574
Decrease in branch allowance	(1,927)	(3,781)
Write-off of uncollectible accounts	(111,859)	(42,811)
Reclassification to allowance for interest receivable	(3,800)	-
Reclassification from provision for contingent debtor accounts	<u>1,470</u>	<u>2,504</u>
Balance at the end of the year	<u>462,289</u>	<u>270,503</u>

At December 31, 2008, the inactive loan portfolio (overdue and in litigation), which has ceased to bear interest, amounts to Bs 130,306,622 (Bs 69,504,267 at December 31, 2007), of which Bs 22,318,229 is in respect of overdue letters of credit (Bs 17,930,000 at December 31, 2007). During the year ended December 31, 2008, interest accrued but not recorded in respect of this inactive loan portfolio amounted to Bs 164,608,000 (Bs 16,719,000 during the year ended December 31, 2007). In addition, interest income for the year ended December 31, 2008 includes Bs 124,560,000 (Bs 12,334,000 during the year ended December 31, 2007) for interest collected on this portfolio that had been deferred in previous years.

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During the year ended December 31, 2008, the Bank wrote off unrecoverable loans of Bs 111,858,508 (Bs 22,328,465 during the year ended December 31, 2007), against the allowance for losses on the loan portfolio. The Bank also collected Bs 40,618,262 (Bs 13,925,000 during the year ended December 31, 2007), included in the statement of income under income from financial assets recovered. This account also includes Bs 1,927,157 in respect of the decrease in the allowance for losses on loan portfolio of the Curaçao branch (Bs 3,781,000 during the year ended December 31, 2007).

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, 2008 and 2007, 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>(Thousands of bolivars)</i>	2008	2007
Investments in Venezuelan non-financial institutions		
Servicio Panamericano de Protección, C.A., 16,730,462 fully paid common shares with a par value of Bs 133 each, equivalent to 19.49% of its capital stock	98,456	-
Inversiones y Valores Mercantil VI, C.A., 33,139 fully paid common shares with a par value of Bs 100 each, equivalent to 19.5% of its capital stock	86,794	61,429
Mercantil Merinvest, C.A., 3,997,500 fully paid common shares with a par value of Bs 1 each, equivalent to 19.5% of its capital stock	23,169	18,088
Inversiones Platco, C.A., 30,000 fully paid common shares with a par value of Bs 100 each, equivalent to 50% of its capital stock	3,510	3,000
Proyecto Conexus, C.A., 343,334 fully paid common shares with a par value of Bs 0.1 each, equivalent to 33.33% of its capital stock	2,169	1,858
Other	<u>64</u>	<u>64</u>
	<u>214,162</u>	<u>84,439</u>

During the year ended December 31, 2008, the Bank made cash contributions for future capital increases of its affiliate Inversiones y Valores Mercantil VI, C.A. for Bs 234,000. In addition, in June 2008, the Bank received Bs 2,312,505 related to cash dividends paid by Mercantil Merinvest, C.A. (Note 21).

During the year ended December 31, 2008, the subsidiary Inversiones y Valores Mercantil V, C.A. acquired the 19.49% shareholding held by Mercantil Inversiones y Valores, C.A. in Servicio Panamericano de Protección, C.A. (SERPAPROCA) at market value of Bs 98,456,000 calculated by an independent appraiser.

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 7,410,000 to this affiliate. In addition, in September 2007, the Bank received Bs 2,664,090 in respect of cash dividends paid by Mercantil Merinvest, C.A. (Note 21).

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During the years ended December 31, 2008 and 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 148,000 (Bs 34,122,000 at December 31, 2007), included under gain on sale of investment securities for the year (Note 18).

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 36,458,000 for general damages and loss of profits, plus monetary indexation. In November 2006, the Bank's legal advisors filed for annulment of the ruling which includes allegations for nonfeasance and law infringement. In December 2006, the plaintiff appealed the legal action taken by the Bank and the substantiation process was completed on February 7, 2007. Bank management and its legal advisors expect this ruling to be annulled to give way to a new ruling since they believe it contains legal vices.

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:

Balance Sheet

	<u>2008</u>	<u>2007</u>
	<u>Branch and</u>	<u>Branch and</u>
	<u>agency</u>	<u>agency</u>
<i>(Thousands of U.S. dollars)</i>		
Assets		
Cash and due from banks	2,819	21,077
Investment securities	59,107	31,108
Loan portfolio	101,027	102,513
Interest and commissions receivable	1,187	784
Property and equipment	1	1
Other assets	<u>9,469</u>	<u>387</u>
Total assets	<u>173,610</u>	<u>155,870</u>
Liabilities and Shareholders' Equity		
Deposits	72,922	50,060
Borrowings	50	8,213
Interest and commissions payable	162	218
Other liabilities	<u>1,266</u>	<u>2,553</u>
Total liabilities	<u>74,400</u>	<u>61,044</u>
Shareholders' equity	<u>99,210</u>	<u>94,826</u>
Total liabilities and shareholders' equity	<u>173,610</u>	<u>155,870</u>

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Statement of Income

	<u>Years ended</u> <u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	Branch and	Branch and
	agency	agency
<i>(Thousands of U.S. dollars)</i>		
Gross financial margin	5,752	4,131
Operating income (expense), net	(73)	1,204
Extraordinary expense, net	(1,561)	(1,991)
Net income	<u>4,118</u>	<u>3,344</u>

7. Available-for-sale Assets

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

	<u>2008</u>			<u>2007</u>		
	<u>Cost</u>	<u>Accumulated</u> <u>amortization</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated</u> <u>amortization</u>	<u>Net</u>
<i>(Thousands of bolivars)</i>						
Real property received as payment	-	-	-	77	(58)	19
Personal property received as payment	<u>61</u>	<u>(21)</u>	<u>40</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>61</u>	<u>(21)</u>	<u>40</u>	<u>77</u>	<u>(58)</u>	<u>19</u>

During the year ended December 31, 2008, the Bank sold fully amortized assets received as payment that had been recorded under memorandum accounts at a gain of Bs 8,180,000 (Bs 5,735,000 during the year ended December 31, 2007) and Bs 285,000 from the sale of idle assets (Bs 60,000 during the year ended December 31, 2007). Gains are shown in the consolidated statement of income under income from available-for-sale assets. In addition, during the year ended December 31, 2007, the Bank sold assets received as payment with a net book value of Bs 39,000 at a gain of Bs 858,000.

During the year ended December 31, 2008, the Bank recorded amortization expense in respect of available-for-sale assets of Bs 19,000 (Bs 161,000 during the year ended December 31, 2007) and idle assets of Bs 2,039,000, 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>(Thousands of bolivars)</i>	<u>2008</u>			<u>2007</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	275,287	(175,300)	99,987	216,375	(123,961)	92,414
Buildings and facilities	95,692	(16,876)	78,816	71,957	(14,479)	57,478
Work in progress	30,063	-	30,063	51,524	-	51,524
Land	1,382	-	1,382	1,382	-	1,382
Other assets	<u>11,974</u>	<u>(958)</u>	<u>11,016</u>	<u>11,156</u>	<u>(820)</u>	<u>10,336</u>
	<u>414,398</u>	<u>(193,134)</u>	<u>221,264</u>	<u>352,394</u>	<u>(139,260)</u>	<u>213,134</u>

During the year ended December 31, 2008, the Bank recorded depreciation expense of Bs 45,990,000 (Bs 34,199,000 during the year ended December 31, 2007), included in the consolidated statement of income under general and administrative expenses (Note 17).

At December 31, 2008, property and equipment comprising buildings, facilities and land of Bs 80,198,000 has an estimated market value of Bs 669,715,000, based on valuations performed by independent appraisers in December 2005.

At December 31, 2008, 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:

	Original useful life (Years)	Average remaining useful life
Buildings	40	33.45
Main office	40	23.30
Furniture	10	2.92
Computer hardware	4	1.28
Currency redenomination equipment	5	4.24
Other equipment	8	4.61
Vehicles	5	0.49

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9. Other Assets

Other assets at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Goodwill on acquisition of shareholding in Interbank, C.A. (Banco Universal), net of accumulated amortization of Bs 52,489,000 (Bs 45,928,000 at December 31, 2007) (Note 2)	78,733	85,294
Goodwill on acquisition of shareholding in Inversiones y Valores Mercantil VI, C.A., net of accumulated amortization of Bs 7,217,000 (Bs 4,996,000 at December 31, 2007) (Note 2)	14,989	17,210
Goodwill on acquisition of shareholding in Mercantil Merinvest, C.A., net of accumulated amortization of Bs 1,623,000 (Bs 1,124,000 at December 31, 2007) (Note 2)	3,371	3,870
Deferred expenses, net of accumulated amortization of Bs 75,092,000 (Bs 55,374,000 at December 31, 2007) (Note 2)	108,758	79,097
Software, net of accumulated amortization of Bs 76,511,000 (Bs 66,084,000 at December 31, 2007)	25,398	23,185
Deferred income tax (Note 15)	71,570	10,417
Prepaid taxes	64,594	41,941
Transactions with derivative instruments (Notes 14 and 24)	34,478	5,950
Other accounts receivable	30,802	23,435
Pending items and main office, branches and agencies	28,857	46,515
Prepaid advertising	24,521	20,713
Advances to suppliers	18,741	12,580
Insurance and other prepaid expenses	14,683	15,315
Sambil La Candelaria shopping mall rights (Note 14)	13,429	13,429
Stationery and office supplies	11,938	-
Advances and guarantee deposits	10,698	-
Expenses from currency redenomination, net of accumulated amortization of Bs 5,322,000 (Note 1)	7,970	9,222
Accounts receivable from other credit card issuing institutions	7,942	-
Other	943	14,004
Provision for other assets	<u>(18,564)</u>	<u>(15,652)</u>
	<u>553,851</u>	<u>406,525</u>

In 2000 the Bank acquired a majority shareholding in Interbank, C.A. (Banco Universal), giving rise to goodwill of Bs 131,223,000. 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 22,206,000 and Bs 4,994,000, respectively, related to 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).

Sambil La Candelaria shopping mall rights were mainly acquired to set up the Bank's main office and for other purposes. At December 31, 2008, the Bank's consolidated financial statements include Bs 19 million for the aforementioned rights, as well as construction in progress. The fair value of these assets exceeds their book value.

