

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, 2010 and 2009**

Mercantil, C.A. Banco Universal and its Subsidiaries
Index to the consolidated financial statements
December 31, 2010 and 2009

	Pages
I - Report of independent accountants	1-2
II - Consolidated financial statements	1-5
III - Notes to the consolidated financial statements	
1 - Operations and regulatory environment	6-7
2 - Basis of preparation	8-17
3 - Cash and due from banks	17
4 - Investment securities	18-26
5 - Loan portfolio	26-30
6 - Investments in affiliates	30-32
7 - Available-for-sale assets	33
8 - Property and equipment	33-34
9 - Other assets	34-36
10 - Deposits	36-37
11 - Deposits and liabilities with Banco Nacional de Vivienda y Hábitat (BANAVIH)	37
12 - Borrowings	38
13 - Other liabilities from financial intermediation	39
14 - Accruals and other liabilities	39-40
15 - Taxes	41-43
16 - Employee benefit plans	43-46
17 - General and administrative expenses	46
18 - Other operating income	46
19 - Other operating expenses	47
20 - Extraordinary expenses	47
21 - Equity	47-49
22 - Assets and liabilities in foreign currency	49-51
23 - Memorandum accounts	51-58
24 - Balances and transactions with related companies	58-62
25 - Fundación Mercantil	62
26 - Maturity of financial assets and liabilities	63
27 - Fair value of financial instruments	63-65
28 - Money laundering prevention	65
29 - Supplementary information - Consolidated financial statements adjusted for the effects of inflation	66-74
30 - Subsequent event	74



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, 2010 and 2009, and the related consolidated statements of income, changes in 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 from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared in accordance with the accounting rules and instructions of the Superintendency of Banking Sector Institutions (SUDEBAN), 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, 2010 and 2009, and the results of their operations and their cash flows for the years then



Espiñeira, Sheldon y Asociados

ended, in conformity with the accounting rules and instructions of the Superintendency of Banking Sector Institutions.

Espiñeira, Sheldon y Asociados

A handwritten signature in black ink, appearing to read 'P. Pacheco', is written over a large, hand-drawn oval scribble.

Pedro Pacheco Rodríguez
CPC 27599
CP 431
NV P-810

Caracas, Venezuela
February 25, 2011

Mercantil, C.A. Banco Universal and its Subsidiaries
(Subsidiary of Mercantil Servicios Financieros, C.A.)
Consolidated balance sheet
December 31, 2010 and 2009

	2010	2009
	(Thousands of bolivars)	
Assets		
Cash and due from banks (Note 3)	<u>10,940,639</u>	<u>9,143,190</u>
Cash	1,031,585	793,527
Central Bank of Venezuela	9,043,252	7,673,509
Venezuelan banks and other financial institutions	22	300
Foreign and correspondent banks	354,233	265,497
Pending cash items	511,547	410,357
Investment securities (Note 4)	<u>7,363,976</u>	<u>5,956,675</u>
Deposits with the Central Bank of Venezuela and overnight deposits	3,069,961	2,375,653
Investments in available-for-sale securities	4,015,294	3,182,041
Investments in held-to-maturity securities	230,019	311,115
Restricted investments	48,702	87,866
Loan portfolio (Note 5)	<u>26,703,385</u>	<u>20,287,426</u>
Current	27,454,918	20,738,903
Rescheduled	180,570	82,414
Overdue	220,637	183,300
In litigation	18,887	8,098
(Allowance for losses on loan portfolio)	(1,171,627)	(725,289)
Interest and commissions receivable	<u>342,337</u>	<u>236,048</u>
Interest receivable on cash and due from banks	3	-
Interest receivable on investment securities	60,524	29,877
Interest receivable on loan portfolio	264,259	198,435
Commissions receivable	29,412	23,023
Interest and commissions receivable on other accounts receivable	26	20
(Allowance for interest receivable and other)	(11,887)	(15,307)
Investments in affiliates (Note 6)	<u>160,388</u>	<u>294,574</u>
Available-for-sale assets (Note 7)	<u>13,552</u>	<u>23,762</u>
Property and equipment (Note 8)	<u>236,367</u>	<u>206,944</u>
Other assets (Note 9)	<u>510,322</u>	<u>461,172</u>
Total assets	<u><u>46,270,966</u></u>	<u><u>36,609,791</u></u>
Memorandum accounts (Note 23)		
Contingent debtor accounts	4,052,237	3,146,120
Assets received in trust	8,420,514	8,739,157
Other special trust services	19,778	21,334
Other debtor memorandum accounts	81,844,798	55,387,233
Other debtor control accounts	<u>5,146</u>	<u>5,146</u>
	<u>94,342,473</u>	<u>67,298,990</u>