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The balance of pending items and main office, branches and agencies mainly comprises operations that, due to their nature, cannot be immediately imputed to a definitive account, as well as 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, 2008, pending items and main office, branches and agencies mainly comprise in-transit operations related to electronic clearing for Bs 19,754,000, (checks not yet cleared, trust fund cash and in-transit operations related to credit cards for Bs 12,754,000, Bs 14,138,000 and Bs 9,386,000, respectively, at December 31, 2007).

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 1,136,000 and Bs 6,345,000, respectively, related to the adoption of the new corporate image (Note 1).

Amortization of deferred expenses and goodwill during the year ended December 31, 2008 amounted to Bs 44,760,000 (Bs 27,851,000 during the year ended December 31, 2007) 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.

At December 31, 2008, expenses incurred during the currency redenomination process of approximately Bs 7,970,000 (Bs 9,222,000 during the year ended December 31, 2007) 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. At December 31, 2008, the Bank recorded amortization expenses in this connection of Bs 5,322,000, shown in the consolidated statement of income under general and administrative expenses (Note 17).

During the year ended December 31, 2008, the Bank recorded expenses from the provision for other assets of Bs 11,353,000 (Bs 9,961,000 during the year ended December 31, 2007), shown in the consolidated statement of income under sundry operating expenses.

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10. Deposits

Deposits at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Demand deposits	13,047,702	10,910,726
Savings deposits	8,584,905	6,098,529
Time deposits	852,697	1,069,199

Deposits at December 31 bear interest at rates shown below:

Type of deposit	2008				2007			
	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	8.00	0.05	0.35	0.50	5.25	0.35	1.00
Savings deposits	15.00	15.00	0.10	0.45	9.87	10.00	0.45	1.00
Time deposits	11.00	17.00	0.17	2.69	10.00	11.25	1.49	6.57
Restricted deposits	0.50	17.00	-	5.10	0.50	11.00	1.49	5.10
Rights and certificates of participation in investment securities	0.25	17.00	-	-	0.50	11.00	-	-

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

<i>(Thousands of bolivars)</i>	2008		2007	
	%		%	
Up to 30 days	389,896	46	822,956	76
31 to 60 days	267,301	31	102,044	10
61 to 90 days	178,610	21	112,729	11
91 to 180 days	16,665	2	31,349	3
181 to 360 days	<u>225</u>	<u>-</u>	<u>121</u>	<u>-</u>
	<u>852,697</u>	<u>100</u>	<u>1,069,199</u>	<u>100</u>

At December 31, 2008, deposits include Bs 969,436,279 (Bs 1,091,002,000 at December 31, 2007) from the Venezuelan government and other government agencies, equivalent to 3.91% of total deposits (5.5% at December 31, 2007).

At December 31, 2008, restricted deposits relate to guarantee time deposits and dormant savings and checking accounts amounting to Bs 269,702,709 (Bs 211,470,000 at December 31, 2007).

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11. Deposits and Liabilities with Banco Nacional de Vivienda y Hábitat (BANAVIH)

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

<i>(Thousands of bolivars)</i>	2008	2007
Other accounts payable to BANAVIH	-	98
Demand deposits with BANAVIH	<u>2,312</u>	<u>1,885</u>
	<u>2,312</u>	<u>1,983</u>

Other accounts payable to BANAVIH are in respect of funds received to subsidize the initial installment of loans granted. Demand deposits are in respect of funds received to be assigned by BANAVIH (Note 23).

12. Borrowings

Borrowings at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<u>2008</u>			<u>2007</u>		
	Up to one year	More than one year	Total	Up to one year	More than one year	Total
Borrowings with Venezuelan financial institutions						
Credit balances with correspondent banks	87,502	-	87,502	102,181	-	102,181
Deposits						
Demand deposits	<u>7,061</u>	-	<u>7,061</u>	<u>2,495</u>	-	<u>2,495</u>
	<u>94,563</u>	-	<u>94,563</u>	<u>104,676</u>	-	<u>104,676</u>
Borrowings with foreign financial institutions						
Loans from foreign financial institutions, with annual interest at between 6.00% and 9.63%	<u>3,097</u>	-	<u>3,097</u>	<u>79,979</u>	<u>11,990</u>	<u>91,969</u>
Borrowings						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	<u>2,851</u>	<u>2,851</u>	-	<u>3,358</u>	<u>3,358</u>
	<u>97,660</u>	<u>2,851</u>	<u>100,511</u>	<u>184,655</u>	<u>15,348</u>	<u>200,003</u>

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

<i>(Thousands of bolivars)</i>	2008	2007
Up to 30 days	97,660	173,918
31 to 60 days	-	<u>10,737</u>
	<u>97,660</u>	<u>184,655</u>

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

<i>(Thousands of bolivars)</i>	2008	2007
Years		
2008	-	1,738
2009	2,125	894
2010	672	672
2011	47	12,044
2012 and beyond	<u>7</u>	<u>-</u>
	<u>2,851</u>	<u>15,348</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% interest per annum. At December 31, 2007, the loan balance is US\$5,590,697, equivalent to Bs 11,990,000. The building serves as guarantee for the loan. The Bank repaid this debt during the year ended December 31, 2008.

13. Other Liabilities from Financial Intermediation

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

<i>(Thousands of bolivars)</i>	2008	2007
Letters of credit issued	53,568	95,932
Futures operations	17,152	3,666
Other	<u>743</u>	<u>241</u>
	<u>71,463</u>	<u>99,839</u>

14. Accruals and Other Liabilities

Accruals and other liabilities at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Direct financial liabilities (securities loan agreements) (Note 5)	1,704,803	177,236
Suppliers and other accounts payable	162,756	114,339
Provision for contingencies and other (Notes 15 and 23)	127,756	110,722
Taxes (Note 15)	108,182	120,981
Deferred income		
Deferred interest	74,063	31,190
Deferred gain on rights and sale of property and other	13,643	14,034
Deferred income from loan portfolio	14,457	-
Other deferred income (Note 9)	2,984	2,547
Collected and withheld taxes	95,681	94,273
Employee profit sharing and bonuses	74,033	62,093
Provision for operating risks	49,940	48,892
Labor contributions	18,941	11,030
Pending items and main office, branches and agencies (Note 9)	13,768	24,691
Law on Narcotic and Psychotropic Substances (Note 28)	8,957	8,585
Provision for Supplementary Savings Plan (Note 16)	4,124	4,040
Provision for the Law for the Advancement of Science, Technology and Innovation	<u>-</u>	<u>4,500</u>
	<u>2,474,088</u>	<u>829,153</u>

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At December 31, 2008, the Bank has securities loan agreements represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela for Bs 1,704,803,213, with a par value of Bs 1,725,183,142 and yield at between 14.16% and 14.72%, maturing between January and February 2009 (securities loan agreements represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela for Bs 177,236,000, with a par value of Bs 178,765,000 and yield at between 6.85% and 12.43%, maturing between January and February 2008 at December 31, 2007).

At December 31, 2008 and 2007, the Bank maintains provisions for operating risks of Bs 49,940,000 and Bs 48,892,000, 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.

At a Special Shareholders' Meeting of the subsidiary Holding de Inversión Mercantil de Colombia, S.A. held in December 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 3,463,000 to be managed under a trust fund agreement (Note 4).

At December 31, 2008 and 2007, technology and innovation investment projects have been executed by the Bank to cover the 0.5% contribution of territorial gross income obtained during the prior year required by the Law for the Advancement of Science, Technology and Innovation. At December 31, 2007, a provision of Bs 4,500,000 is maintained in this connection.

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.

In June 2008, the Bank was notified by Banco Nacional de la Vivienda y Hábitat (BANAVIH), ascribed to the People's Power Ministry for Housing, of an assessment of Bs 25,363,603 in respect of alleged differences in the contributions made under the Housing Loan Law. The Bank appealed this assessment in July 2008. In August 2008, BANAVIH ruled partially in favor of the Bank and reduced the assessment to Bs 11,647,218. However, in September 2008, the Bank appealed this decision. Simultaneously, since BANAVIH arrived at the ruling following procedures established in the Law on Administrative Proceedings instead of applying the procedures set out in the Master Tax Code, as required by the Instance Courts and the Supreme Tribunal of Justice, the Bank filed for and was awarded constitutional protection in December 2008 and February 2009, respectively. BANAVIH was ordered to follow the Master Tax Code to rule on the appeal filed by the Bank in September 2008, according to which the effects of the tax assessment were suspended. In the opinion of Bank management and its legal advisors, there are legal grounds to uphold the inadmissibility of the assessment.

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15. Taxes

Tax expense at December 31 comprises the following:

<i>(Thousands of bolivars)</i>	2008	2007
Income tax		
Current		
In Venezuela	107,867	117,725
Abroad	258	1,301
Deferred		
In Venezuela	<u>(61,153)</u>	<u>(7,510)</u>
	<u>46,972</u>	<u>111,516</u>

The components of the deferred income tax asset at December 31 are as follows:

<i>(Thousands of bolivars)</i>	2008	2007
Property and equipment, organization and facility expenses and other	58,063	-
Other provisions	8,893	1,805
Labor-related provisions	2,748	1,524
Allowance for losses on loan portfolio	<u>1,866</u>	<u>794</u>
Deferred income tax	<u>71,570</u>	<u>4,123</u>

Venezuelan Income Tax Law

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

The Bank's tax year ends on December 31. For the year ended December 31, 2008, 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 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, 2008, the Bank estimated income tax expense of Bs 107,820,000.

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The following is the reconciliation between book expense and tax expense for the year ended December 31, 2008:

Statutory tax rate	<u>34%</u>
<i>(Thousands of bolivars)</i>	
Notional tax expense based on territorial book income computed at the effective tax rate	292,408
Difference between notional tax expense and actual tax expense	
Net effect of shareholdings	(10,036)
Effect of the annual inflation adjustment	(221,946)
Net effect of National Public Debt Bonds exemption	(36,005)
Nondeductible provisions	
Loan portfolio, net	65,025
Other provisions	(22,212)
Other	<u>16,126</u>
Effect of applying tax rate to taxable income in Venezuela	83,360
Effect of applying tax rate to foreign-earned taxable income	<u>24,460</u>
Effect of applying tax rate to taxable income in Venezuela, plus foreign-earned taxable income	<u>107,820</u>

At December 31, 2008, the Bank's subsidiaries have tax loss carryforwards of Bs 47 million, of which Bs 37 million relates to the inflation adjustment and may be used until 2009; Bs 9 million may be used until 2010 and 2011 (Bs 6 million and Bs 3 million, respectively); and Bs 740,000 relates to extraterritorial losses and may be used until 2010 and 2011 (Bs 690,000 and Bs 50,000, respectively).

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 filed transfer-pricing returns for information purposes.

Tax on financial transactions

In October 2007, the Venezuelan government enacted by Decree-Law the tax on financial transactions for incorporated and unincorporated entities. This tax was 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 and the tax was repealed in June 2008. The Bank is the customers' collection agent with the National Treasury. During the year ended December 31, 2008, the Bank and its subsidiaries incurred tax expense of approximately Bs 25,316,790, included under general and administrative expenses (Note 17).

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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 21,771,000, 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 3,341,000 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 23,508,000, which were appealed. In the opinion of Bank management and its legal advisors, these assessments are not well grounded in law.

Bank management identified a maximum risk of Bs 20,612,000 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 subject 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 37 million) and a penalty of approximately Ps 53 billion (Bs 59 million). This decision was appealed again in August 2007 and in July 2008 DIAN issued a resolution stating that the application of the tax assessment was inadmissible since no income tax payments were omitted.

In April 2008, the Bank was subject to a tax assessment of Bs 62,678,799 in respect of the proportional tax on dividends. In June 2008, the Bank filed a discharge claim with the Tax Authorities stating its legal arguments against this assessment. In December 2008, SENIAT confirmed this tax assessment and in January 2009 the Bank filed an appeal against the payment forms issued. In the opinion of Bank management and its legal advisors, this assessment is not well grounded in law.

16. Employee Benefit Plan

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

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Expenses in connection with this plan for the Bank and its subsidiaries for year ended December 31, 2008 amount to Bs 26,162,670 (Bs 22,163,192 for the year ended December 31, 2007).

b) Supplementary Retirement 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.

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 consolidated statement of income for the year.

Expenses in connection with the Supplementary Retirement Pension Plan and post-retirement benefits amounted to Bs 27,970,000 (Bs 9,000,000 at December 31, 2007).

At December 31, 2008 and 2007, the assets, obligations and results of the Supplementary Retirement Pension Plan and post-retirement benefits, as well as the long-term assumptions used, are as follows:

	Supplementary		Post-retirement benefits	
	Retirement Pension Plan			
	2008	2007	2008	2007
<i>(Thousands of bolivars)</i>				
Variation of projected benefit obligation				
Benefit obligation at January 1	31,750	30,448	24,754	17,299
Service cost	314	183	1,649	1,059
Interest expense	3,739	3,151	2,991	1,850
Actuarial loss (gain)	(4,484)	1,685	4,095	6,019
Benefits paid	<u>(4,377)</u>	<u>(3,717)</u>	<u>(1,912)</u>	<u>(1,473)</u>
Projected benefit obligation	<u>26,942</u>	<u>31,750</u>	<u>31,577</u>	<u>24,754</u>
Variation in restricted Plan assets				
Opening fair value of assets	27,455	30,620	10,381	8,399
Yield on assets	1,780	2,789	1,049	(256)
Contribution	9,919	-	4,127	-
Payment of obligation for transfer of assets	(323)	(2,237)	(23)	2,237
Benefits paid	<u>(4,377)</u>	<u>(3,717)</u>	<u>-</u>	<u>-</u>
Closing fair value of Plan assets	<u>34,454</u>	<u>27,455</u>	<u>15,534</u>	<u>10,380</u>
Financial position at year end				
Present value of obligations (DBO)	(26,942)	(31,750)	(31,557)	(24,754)
Assets of external fund supporting the Plan	<u>34,454</u>	<u>27,455</u>	<u>15,534</u>	<u>10,380</u>
Excess (deficit) of assets over projected obligation	7,512	(4,295)	(16,023)	(14,374)
Unrecognized past service cost	-	-	7,182	8,040
Unrecognized actuarial loss	<u>-</u>	<u>13,835</u>	<u>8,443</u>	<u>4,442</u>
	<u>7,512</u>	<u>9,540</u>	<u>(398)</u>	<u>(1,892)</u>
Components of net benefit cost				
Service cost	314	183	1,649	1,059
Interest expense	3,739	3,151	2,991	1,850
Expected yield from Plan assets	(1,780)	(2,789)	(1,049)	256
Amortization of unrecognized past service cost	-	-	858	858
Amortization of actuarial gain (loss)	<u>(9,272)</u>	<u>11,559</u>	<u>-</u>	<u>-</u>
Net benefit cost for the year	<u>(6,999)</u>	<u>12,104</u>	<u>4,449</u>	<u>4,023</u>

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Assumptions used to determine benefit obligations for the years ended:

	<u>Supplementary Retirement Pension Plan</u>		<u>Post-retirement benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Discount rate	20.00	12.50	20.00	12.50
Salary increase	20.60	13.50	20.60	13.50
Yield on assets				
Bolivars	18.00	13.00	18.00	13.00
U.S. dollars	7.00	6.50	7.00	6.50
Increase in medical expense for the year	22.00	15.50	22.00	15.50

Plan costs for 2009 are estimated at Bs 11,042,557.

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. Otherwise, or if the allotted shares are not purchased within the established time periods, the entitlements are cancelled. At December 31, 2008, 204 employees are participating in this plan. For the year ended December 31, 2008, the Bank contributed Bs 2,125,000 to this plan (Bs 3,500,000 for the year ended December 31, 2007).

Below is a breakdown of shares included in the plan at December 31, 2008, which are deposited in the Mercantil Seguros, C.A. trust fund:

Phase	Approval date	<u>Number of shares (4)</u>		<u>Option price</u>		Deadline for exercising option
		<u>Class "A"</u>	<u>Class "B"</u>	<u>Class "A"</u>	<u>Class "B"</u>	
IV	2004	796,697 (1)	662,743 (1)	25.00	25.00	2009 and 2010
V	2007	308,825 (2)	540,834 (2)	47.65	47.65	2010
Shares available		<u>490,959 (3)</u>	<u>79,199 (3)</u>			
Total shares in trust funds		<u>1,596,481 (4)</u>	<u>1,282,776 (4)</u>			

(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

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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
Balance at December 31, 2006	321,949	260,842	582,791
Options awarded	599,954	500,119	1,100,073
Stock dividends	329,173	274,702	603,875
Options exercised	(216,089)	(172,233)	(388,322)
Options recovered	(5,462)	(4,554)	(10,016)
Adjustment of awards due to currency redenomination	<u>218</u>	<u>274</u>	<u>492</u>
Balance at December 31, 2007	1,029,743	859,150	1,888,893
Options exercised	(228,767)	(192,839)	(421,606)
Options recovered	<u>(4,279)</u>	<u>(3,568)</u>	<u>(7,847)</u>
Balance at December 31, 2008	<u>796,697</u>	<u>662,743</u>	<u>1,459,440</u>

Of the options outstanding at December 31, 2008, 1,179,236 options were exercisable (345,785 options at December 31, 2007).

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 III	35.8	26.9	7.5	14.58
Phase IV	31.4	8.3	2.4	30.95

17. General and Administrative Expenses

General and administrative expenses at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Taxes and duties (Note 15)	87,615	60,432
Transportation of valuables and communications	85,957	80,972
External services, fees and other	79,808	68,450
Advertising	68,466	87,825
Maintenance of property and equipment	56,452	50,836
Sundry general expenses	55,254	44,426
Depreciation of property and equipment (Note 8)	45,990	34,199
Services and supplies	45,981	35,502
Amortization of deferred expenses (Note 9)	35,479	18,570
Transportation and surveillance	29,123	22,599
Leases	19,520	12,585
Software licenses	18,928	15,700
Amortization of goodwill (Note 9)	9,281	9,281
Other	<u>14,955</u>	<u>13,461</u>
	<u>652,809</u>	<u>554,838</u>

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18. Other Operating Income

Other operating income at December 31 comprises the following:

<i>(Thousands of bolivars)</i>	2008	2007
Commissions on services (Note 23)	470,897	455,858
Gain on sale of investment securities (Notes 4 and 19)	101,211	83,927
Commissions on trust funds (Note 24)	39,926	36,733
Income from equity in affiliates	38,422	16,134
Exchange gain (Note 22)	16,207	11,829
Exchange and currency arbitration gains (Note 22)	<u>45</u>	<u>91</u>
	<u>666,708</u>	<u>604,572</u>

19. Other Operating Expenses

Other operating expenses at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Loss on sale of investment securities (Notes 4 and 18)	79,760	93,556
Commissions on services	56,305	57,158
Exchange loss (Note 22)	20,202	7,014
Loss from equity in affiliates	<u>5,485</u>	<u>-</u>
	<u>161,752</u>	<u>157,728</u>

20. Extraordinary Expenses

Extraordinary expenses at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Loss from theft, robbery and fraud	52,844	28,430
Donations made by the Bank (Note 25)	6,986	9,602
Other	692	1,246
Loss from sundry claims	<u>622</u>	<u>315</u>
	<u>61,144</u>	<u>39,593</u>

21. Shareholders' Equity

a) Capital stock and authorized capital

At December 31, 2008 and 2007, the Bank's paid-in capital amounts to Bs 268,060,000 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 each. Mercantil Servicios Financieros, C.A. has 146,062,981 Class "A" common shares and 121,773,906 Class "B" common shares, representing 99.92% of the Bank's capital stock.

At a Shareholders' Meeting on September 14, 2007, it was resolved to increase paid-in capital by Bs 133,947,000 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

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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. As from January 1, 2008, when currency redenomination became effective, the par value of shares is Bs 1.

At December 31, 2008 and 2007, the Bank complies with minimum paid-in capital requirements for universal banks of Bs 40,000,000.