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

Mercantil, C.A. Banco Universal and its Subsidiaries
(Subsidiary of Mercantil Servicios Financieros, C.A.)
Consolidated balance sheet
December 31, 2010 and 2009

	2010	2009
	(Thousands of bolivars)	
Liabilities and Equity		
Deposits (Note 10)	<u>40,279,612</u>	<u>32,013,443</u>
Demand deposits	<u>24,609,032</u>	<u>17,598,014</u>
Non-interest-bearing checking accounts	12,408,134	8,863,574
Interest-bearing checking accounts	12,200,898	8,734,440
Other demand deposits	1,238,016	2,359,102
Savings deposits	13,232,528	10,650,173
Time deposits	497,339	750,027
Securities issued by the Bank	9	26
Restricted deposits	546,668	425,150
Rights and participation in investment securities	156,020	230,951
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat (Note 11)	<u>33</u>	<u>39</u>
Borrowings (Note 12)	<u>141,966</u>	<u>137,252</u>
Venezuelan financial institutions, up to one year	137,539	134,444
Foreign financial institutions, up to one year	2,316	697
Borrowings, more than one year	2,111	2,111
Other liabilities from financial intermediation (Note 13)	<u>16,739</u>	<u>19,494</u>
Interest and commissions payable	<u>6,363</u>	<u>12,732</u>
Expenses payable on deposits	6,107	12,477
Expenses payable on borrowings	256	255
Accruals and other liabilities (Note 14)	<u>1,243,050</u>	<u>1,127,314</u>
Total liabilities	<u>41,687,763</u>	<u>33,310,274</u>
Equity (Note 21)		
Capital stock	268,060	268,060
Contributions pending capitalization	36	36
Capital reserves	268,060	268,060
Equity adjustments	301,788	-
Retained earnings	3,752,558	2,735,053
Unrealized gain (loss) on available-for-sale investments (Note 4)	<u>(7,299)</u>	<u>28,308</u>
Total equity	<u>4,583,203</u>	<u>3,299,517</u>
Total liabilities and equity	<u>46,270,966</u>	<u>36,609,791</u>

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Consolidated statement of income
Years ended December 31, 2010 and 2009

	2010	2009
	(Thousands of bolivars, except net income per share)	
Interest income (Note 2)	<u>4,803,498</u>	<u>4,184,610</u>
Income from cash and due from banks	561	890
Income from investment securities	470,977	703,835
Income from loan portfolio (Note 5)	4,110,089	3,243,306
Income from other accounts receivable	30,607	40,064
Other interest income (Note 23)	191,264	196,515
Interest expense (Note 2)	<u>(1,646,564)</u>	<u>(1,710,190)</u>
Expenses from deposits	(1,590,598)	(1,510,570)
Expenses from borrowings	(32)	(438)
Expenses from other liabilities from financial intermediation (Note 23)	(50,166)	(109,538)
Other interest expense	<u>(5,768)</u>	<u>(89,644)</u>
Gross financial margin	<u>3,156,934</u>	<u>2,474,420</u>
Income from financial assets recovered (Note 5)	93,138	103,243
Expenses from uncollectible accounts and write-down of financial assets (Notes 2 and 5)	<u>(686,631)</u>	<u>(476,728)</u>
Uncollectible loans and other accounts receivable	(686,631)	(476,728)
Net financial margin	<u>2,563,441</u>	<u>2,100,935</u>
Other operating income (Note 18)	1,893,335	750,731
Other operating expenses (Note 19)	<u>(357,152)</u>	<u>(170,194)</u>
Financial intermediation margin	<u>4,099,624</u>	<u>2,681,472</u>
Operating expenses	<u>(2,439,037)</u>	<u>(1,840,595)</u>
Salaries and employee benefits	(1,141,341)	(982,649)
General and administrative expenses (Note 17)	(852,391)	(694,387)
Fees paid to the Deposit Guarantee and Bank Protection Fund	(401,267)	(126,834)
Fees paid to the Superintendency of Banking Sector Institutions	(44,038)	(36,725)
Gross operating margin	<u>1,660,587</u>	<u>840,877</u>
Income from available-for-sale assets (Note 7)	19,745	11,653
Sundry operating income	95,307	86,920
Expenses from available-for-sale assets (Note 7)	(16,472)	(8,444)
Sundry operating expenses (Notes 9 and 14)	<u>(146,024)</u>	<u>(66,228)</u>
Net operating margin	1,613,143	864,778
Extraordinary expenses (Note 20)	<u>(57,762)</u>	<u>(66,426)</u>
Gross income before tax	1,555,381	798,352
Income tax (Note 15)	<u>(194,760)</u>	<u>(76,317)</u>
Net income	<u>1,360,621</u>	<u>722,035</u>
Appropriation of net income		
Legal reserve	-	20,704
Retained earnings	<u>1,360,621</u>	<u>701,331</u>
	<u>1,360,621</u>	<u>722,035</u>
Net income per common share (in bolivars) (Note 2)	<u>5.076</u>	<u>2.694</u>