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 2008	0.19	March 2008
Ordinary	July 2008	0.19	July 2008
Ordinary	October 2008	0.26	November 2008

Contributions pending capitalization mainly include 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 period to restricted surplus, exclusively for capital increase purposes. At December 31, 2008, the Bank recorded Bs 352,962,000 (Bs 222,244,000 at December 31, 2007), equivalent to 50% of the net result at that date, under restricted surplus.

At December 31, 2008, restricted surplus of Bs 1,235,873,000 (Bs 887,215,000 at December 31, 2007) includes Bs 109,312,000 (Bs 115,245,000 at December 31, 2007) 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 the year ended December 31, 2008, the Bank released restricted surplus of Bs 2,312,505 in respect of cash dividends received from the subsidiary Mercantil Merinvest, C.A. (Bs 120,586,000 during the year ended December 31, 2007 in respect of cash dividends received from the subsidiary Mercantil Merinvest, C.A. and of 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.

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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:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Maintained %	Required %	Maintained %	Required %
Equity to risk-weighted assets and contingent operations	15.2	12	14.0	12
Equity to total assets	9.1	8	9.6	8

On March 20, 2007, the Superintendency of Banks issued Resolution No. 058/07 to incorporate 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 and deducting it from equity on a monthly basis by March 31, 2011.

22. Financial Assets and Liabilities in Foreign Currency

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

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

On March 2, 2005, the Ministry of Finance and BCV changed the official exchange rates, effective as from that date, from Bs 1.915/US\$1 to Bs 2.14/US\$1 (purchase) and from Bs 1.92/US\$1 to Bs 2.15/US\$1 (sale).

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

<i>(In millions)</i>	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Equivalent in bolivars	US\$	Equivalent in bolivars	US\$
Assets				
Cash and due from banks	266	124	149	69
Investment securities, net	339	158	481	224
Loan portfolio	304	142	470	219
Interest and commissions receivable	13	6	12	6
Other assets	<u>32</u>	<u>15</u>	<u>5</u>	<u>2</u>
Total assets	<u>954</u>	<u>445</u>	<u>1.117</u>	<u>520</u>
Liabilities				
Deposits	156	73	107	50
Borrowings	2	1	90	42
Other liabilities from financial intermediation	52	24	96	45
Interest and commissions payable	-	-	1	-
Accruals and other liabilities	<u>32</u>	<u>15</u>	<u>37</u>	<u>17</u>
Total liabilities	<u>242</u>	<u>113</u>	<u>331</u>	<u>154</u>

The estimated effect of every Bs 0.1/US\$1 increase in the exchange rate of Bs 2.15/US\$1 at December 31, 2008 would be an increase in assets of Bs 44,500,000 and an increase in shareholders' equity of Bs 33,200,000.

At December 31, 2008, memorandum accounts include foreign currency sales commitments of US\$26,951,000 and Total Return Swaps with an economic value of US\$38,091,000 (foreign currency sales commitments of US\$41,536,000 and Total Return Swaps with an economic value of US\$64,427,000 at December 31, 2007).

During the year ended December 31, 2008, net exchange losses resulting from revaluation of monetary position in foreign currency amount to Bs 3,996,000 (net exchange gains of Bs 4,815,000 during the year ended December 31, 2007) (Notes 18 and 19).

At December 31, 2008, the Bank has a net monetary asset position in foreign currency of US\$291,112,000, equivalent to Bs 624,319,000 (US\$236,989,000, equivalent to Bs 508,249,000 at December 31, 2007), 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\$379,229,000 (US\$276,040,000 at December 31, 2007). 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, 2008 amount to approximately Bs 324,146,000 (Bs 163,816,000 at December 31, 2007).

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23. Memorandum Accounts

Memorandum accounts at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Contingent debtor accounts		
Letters of credit	335,094	405,890
Guarantees granted	338,889	311,997
Transactions with derivative instruments	1,905,836	388,427
Tourism loan commitments (Note 5)	37,045	111,945
Investments in securities under repurchase agreement	3,617	-
Other contingencies	<u>642,343</u>	<u>567,101</u>
	<u>3,262,824</u>	<u>1,785,360</u>
Assets received in trust	<u>7,563,325</u>	<u>6,652,634</u>
Other special trust services	<u>23,263</u>	<u>25,536</u>
Debtor accounts from other special trust services (Housing Mutual Fund)		
Cash and due from banks	-	858
Investment securities	-	188,765
Loan portfolio	-	1,117,554
Interest receivable	-	5,667
Available-for-sale assets	-	1,559
Other	<u>-</u>	<u>1,948</u>
	<u>-</u>	<u>1,316,351</u>
Other debtor accounts (Housing Mutual Fund)	<u>-</u>	<u>7,683</u>
Other debtor memorandum accounts		
Guarantees received	21,954,192	18,459,466
Unused lines of credit	5,389,420	3,922,530
Valuables received in custody	2,158,664	1,306,305
Collections	124,234	118,677
Consigned cash received from BCV (Bs)	-	1,011,533
Other control accounts	<u>8,077,754</u>	<u>5,934,918</u>
	<u>37,704,264</u>	<u>30,753,429</u>
Other debtor control accounts	<u>27,303</u>	<u>48,587</u>

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.

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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 0.50% 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, 2008 amounted to Bs 73,126,000 and Bs 64,922,000, respectively (Bs 32,421,000 and Bs 35,131,000, respectively, during the year ended December 31, 2007), 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 81,691,000 (Bs 138,172,000 at December 31, 2007). 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, 2008, the difference between the economic values of both securities resulted in a gain and loss for the Bank of Bs 24,448,000 and Bs 8,471,000, respectively, recorded under other interest income and expenses from other liabilities from financial intermediation, respectively (a gain of Bs 14,267,000 and a loss of Bs 22,864,000 for the year ended December 31, 2007).

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

	2008		2007	
	Thousands of bolivars	Maturity	Thousands of bolivars	Maturity
Non-hedging futures				
Contracts				
Securities				
Purchases	1,672,748	January and February 2009	162,911	January and June 2008
Sales	<u>151,397</u>	January and February 2009	<u>87,344</u>	January 2008
	<u>1,824,145</u>		<u>250,255</u>	
 Total Return Swap	 <u>81,691</u>	 November 2009 and May 2010	 <u>138,172</u>	 January 2008 and May 2010
	<u>1,905,836</u>		<u>388,427</u>	

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

	<u>2008</u>		<u>2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Services	1,776,079	97	248,271	99
Financial	<u>48,066</u>	<u>3</u>	<u>1,984</u>	<u>1</u>
	<u>1,824,145</u>	<u>100</u>	<u>250,255</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, 2008 and 2007 were 33% and 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 credit commitment obligations are the same as 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.

At December 31, 2008, in accordance with the Accounting Manual, the Bank has set aside general and specific provisions for contingent debtor accounts of Bs 4,897,000 (Bs 8,976,000 at December 31, 2007) (Note 14).

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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>(Thousands of bolivars)</i>	2008	2007
Assets		
Cash and due from banks (Note 10)	237,828	91,198
Investment securities	4,103,322	3,772,566
Loan portfolio	2,746,943	2,338,041
Interest and commissions receivable	54,753	35,180
Assets received for administration	5,127	4,727
Other assets	<u>415,352</u>	<u>410,922</u>
Total assets	<u><u>7,563,325</u></u>	<u><u>6,652,634</u></u>
Liabilities		
Fees and other accounts payable	20,540	4,600
Other liabilities	<u>804</u>	<u>7,091</u>
Total liabilities	21,344	11,691
Shareholders' equity	<u>7,541,981</u>	<u>6,640,943</u>
Total liabilities and shareholders' equity	<u><u>7,563,325</u></u>	<u><u>6,652,634</u></u>

Trust fund equity at December 31 is classified as follows:

<i>(Thousands of bolivars)</i>	2008	2007
Trust fund		
Employee termination benefits	4,742,367	3,869,906
Administration	1,868,797	1,778,439
Investment	313,321	410,314
Guarantee and custody	395,327	388,278
Savings fund	<u>222,169</u>	<u>194,006</u>
	<u><u>7,541,981</u></u>	<u><u>6,640,943</u></u>
Trust fund		
Private sector	4,305,423	3,835,797
Public sector	<u>3,236,558</u>	<u>2,805,146</u>
	<u><u>7,541,981</u></u>	<u><u>6,640,943</u></u>

At December 31, 2008, trust funds do not exceed five times the Bank's equity, in accordance with the General Law of Banks.

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

(Thousands of bolivars)	2008		2007	
	Book value	Fair value	Book value	Fair value
1) Debt securities issued by foreign private-sector companies				
Debt securities issued by foreign private-sector companies, with annual yield at between 1.10% and 3.21%, maturing between January and February 2009, and a par value of US\$12,805,000 (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, 2007)	27,432	27,446	41,272	41,258 (1)
2) Debt securities issued by Venezuelan private-sector companies				
Debt securities issued by Venezuelan private-sector companies, with annual yield at between 10% and 24%, maturing between January 2009 and December 2012, and a par value of Bs 986,730,000 (annual yield at between 4.32% and 14.15%, maturing between July 2007 and June 2011, and a par value of Bs 153,006,000 at December 31, 2007)	966,760	974,001	358,658	362,429 (1)
3) Securities issued or guaranteed by the Venezuelan government				
National Public Debt Bonds, with annual interest at between 12.06% and 17.56%, maturing between February 2009 and October 2020, and a par value of Bs 1,676,292,000 (annual interest at between 10.20% and 17.9%, maturing between January 2008 and October 2020, and a par value of Bs 1,790,950,000 at December 31, 2007)	1,623,363	1,608,981	1,828,716	1,780,995 (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\$124,993,000, payable in bolivars at the official exchange rate (reference par value of US\$144,178,000, payable in bolivars at the official exchange rate at December 31, 2007)	310,307	252,880	437,145	308,006 (1)
National Public Debt Bonds in foreign currency, with annual interest at between 5.06% and 9.25%, maturing between August 2010 and March 2028, and a par value of US\$135,702,000	273,105	173,699	16,837	16,769 (1)
Venezuelan Securities (TCC) in foreign currency issued by the Central Bank of Venezuela, maturing between December 2009 and December 2010, and a par value of US\$639,000 (maturing between December 2008 and 2012, and a par value of US\$963,000 at December 31, 2007)	1,370	1,346	2,069	2,066 (3)
	<u>2,208,145</u>	<u>2,036,906</u>	<u>2,284,767</u>	<u>2,107,836</u>
4) Debt securities issued by foreign public-sector agencies				
Debt securities issued and guaranteed by government agencies of the United States of America, with annual interest at between 1.15% and 1.88%, maturing between January and October 2009, and a par value of US\$12,780,000 (annual interest at between 3.37% and 8.13%, maturing between January and December 2008, and a par value of US\$22,807,921 at December 31, 2007)	27,308	27,372	47,065	47,345 (2)
Bonds issued by foreign public-sector agencies (governments in Europe, Latin America and Canada), with annual interest at between 6.88% and 7%, maturing between April 2009 and October 2015, and a par value of US\$767,000 (annual interest at between 3.75% and 9%, maturing between January 2008 and October 2015, and a par value of US\$24,524,367 at December 31, 2007)	1,656	1,840	53,740	53,124 (2)
	<u>28,964</u>	<u>29,212</u>	<u>100,805</u>	<u>100,469</u>
5) Investments issued by Venezuelan non-financial private-sector companies				
Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), 2,931,077 common shares with a par value of Bs 0.0369 each (2,863,037 common shares with a par value of Bs 0.0369 each at December 31, 2007)	-	-	17,700	7,054 (4)
Servicio Panamericano de Protección, C.A., 16,730,464 common shares with a par value of Bs 0.133 each	-	-	12,548	40,296 (5)
Automercados Plaza, C.A., 460,393 shares with a par value of Bs 1 each	-	-	460	8,145 (6)
Other	36	81,812	516	729
	<u>36</u>	<u>81,812</u>	<u>31,224</u>	<u>56,224</u>
6) Restricted investments				
Time deposits, with annual interest at between 1.10% and 3.15%, maturing in January 2009, and a par value of US\$108,028,000 (4.78% annual interest, maturing in January 2008, and a par value of US\$5,398,698 at December 31, 2007)	476,163	476,163	11,578	11,578 (2)
7) Mutual fund investments	8	8	669,378	656,536 (2)
8) Investments in Venezuelan banks and other financial institutions				
Time deposits, with annual interest at between 10% and 12%, maturing between July and September 2009 (annual interest at between 11.50% and 12%, maturing between January and February 2008 at December 31, 2007)	373,149	373,149 (3)	244,780	244,780 (3)
Subordinated debt	-	-	9,900	9,832 (1)
Other	4	48 (4)	224	4,633 (4)
	<u>373,153</u>	<u>373,197</u>	<u>254,904</u>	<u>259,245</u>
9) Other investments	22,661	67,600 (2)	19,980	19,849 (2)
	<u>4,103,322</u>	<u>4,066,345</u>	<u>3,772,566</u>	<u>3,615,424</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, 2006.
- (6) Equity value based on audited financial statements at January 31, 2007.

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At December 31, 2008, the market value of securities of the Bolivarian Republic of Venezuela issued and payable in U.S. dollars is lower than cost by Bs 99,406,000. The trust fund considers that this difference is temporary since it is related to, among other things, the current state of world financial markets and the recent high volatility of international oil prices which, in the opinion of management, do not significantly affect payment capabilities of the issuer. Therefore, this difference has not been recognized in the consolidated statement of income. In addition, the trust fund has the ability to hold these securities for a sufficient period of time to recover unrealized losses. At February 17, 2008, the book value of the aforementioned securities exceeds its market value by Bs 104,599,000.

Investments classified by maturity at December 31 are as follows:

<i>(Thousands of bolivars)</i>	2008		2007	
	Book value	Fair value	Book value	Fair value
Up to six months	1,473,554	1,470,476	1,389,517	1,375,574
Six months to one year	394,663	373,532	695,460	688,968
One to five years	1,680,660	1,684,034	1,161,441	1,124,254
Over five years	550,699	452,776	486,964	357,997
No fixed maturity	3,746	85,528	39,184	68,631
	<u>4,103,322</u>	<u>4,066,346</u>	<u>3,772,566</u>	<u>3,615,424</u>

Investment securities at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	2008	2007
Non-directed	2,969,329	2,657,446
Directed	<u>1,133,993</u>	<u>1,115,120</u>
	<u>4,103,322</u>	<u>3,772,566</u>

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

<i>(Thousands of bolivars)</i>	2008		2007	
	Directed	Non-directed	Directed	Non-directed
Investments in foreign private-sector companies	30,571	28,236	791,008	42,994
Deposits with other Venezuelan banks	337,815	35,334	244,780	-
Securities issued or guaranteed by the Venezuelan government	276,662	1,931,483	36,265	2,245,894
Investments in Venezuelan private-sector companies	87,318	968,627	31,489	368,558
Deposits with other foreign banks	<u>401,627</u>	<u>5,649</u>	<u>11,578</u>	-
	<u>1,133,993</u>	<u>2,969,329</u>	<u>1,115,120</u>	<u>2,657,446</u>

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 an annual commission on the portfolio. During the year ended December 31, 2008, the Bank paid MSI approximately Bs 3,594 million in this connection (Bs 3,944 million during the year ended December 31, 2007).

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Based on internal procedures of the Central Bank of 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>(Thousands of bolivars)</i>	2008	2007
Loans to beneficiaries of employee termination benefits	2,642,135	2,234,036
Mortgage loans	92,748	59,689
Company loans	10,970	42,970
Loans to government agencies	1,089	1,247
Other	<u>-</u>	<u>99</u>
	<u>2,746,942</u>	<u>2,338,041</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, 2008, loans to beneficiaries of employee termination benefit trust funds include Bs 261,625,000 and Bs 9,185,000 in respect of loans granted to the Bank and Mercantil Seguros, C.A. employees, respectively, on employee termination benefit balances (Bs 195,074,000 and Bs 6,217,000 at December 31, 2007).

At December 31, 2008, mortgage loans include approximately Bs 19,158,000 (Bs 22,868,000 at December 31, 2007) 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 53,920,000 (Bs 36,821,000 at December 31, 2007) in respect of mortgage loans to beneficiaries of employee termination benefit trust funds.

At December 31, 2008, company loans include Bs 10,000,000 (Bs 42,000,000 at December 31, 2007) in respect of loans granted by the trust fund using resources from public-sector trust funds maturing in 180 days with 25% annual interest (maturing between 90 and 330 days with annual interest at between 20% and 28% at December 31, 2007).

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 termination benefit contracts of employees of the Bank and Mercantil Seguros, C.A. amounting to Bs 322,369,000 and Bs 16,569,000, respectively, at December 31, 2008 (Bs 240,383,000 and Bs 10,801,000, respectively, at December 31, 2007).

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.

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

The Venezuelan Housing Policy Law appointed Banco Nacional de la Vivienda y Hábitat (BANAVIH) as the sole administrator of public and private funds to finance housing. Therefore, the financial institutions regulated by the General Law of Banks and Other Financial Institutions shall only act as financial operators, that is, they shall collect contributions made to the Mandatory Housing Savings Fund and pay them to the sole administrator, and grant loans after the required financial resources have been approved. The Superintendency of Banks instructed financial institutions to write out of its memorandum accounts as from April 1, 2008 assets, liabilities and results associated with resources of the Mandatory Housing Savings Fund.

The Venezuelan Housing Law became effective in May 2005. As a result, BANAVIH was created to assume, according to the Venezuelan Social Security Law, BANAP's activities and responsibilities. On June 1, 2005, BANAVIH transferred approximately Bs 98,956,000 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. During the year ended December 31, 2008, the Bank recorded income of Bs 20,906,000 (Bs 21,805,000 during the year ended December 31, 2007), in respect of fiduciary commission collected from BANAVIH for managing funds for Mandatory Housing Fund activities (Note 18).

d) Other debtor accounts

Other control accounts are mainly in respect of electronic securities and guarantees. At December 31, 2008, these accounts also include approximately US\$105,114,100, equivalent to Bs 225 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\$134,639,606, equivalent to Bs 288 million at December 31, 2007).

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.

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

a) Balance Sheet

<i>(Thousands of bolivars)</i>	December 31, 2008	December 31, 2007
Cash and due from banks	<u>179,317</u>	<u>66,096</u>
Mercantil Commercebank, N.A.	178,710	65,881
Mercantil Bank (Panamá), S.A.	561	36
Mercantil Bank (Schweiz) A.G.	46	47
Mercantil Bank Curacao, N.V.	-	132
Investment securities	<u>117,403</u>	<u>96,626</u>
Short-term investments (Note 4)		
Mercantil Bank (Panamá), S.A.	1,707	2,116
Mercantil Commercebank, N.A.	54	10,136
Investments in shares		
Inversiones y Valores Mercantil VI, C.A.	86,794	61,428
Mercantil Merinvest, C.A.	23,169	18,088
Inversiones Platco, C.A.	3,510	3,000
Proyectos Conexus, C.A. (Note 6)	2,169	1,858
Other assets	<u>52,366</u>	<u>8,857</u>
Mercantil Servicios Financieros, C.A. (Note 9) (valuation of derivatives, see other liabilities)	32,262	5,206
Fideicomiso Mercantil Banco Universal	19,827	3,313
Mercantil Commercebank, N.A. (interest receivable)	208	208
Todo 1 Services Inc.	66	21
Mercantil Bank (Panamá), S.A.	2	-
Mercantil Seguros, C.A.	1	1
BMC Bank & Trust Ltd.	-	3
Mercantil Merinvest, C.A.	-	105
Total assets	<u>349,086</u>	<u>171,579</u>