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Consolidated statement of changes in equity
Years ended December 31, 2010 and 2009

	Capital stock	Contributions pending capitalization	Capital reserves	Equity adjustments	Retained earnings		Unrealized gain (loss) on available for-sale investments	Total equity
					Restricted surplus	Unappropriated surplus		
	(Thousands of bolivars)							
Balances at December 31, 2008	268,060	36	247,356	-	1,235,873	996,214	(38,662)	2,708,877
Net income	-	-	-	-	-	722,035	-	722,035
Appropriation to legal reserve (Note 21)	-	-	20,704	-	-	(20,704)	-	-
Cash dividends (Note 21)	-	-	-	-	-	(198,365)	-	(198,365)
Adjustment of available-for-sale investments to market value (Note 4)	-	-	-	-	-	-	66,970	66,970
Release of restricted surplus (Note 6)	-	-	-	-	(45,404)	45,404	-	-
Restricted surplus from participation in the results of subsidiaries and equity in affiliates (Note 21)	-	-	-	-	64,288	(64,288)	-	-
Reclassification of 50% of net income for the year to restricted surplus (Note 21)	-	-	-	-	<u>318,522</u>	<u>(318,522)</u>	-	-
Balances at December 31, 2009	268,060	36	268,060	-	1,573,279	1,161,774	28,308	3,299,517
Net income	-	-	-	-	-	1,360,621	-	1,360,621
Appropriation to legal reserve (Note 21)	-	-	-	-	-	-	-	-
Cash dividends (Note 21)	-	-	-	-	-	(343,116)	-	(343,116)
Adjustment from exchange differences	-	-	-	301,788	-	-	-	301,788
Adjustment of available-for-sale investments to market value (Note 4)	-	-	-	-	-	-	(35,607)	(35,607)
Release of restricted surplus (Note 6)	-	-	-	-	(122,032)	122,032	-	-
Restricted surplus from participation in the results of subsidiaries and equity in affiliates (Note 21)	-	-	-	-	46,516	(46,516)	-	-
Reclassification of 50% of net income for the year to restricted surplus (Note 21)	-	-	-	-	<u>657,053</u>	<u>(657,053)</u>	-	-
Balances at December 31, 2010	<u>268,060</u>	<u>36</u>	<u>268,060</u>	<u>301,788</u>	<u>2,154,816</u>	<u>1,597,742</u>	<u>(7,299)</u>	<u>4,583,203</u>

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Consolidated cash flow statement
Years ended December 31, 2010 and 2009

	2010	2009
	(Thousands of bolivars)	
Cash flows from operating activities		
Net income	1,360,621	722,035
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in affiliates	(21,917)	(43,858)
Gain on sale of investments in subsidiaries and affiliates	(3,997)	-
Allowance for losses on loan portfolio	684,187	475,835
Provision for contingent loans	700	-
Provision for other accounts receivable	1,744	893
Provision for investments in affiliates	18	18
Write-off of uncollectible accounts	(237,416)	(206,728)
Provision for other assets	4,446	3,549
Release of provision for other assets	(1,028)	(735)
Write-offs against the provision for other assets	(4,062)	(2,729)
Deferred income tax	(16,870)	(11,866)
Other provisions	355,247	191,317
Depreciation	40,064	40,388
Amortization of deferred expenses and goodwill	57,271	55,239
Amortization of available-for-sale assets	16,473	8,444
Accrual for employee termination benefits	145,042	123,932
Payment of employee termination benefits	(138,001)	(121,502)
Net change in		
Deposits with the Central Bank of Venezuela and overnight deposits	(694,308)	2,917,053
Interest and commissions receivable	(106,289)	7,076
Other assets	(90,651)	48,328
Interest and commissions payable	(6,369)	(6,631)
Accruals and other liabilities	(247,252)	(1,540,794)
Net cash provided by operating activities	<u>1,097,653</u>	<u>2,659,264</u>
Cash flows from financing activities		
Net change in		
Deposits	8,266,169	7,208,578
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat	(6)	(2,273)
Borrowings	4,714	36,741
Other liabilities from financial intermediation	(2,755)	(51,969)
Adjustment from exchange differences	301,788	-
Dividends paid	(343,116)	(198,365)
Net cash provided by financing activities	<u>8,226,794</u>	<u>6,992,712</u>
Cash flows from investing activities		
Loans granted during the year	(34,089,141)	(24,388,169)
Loans collected during the year	27,226,411	19,170,039
Net change in		
Available-for-sale investments	(868,860)	(2,414,996)
Held-to-maturity investments	81,096	(159,832)
Restricted investments	39,164	(11,101)
Investments in affiliates	160,082	(36,572)
Available-for-sale assets	(6,263)	(32,166)
Property and equipment	(69,487)	(26,068)
Net cash used in investing activities	<u>(7,526,998)</u>	<u>(7,898,865)</u>
Cash and due from banks		
Net change	1,797,449	1,753,111
At the beginning of the year	<u>9,143,190</u>	<u>7,390,079</u>
At the end of the year	<u>10,940,639</u>	<u>9,143,190</u>
Supplementary information on non-cash activities		
Adjustment of available-for-sale investments to market value	<u>(35,607)</u>	<u>66,970</u>
Taxes paid	<u>301,788</u>	<u>108,425</u>
Interest paid	<u>88,020</u>	<u>1,716,821</u>
Gain on transactions with derivative instruments	<u>1,652,934</u>	<u>1,158</u>
Reclassification of		
Allowance for losses on loan portfolio to allowance for interest receivable and other (Note 5)	<u>5,033</u>	<u>3,300</u>