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<i>(Thousands of bolivars)</i>	December 31, 2008	December 31, 2007
Deposits	<u>203,860</u>	<u>254,204</u>
Checking accounts	<u>56,282</u>	<u>114,641</u>
Non-interest bearing checking accounts	<u>56,218</u>	<u>41,434</u>
Mercantil Seguros, C.A.	16,431	16,480
Servicio Panamericano de Protección, C.A.	16,341	7,103
Cestaticket Accor Services, C.A.	10,604	11,537
Mercantil Financiadora de Primas, C.A.	5,105	3,806
Fundación Mercantil	2,379	100
Mercantil Sociedad Administradora de Entidades de Inversión Colectiva, C.A.	1,412	97
Innovex, C.A.	932	752
Mercantil Inversiones y Valores, C.A.	683	55
Mercantil Merinvest Casa de Bolsa, C.A.	405	433
Mercantil Merinvest, C.A.	362	617
Inversiones y Valores Mercantil VI, C.A.	208	-
Mercantil Servicios de Inversión, C.A.	131	85
Mercantil Servicios Financieros, C.A.	131	10
Fundación BMA	93	82
Servibien, C.A.	61	37
Promotora W 2005, C.A.	-	22
Mercantil Promotora de Valores 2005 IV, C.A.	-	3
Mercantil Promotora de Valores 2005 III, C.A.	-	3
Other	940	212
Interest-bearing checking accounts	<u>64</u>	<u>73,207</u>
Fideicomiso Mercantil Banco Universal	-	73,148
Fundación BMA	64	59
Savings accounts	<u>20,664</u>	<u>3,174</u>
Fundación BMA	19,045	1,455
Fundación Mercantil	1,619	1,719
Time deposits	<u>126,914</u>	<u>136,389</u>
Fundación BMA	59,399	95,162
Mercantil Promotora de Valores 2005 IV, C.A.	40,050	-
Mercantil Seguros, C.A.	9,000	12,082
Servicio Panamericano de Protección, C.A.	9,000	5,000
Mercantil Servicios Financieros, C.A.	6,500	21,081
Mercantil Inversiones y Valores, C.A.	2,645	768
Servibien, C.A.	100	-
Promotora W 2005, C.A.	-	43
Fundación Mercantil	-	1,000
Other	220	1,253
Borrowings	<u>8,108</u>	<u>16,843</u>
Mercantil Commercebank, N.A.	8,108	-
Mercantil Bank Curacao, N.V.	-	16,843
Other liabilities from financial intermediation	<u>2,223</u>	<u>3,382</u>
Mercantil Servicios Financieros, C.A.	2,223	3,382

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<i>(Thousands of bolivars)</i>	December 31, 2008	December 31, 2007
Other liabilities	<u>458,571</u>	<u>5,490</u>
Cestaticket Accor Services, C.A.	425,283	-
Mercantil Servicios Financieros, C.A. (valuation of derivatives, see other assets) (Note 14)	33,047	5,206
Fundación Mercantil	134	46
Fundación BMA	61	-
Mercantil Seguros, C.A.	44	-
Mercantil Bank Curacao, N.V.	-	236
Other	<u>2</u>	<u>2</u>
Total liabilities	<u>672,762</u>	<u>279,919</u>

b) Statement of Income

<i>(Thousands of bolivars)</i>	December 31, 2008	December 31, 2007
Interest income	<u>14,894</u>	<u>23,314</u>
Income from cash and due from Banks	<u>1,287</u>	<u>876</u>
Mercantil Commercebank, N.A.	1,203	753
Mercantil Bank (Panamá), S.A.	84	123
Income from investment securities	-	<u>41</u>
Mercantil Bank (Panamá), S.A.	-	41
Other interest income	<u>13,607</u>	<u>22,397</u>
Mercantil Servicios Financieros, C.A.	12,964	22,075
Mercantil Commercebank, N.A.	643	322
Interest expense	<u>28,402</u>	<u>17,367</u>
Mercantil Servicios Financieros, C.A.	25,437	16,046
Mercantil Promotora de Valores 2005 IV, C.A.	1,159	-
Mercantil Bank Curacao, N.V.	529	558
Fundación Mercantil	235	-
Mercantil Inversiones y Valores, C.A.	453	-
Fundación BMA	560	-
Mercantil Merinvest, C.A.	24	5
Holding Mercantil Internacional, C.A.	5	-
Other	-	758
Operating income	<u>166,467</u>	<u>39,654</u>
Mercantil Inversiones y Valores, C.A.	22,666	-
Fideicomiso Mercantil Banco Universal	39,926	16,161
Mercantil Servicios Financieros, C.A.	57,712	491
Inversiones y Valores Mercantil VI, C.A.	25,132	10,397
Mercantil Merinvest, C.A.	7,455	867
Mercantil Seguros, C.A.	11,318	10,496
Mercantil Financiadora de Primas, C.A.	1,692	-
Proyecto Conexus, C.A.	405	451
Todo 1 Service, Inc.	161	-
Mercantil Promotora de Valores 2005 IV, C.A.	-	<u>791</u>
Operating expenses	<u>10,070</u>	<u>3,028</u>
Mercantil Bank (Panamá), S.A.	2,790	788
Mercantil Commercebank, N.A.	2,576	1,495
Mercantil Inversiones y Valores, C.A.	3,130	-
Mercantil Bank Curacao, N.V.	982	498
Mercantil Services Corporation	521	247
Todo 1 Service, Inc.	71	-
Extraordinary expenses	<u>6,985</u>	<u>9,387</u>
Fundación Mercantil (Note 25)	6,985	9,387

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c) Memorandum Accounts

<i>(Thousands of bolivars)</i>	December 31, 2008	December 31, 2007
Memorandum accounts	<u>507,204</u>	<u>138,172</u>
Derivative financial instruments		
Cestaticket Accor Services, C.A.	425,513	-
Mercantil Servicios Financieros, C.A.	81,691	138,172

d) Trust Fund

<i>(Thousands of bolivars)</i>	December 31, 2008	December 31, 2007
Cash and due from banks	<u>237,445</u>	<u>73,180</u>
Mercantil, C.A. Banco Universal	237,434	73,148
Mercantil Commercebank, N.A.	11	32
Investment securities	<u>2,156</u>	<u>12,772</u>
Mercantil Commercebank, N.A.	2,152	-
Mercantil Servicios Financieros, C.A.	4	224
Servicio Panamericano de Protección, C.A.	-	12,548
Other assets		
Mercantil Bank Curacao, N.V.	-	<u>25,969</u>
Total assets	<u>239,601</u>	<u>111,921</u>
Fees payable		
Mercantil, C.A. Banco Universal	<u>19,827</u>	<u>3,313</u>
Total liabilities	<u>19,827</u>	<u>3,313</u>

e) Transactions

The Bank's 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, 2008 and 2007, the Branch in Curacao assigned US\$1 million in participations in loans sold to related banks. At December 31, 2008 and 2007, the Branch had US\$63,000 and US\$42,000, 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.

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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, 2008, the trust fund conducted purchases and sales of securities through Merinvest, resulting in a gain of Bs 5,717,000 (loss of Bs 673,000 during the year ended December 31, 2007).

At December 31, 2008, the trust fund has investments of approximately Bs 510,089,000 (US\$237,337,000) in respect of directed trust funds in Mercantil Commercebank, N.A. and approximately Bs 19,000 (Bs 224,000 at December 31, 2007) in Mercantil Servicios Financieros, C.A.

At December 31, 2008 and 2007, 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 interest income. During the year ended December 31, 2008, the Bank recorded income of Bs 39,946,000 and has Bs 19,827,000 receivable in respect of these commissions (Bs 32,772,000 and Bs 3,313,000, respectively, at December 31, 2007).

At December 31, 2008, other operating income includes Bs 4,877,000 in respect of the Customer Service Call Center (CAM) provided to Mercantil Seguros, C.A. (Bs 6,062,000 during the year ended December 31, 2007). In addition, other operating income includes Bs 6,441,000 in respect of commissions from the sale of Mercantil Seguros, C.A. products (Bs 4,434,000 during the year ended December 31, 2007).

At December 31, 2008, the trust fund maintains investment portfolios in foreign currency at Mercantil Bank & Trust Limited (Cayman) of Bs 694,981,000 (Bs 739,258,000 at December 31, 2007).

During the year ended December 31, 2008, 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 828,027,000 and Bs 571,286,000, respectively (Bs 7,208,084,000 and Bs 6,928,771,000, respectively, during the year ended December 31, 2007), resulting in net losses of Bs 5,086,384 (net losses of Bs 31,089,000 during the year ended December 31, 2007), 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.

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25. Fundación Mercantil

The Bank sponsors “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, 2008 of Bs 6,974,000 (Bs 9,387,000 during the year ended December 31, 2007), shown under extraordinary expenses.

26. Maturity of Financial Assets and Liabilities

Financial assets and liabilities at December 31, 2008 are classified according to maturity as follows:

<i>(Thousands of bolivars)</i>	June 30, 2009	December 31, 2009	June 30, 2010	December 31, 2010	June 30, 2011	December 31, 2011	June 30, 2012	December 31, 2012	Beyond 2013	Total
Assets										
Cash and due from banks	7,390,087	-	-	-	-	-	-	-	-	7,390,087
Investment securities	5,147,892	218,381	199,392	118,732	28,168	3,032	31,497	496	473,239	6,220,829
Loan portfolio	9,397,899	548,964	431,697	988,021	600,167	911,654	446,526	691,199	1,784,565	15,800,692
Interest and commissions receivable	<u>255,311</u>	-	-	-	-	-	-	-	-	<u>255,311</u>
Total financial assets	<u>22,191,189</u>	<u>767,345</u>	<u>631,089</u>	<u>1,106,753</u>	<u>628,335</u>	<u>914,686</u>	<u>478,023</u>	<u>691,695</u>	<u>2,257,804</u>	<u>29,666,919</u>
Liabilities										
Deposits	24,802,028	2,732	105	-	-	-	-	-	-	24,804,865
Liabilities to BANAVIH	2,312	-	-	-	-	-	-	-	-	2,312
Borrowings	99,393	392	364	308	-	47	7	-	-	100,511
Other liabilities from financial intermediation	71,462	-	-	-	-	-	-	-	-	71,462
Interest and commissions payable	<u>19,363</u>	-	-	-	-	-	-	-	-	<u>19,363</u>
Total financial liabilities	<u>24,994,558</u>	<u>3,124</u>	<u>469</u>	<u>308</u>	<u>-</u>	<u>47</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>24,998,513</u>

27. Fair Value of Financial Instruments

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

<i>(Thousands of bolivars)</i>	2008		2007	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and due from banks	7,390,079	7,390,079	6,089,114	6,089,114
Investment securities	6,220,556	6,207,836	3,608,182	3,604,013
Loan portfolio, net of allowance	15,338,403	15,338,403	12,432,519	12,432,519
Interest and commissions receivable, net of allowance	<u>243,124</u>	<u>243,124</u>	<u>163,591</u>	<u>163,591</u>
	<u>29,192,162</u>	<u>29,179,442</u>	<u>22,293,406</u>	<u>22,289,237</u>

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<i>(Thousands of bolivars)</i>	2008		2007	
	Book value	Fair value	Book value	Fair value
Liabilities				
Deposits	24,804,865	24,804,865	19,757,310	19,757,310
Deposits and liabilities with BANAVIH	2,312	2,312	1,983	1,983
Borrowings	100,511	100,511	200,003	200,003
Other liabilities from financial intermediation	71,463	71,463	99,839	99,839
Interest and commissions payable	<u>19,363</u>	<u>19,363</u>	<u>17,963</u>	<u>17,963</u>
	<u>24,998,514</u>	<u>24,998,514</u>	<u>20,077,098</u>	<u>20,077,098</u>
Memorandum accounts				
Contingent debtor accounts	<u>3,262,824</u>	<u>3,262,824</u>	<u>1,785,359</u>	<u>1,785,539</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>(Thousands of bolivars)</i>	2008	2007
Unused lines of credit	5,389,420	3,922,530
Guarantees granted	338,889	311,997
Letters of credit issued but not negotiated (standby)	310,303	315,843
Letters of credit confirmed but not negotiated	24,790	90,047
Other contingencies	<u>642,343</u>	<u>567,101</u>
	<u>6,705,745</u>	<u>5,207,518</u>

The fair value of a financial instrument is defined as the amount for which it could be exchanged between two knowledgeable, willing parties, other than in a forced transaction, involuntary liquidation or distress sale. Fair values for financial instruments with no available quoted market prices have been estimated using the present value of future cash flows of these financial instruments, 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.

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.

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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.

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29. Supplementary Information - Consolidated Financial Statements Adjusted for the Effects of Inflation

Below are the consolidated financial statements of Mercantil, C.A. Banco Universal, expressed in constant bolivars, as supplementary information:

Supplementary Consolidated Balance Sheet
December 31, 2008 and 2007

*(Thousands of constant bolivars
at December 31, 2008)*

	2008	2007 (•)
Assets		
Cash and due from banks	7,390,079	8,031,287
Investment securities	6,224,823	4,659,455
Loan portfolio	15,338,403	16,397,975
Interest and commissions receivable	243,124	215,771
Investments in affiliates	264,422	132,451
Available-for-sale assets	952	33
Property and equipment	729,919	783,136
Other assets	<u>904,024</u>	<u>880,491</u>
Total assets	<u>31,095,746</u>	<u>31,100,599</u>
Liabilities and Shareholders' Equity		
Deposits	24,804,865	25,956,828
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat	2,312	2,616
Borrowings	100,511	263,796
Other liabilities from financial intermediation	71,463	131,683
Interest and commissions payable	19,363	23,692
Accruals and other liabilities	<u>2,469,756</u>	<u>1,083,687</u>
Total liabilities	<u>27,468,270</u>	<u>27,462,302</u>
Shareholders' equity		
Capital stock	268,060	268,060
Capital inflation adjustment	2,394,058	2,394,058
Contributions pending capitalization	163,904	163,904
Capital reserves	1,091,897	1,003,951
Retained earnings	1,218,500	1,286,791
Unrealized loss on available-for-sale investments	(40,967)	(10,491)
Initial cumulative result from exposure to inflation	<u>(1,467,976)</u>	<u>(1,467,976)</u>
Total shareholders' equity	<u>3,627,476</u>	<u>3,638,297</u>
Total liabilities and shareholders' equity	<u>31,095,746</u>	<u>31,100,599</u>

(•) Amounts expressed in the new currency unit

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Supplementary Consolidated Statement of Income
Years ended December 31, 2008 and 2007

*(Thousands of constant bolivars
at December 31, 2008)*

	2008	2007 (•)
Interest income	4,128,096	3,298,594
Interest expense	(1,603,514)	(1,005,459)
Gross financial margin	<u>2,524,582</u>	<u>2,293,135</u>
Income from financial assets recovered	47,594	54,034
Expenses from uncollectible accounts and write-down of financial assets	<u>(341,838)</u>	<u>(132,018)</u>
Net financial margin	<u>2,230,338</u>	<u>2,215,151</u>
Other operating income	787,481	874,456
Other operating expenses	<u>(219,046)</u>	<u>(234,345)</u>
Financial intermediation margin	<u>2,798,773</u>	<u>2,855,262</u>
Operating expenses	<u>(1,914,771)</u>	<u>(1,935,658)</u>
Gross operating margin	<u>884,002</u>	<u>919,604</u>
Income from available-for-sale assets	9,335	10,104
Sundry operating income	152,806	73,802
Expenses from available-for-sale assets	(4,100)	(626)
Expenses from depreciation, amortization and write-down of sundry assets	-	(1,631)
Sundry operating expenses	<u>(115,481)</u>	<u>(109,067)</u>
Net operating margin	<u>926,562</u>	<u>892,186</u>
Extraordinary income	-	16
Extraordinary expenses	<u>(67,877)</u>	<u>(57,978)</u>
Gross income before tax and loss from net monetary position	858,685	834,224
Income tax	(58,549)	(161,430)
Loss from net monetary position	<u>(590,981)</u>	<u>(387,507)</u>
Net income	<u>209,155</u>	<u>285,287</u>
Appropriation of net income	<u>209,155</u>	<u>285,287</u>
Legal reserve	87,946	41,004
Retained earnings	121,209	244,283

(•) Amounts expressed in the new currency unit

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Supplementary Consolidated Statement of Shareholders' Equity
Years ended December 31, 2008 and 2007

<i>(Thousands of constant bolivars at December 31, 2008)</i>	Capital stock	Inflation adjustment	Contributions pending capitalization	Capital reserves	Retained earnings		Unrealized gain (loss) on available- for-sale investments	Initial cumulative result from exposure to inflation	Total shareholders' equity
					Restricted surplus	Unappropriated surplus			
Balances at December 31, 2006 (*)	134,112	2,332,907	163,904	962,947	767,542	393,882	14,236	(1,467,976)	3,301,554
Net income	-	-	-	-	-	285,287	-	-	285,287
Cash dividends	-	-	-	-	-	(118,916)	-	-	(118,916)
Capital increase	133,948	61,151	-	-	-	-	-	-	195,099
Appropriation to legal reserve	-	-	-	41,004	-	(41,004)	-	-	-
Adjustment of available-for-sale investments to market value	-	-	-	-	-	-	(24,345)	-	(24,345)
Restricted equity surplus in subsidiaries and affiliates	-	-	-	-	129,743	(129,743)	-	-	-
Reclassification of 50% of net income for the year to restricted surplus	-	-	-	-	121,518	(121,518)	-	-	-
Release of restricted surplus	-	-	-	-	(3,880)	3,880	-	-	-
Unrealized monetary loss	-	-	-	-	-	-	(382)	-	(382)
Balances at December 31, 2007 (*)	268,060	2,394,058	163,904	1,003,951	1,014,923	271,868	(10,491)	(1,467,976)	3,638,297
Net income	-	-	-	-	-	209,155	-	-	209,155
Cash dividends	-	-	-	-	-	(189,500)	-	-	(189,500)
Appropriation to legal reserve	-	-	-	87,946	-	(87,946)	-	-	-
Adjustment of available-for-sale investments to market value	-	-	-	-	-	-	(35,682)	-	(35,682)
Restricted equity surplus in subsidiaries and affiliates	-	-	-	-	8,047	(8,047)	-	-	-
Reclassification of 50% of net income for the year to restricted surplus	-	-	-	-	(56,581)	56,581	-	-	-
Release of restricted surplus	-	-	-	-	(2,623)	2,623	-	-	-
Unrealized monetary gain	-	-	-	-	-	-	5,206	-	5,206
Balances at December 31, 2008	<u>268,060</u>	<u>2,394,058</u>	<u>163,904</u>	<u>1,091,897</u>	<u>963,766</u>	<u>254,734</u>	<u>(40,967)</u>	<u>(1,467,976)</u>	<u>3,627,476</u>

(*) Amounts expressed in the new currency unit

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Supplementary Consolidated Statement of Cash Flows
Years ended December 31, 2008 and 2007

*(Thousands of constant bolivars
at December 31, 2008)*

	2008	2007 (•)
Cash flows from operating activities		
Net income	209,155	285,287
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Equity in affiliates	37,308	(6,891)
Allowance for losses on loan portfolio and contingent debtor accounts	336,664	130,711
Write-off of uncollectible accounts	(111,858)	(56,466)
Allowance for interest receivable	3,251	-
Provision for cash and due from banks	644	328
Provision for investment securities	(78)	9
Provision for other accounts receivable	944	973
Provision for other assets	13,700	13,963
Deferred income tax	(67,127)	(28,835)
Other provisions	215,230	250,477
Depreciation	112,555	101,028
Amortization of deferred expenses and goodwill	106,432	77,539
Amortization of available-for-sale assets	4,100	340
Accrual for employee termination benefits	99,277	98,069
Payment of employee termination benefits	(100,805)	(98,679)
Net change in		
Deposits with the Central Bank of Venezuela (BCV) and overnight deposits	(2,841,716)	881,271
Interest and commissions receivable	(30,604)	(25,520)
Other assets	(70,702)	(135,928)
Debit to the provision for other assets	(7,424)	(1,212)
Interest and commissions payable	(4,329)	6,673
Accruals and other liabilities	<u>1,172,367</u>	<u>(70,893)</u>
Net cash provided by (used in) operating activities	<u>(923,016)</u>	<u>1,422,244</u>
Cash flows from financing activities		
Net change in		
Deposits	(1,151,963)	2,238,754
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat	(304)	2,005
Borrowings	(163,285)	114,375
Other liabilities from financial intermediation	(60,220)	(57,767)
Capital increase	-	195,099
Dividends paid	<u>(189,500)</u>	<u>(118,916)</u>
Net cash provided by (used in) financing activities	<u>(1,565,272)</u>	<u>2,373,550</u>
Cash flows from investing activities		
Loans granted during the year	(23,429,855)	(30,396,529)
Loans collected during the year	24,264,621	27,830,237
Net change in		
Trading securities	31,058	(31,058)
Available-for-sale investments	337,237	906,392
Held-to-maturity investments	829,229	(244,090)
Restricted investments	48,426	62,390
Investments in affiliates	(169,279)	(11,978)
Available-for-sale assets	(5,019)	4,455
Property and equipment	<u>(59,338)</u>	<u>(113,001)</u>
Net cash provided by (used in) investing activities	<u>1,847,080</u>	<u>(1,993,182)</u>
Cash and cash equivalents		
Net change	(641,208)	1,802,612
At the beginning of the year	<u>8,031,287</u>	<u>6,228,675</u>
At the end of the year	<u>7,390,079</u>	<u>8,031,287</u>

(•) Amounts expressed in the new currency unit

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	2008	2007 (•)
Adjustment of available-for-sale investments to market value	<u>(30,476)</u>	<u>(24,727)</u>
Taxes paid	<u>98,195</u>	<u>68,755</u>
Interest paid	<u>2,309,866</u>	<u>967,342</u>
Income from transactions with derivative financial instruments	<u>34,478</u>	<u>6,055</u>
Reclassification of		
Allowance for losses on loan portfolio to allowance for interest and commissions receivable	<u>(3,800)</u>	<u>-</u>
Provision for contingent debtor accounts to allowance for losses on loan portfolio	<u>1,667</u>	<u>3,302</u>

(•) Amounts expressed in the new currency unit

In April 2008, the Venezuelan Federation of Public Accountants (FCCPV) approved the adoption of Venezuelan Financial Reporting Standards (VEN-NIF) as the accounting principles of mandatory application in Venezuela as from January 1, 2008. These standards are mainly based on International Financial Reporting Standards issued by the International Accounting Standards Board, except for certain criteria concerning adjustments for inflation, among others.

Supplementary financial statements adjusted for the effects of inflation using the General Price Level (GPL) method have been provided in order to present the consolidated financial statements in currency of uniform purchasing power to take account of changes in the Consumer Price Index (CPI) for the Metropolitan Area of Caracas published by BCV. Consequently, the accompanying supplementary financial statements do not purport to reflect market or realizable values of nonmonetary assets, which will normally differ from amounts adjusted on the basis of the CPI.

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

Inflation rate

The inflation rate for the year ended December 31, 2008, was 31.9% (13.64% for the year ended December 31, 2007).

Monetary assets and liabilities and result from monetary position

Monetary assets and liabilities at December 31, 2008, 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, 2007 have been adjusted for the effects of inflation and are expressed in terms of purchasing power at December 31, 2008. The result from monetary position reflects the loss or gain resulting from maintaining a net monetary asset or net monetary liability position during an inflationary period and is shown in the consolidated statement of income under loss from net monetary position.

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Analysis of consolidated monetary result

An analysis of the consolidated monetary result is provided below:

*(Thousands of constant bolivars
at December 31, 2008)*

	2008	2007
Net monetary asset position at the beginning of the year	<u>2,047,267</u>	<u>1,785,339</u>
Transactions that increased net monetary asset position		
Income	5,125,312	4,311,006
Deferred income tax	215,230	28,835
Realization of deferred credits	2,244	7,119
Capital increase	-	195,099
Disposal of available-for-sale assets, net	-	4,556
Net change in investment securities	<u>14,592</u>	<u>-</u>
Subtotal	<u>5,357,378</u>	<u>4,546,615</u>
Transactions that decreased net monetary asset position		
Expenses	(4,253,488)	(3,488,761)
Cash dividends	(189,500)	(118,916)
Additions to property and equipment, net	(59,383)	(113,001)
Net change in investment securities	-	(19,494)
Net change in other assets	(64,795)	(113,792)
Net change in investments in affiliates	(131,971)	(18,871)
Additions to available-for-sale assets, net	(5,019)	-
Unrealized gain (loss) on available-for-sale investments	<u>(35,682)</u>	<u>(24,345)</u>
Subtotal	<u>(4,739,838)</u>	<u>(3,897,180)</u>
Estimated net monetary asset position	2,664,807	2,434,774
Net monetary asset position at the end of the year	<u>(2,073,826)</u>	<u>(2,047,267)</u>
Loss from net monetary position	<u>590,981</u>	<u>387,507</u>

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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, 2008. Dividends are stated in constant currency based on the date they were paid.

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.

Below is a breakdown of items containing nonmonetary balances:

a) Investment securities

	<u>December 31, 2008</u>			<u>December 31, 2007</u>		
	Cost	Unrealized gain (loss)	Book value (equivalent to market value)	Cost	Unrealized gain (loss)	Book value (equivalent to market value)
<i>(Thousands of constant bolivars at December 31, 2008)</i>						
Investments in available-for-sale securities						
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	761,817	(63,622)	698,195	956,586	(2,397)	954,189
Investments in non-financial companies						
MasterCard	534	1,147	1,681	2,196	10,091	12,287
Superoctanos, C.A.	4,733	-	4,733	4,733	-	4,733
Caja Venezolana de Valores, C.A.	2,945	520	3,465	2,349	928	3,277
Compañía Anónima Nacional Teléfonos de Venezuela (CANTV)	-	-	-	15	(10)	5
Other	434	584	1,018	78	-	78
	<u>8,646</u>	<u>2,251</u>	<u>10,897</u>	<u>9,371</u>	<u>11,009</u>	<u>20,380</u>
	<u>770,463</u>	<u>(61,371)</u>	<u>709,092</u>	<u>965,957</u>	<u>8,612</u>	<u>974,569</u>

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<i>(Thousands of constant bolivars at December 31, 2008)</i>	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Cost	Book Value	Cost	Book value
Deposits with the Central Bank of Venezuela and overnight deposits	<u>5,292,706</u>	<u>5,292,706</u>	<u>2,553,230</u>	<u>2,553,230</u>
Investments in trading securities	<u>-</u>	<u>-</u>	<u>31,058</u>	<u>31,058</u>
Investments in held-to-maturity securities	<u>156,684</u>	<u>151,282</u>	<u>973,060</u>	<u>980,511</u>
Restricted investments	<u>51,854</u>	<u>76,765</u>	<u>125,126</u>	<u>125,191</u>
Provision for investment securities	<u>(5,022)</u>	<u>(5,022)</u>	<u>(5,100)</u>	<u>(5,100)</u>

b) Property and equipment

<i>(Thousands of constant bolivars at December 31, 2008)</i>	<u>December 31,</u>	
	2008	2007
Buildings and facilities	934,285	900,293
Furniture and equipment	755,829	688,722
Work in progress	40,845	78,680
Land	10,630	10,630
Other assets	45,774	44,873
Accumulated depreciation	<u>(1,057,444)</u>	<u>(940,062)</u>
	<u>729,919</u>	<u>783,136</u>

The net restated value of property and equipment at December 31, 2008 includes Bs 505,760,452 (Bs 506,045,000 at December 31, 2007) in respect of real property used as Bank premises. The net historic cost of this property is Bs 80,198,000 (Bs 79,984,000 at December 31, 2007), while the market value is Bs 669,715,000, based on valuations made by independent appraisers in December 2005.

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c) Other assets

*(Thousands of constant bolivars
at December 31, 2008)*

	<u>December 31,</u>	
	2008	2007
Goodwill on acquisition of shareholding in Interbank, C.A. (Banco Universal), net of accumulated amortization of Bs 263,013,000 (Bs 232,912,000 at December 31, 2007)	369,481	418,675
Goodwill on acquisition of shareholding in Inversiones y Valores Mercantil VI, C.A., net of accumulated amortization of Bs 10,944,000 (Bs 8,279,000 at December 31, 2007)	25,852	28,517
Goodwill on acquisition of shareholding in Mercantil Merinvest, C.A., net of accumulated amortization of Bs 2,753,000 (Bs 2,137,000 at December 31, 2007)	6,746	7,363
Deferred expenses, net of accumulated amortization of Bs 221,147,000 (Bs 191,145,000 at December 31, 2007)	128,623	131,390
Software, net of accumulated amortization of approximately Bs 284,373,000 (Bs 267,603,000 at December 31, 2007)	39,716	40,331
Deferred income tax	71,570	13,740
Prepaid taxes	64,594	55,318
Other items from operations with derivative financial instruments	34,478	7,847
Other accounts receivable	30,803	30,909
Pending items and main office, branches and agencies	28,854	60,932
Prepaid advertising	24,677	27,553
Rights on shopping mall premises	22,089	22,089
Advances to suppliers	18,741	16,593
Insurance and other prepaid expenses	14,760	20,879
Stationery and office supplies	12,481	3,227
Advances and guarantee deposits	10,699	4,045
Currency redenomination expenses, net of accumulated amortization of Bs 6,219,000 (Note 1)	9,539	-
Accounts receivable from other credit card-issuing institutions	7,942	9,970
Other	943	1,757
Provision for other assets	<u>(18,564)</u>	<u>(20,644)</u>
	<u>904,024</u>	<u>880,491</u>

d) Accruals and other liabilities

*(Thousands of constant bolivars
at December 31, 2008)*

	<u>December 31,</u>	
	2008	2007
Direct financial liabilities	1,704,803	233,767
Suppliers and other accounts payable	162,906	149,775
Provision for contingencies and other	127,756	146,037
Taxes	108,182	159,569
Deferred income		
Deferred interest	75,293	42,564
Deferred income from rights, asset's sales and other	6,051	8,497
Deferred income from loan portfolio	16,485	-
Other deferred income	2,984	3,359
Collected and withheld taxes	95,681	124,342
Employee profit sharing and bonuses	73,885	81,564
Provision for operating risks	49,940	64,486
Labor contributions	18,941	14,548
Pending items and main office, branches and agencies	13,768	32,591
Law on Narcotic and Psychotropic Substances	8,957	11,323
Provision for Supplementary Savings Plan	4,124	5,329
Provision for the Law for the Advancement of Science, Technology and Innovation	-	5,936
	<u>2,469,756</u>	<u>1,083,687</u>