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

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the consolidated financial statements

December 31, 2010 and 2009

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 Curacao.

The Bank belongs to the MERCANTIL financial group.

Most of the Bank's assets are located in Venezuela. At December 31, 2010, the Bank, its agency, branch and subsidiaries have 6,685 employees.

The Bank's primary financial statements at December 31, 2010 and 2009 were approved for issue by the Board of Directors on January 12, 2011 and 2010, respectively.

Regulatory environment

Law of the National Financial System

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

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

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

Law of Banking Sector Institutions

The Law of Banking Sector Institutions, which repealed the General Law of Banks and other Financial Institutions, was enacted by the National Assembly in December 2010. This Law, among other things, considers banking as a public service; defines financial intermediation as fundraising for investment in loan portfolios and securities issued or guaranteed by the Venezuelan government or government entities; expands prohibitions for directorships; requires boards of directors to approve transactions exceeding 2% of equity; establishes a social contribution of 5% of pre-tax income to finance projects developed by communal councils; limits consumer credits to 20% of the bank's loan portfolio, the bank's assets to 15% of total banking sector assets, transactions for a single debtor to 10% of equity and to 20% with bank or other appropriate guarantees; and defines "debtor" in relation to this limitation. The Law grants banks 135 days to submit an adjustment plan to be executed within 180 days, extendable for a like period and 30 days, extendable for a like period, to divest unauthorized investments. The Law prohibits trading of assets or liabilities with foreign companies without SUDEBAN's authorization and investing in companies regulated by the Stock Market Law and the Insurance Activity Law.

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the consolidated financial statements

December 31, 2010 and 2009

Management is currently preparing the adjustment plan required by this Law, which includes the adaptation of documents, systems and processes. However, no material financial effects have been identified.

The Bank's activities were ruled by the General Law of Banks and Other Financial Institutions (General Bank Law) until December 28, 2010, and are still ruled by the Stock Market Law, as well as the rules and instructions of SUDEBAN, 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 - Curacao Branch

This branch operates in the Netherland Antilles. It is supervised and controlled by the Central Bank of the Netherland Antilles and SUDEBAN in Venezuela.

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

This agency is subject to banking regulations in the State of Florida. In addition, it is supervised and regulated by the Federal Reserve Bank and SUDEBAN in Venezuela.

Regulations require the Bank to earmark a minimum nominal percentage of 52.01% of its gross loan portfolio to finance loans for agriculture, mortgages, tourism, manufacturing and small businesses.

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, in December 31, 2010 and 2009, the annual interest rate for lending operations may not exceed 24% and 29% for credit card operations. 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, 2010 and 2009 are as follows: agriculture 13%, microcredits 24%, tourism between 10% and 3% (between 15% and 16% at December 31, 2009), mortgages between 4.66% and 14.39%, and manufacturing 19% (Note 5). Annual interest rates for savings deposits may not fall below 12.5% calculated on daily balances. Annual interest rates on time deposits may not fall below 14.5%.

As from June 5, 2009, the annual interest rate to be charged by BCV on discount, rediscount and advance operations, except as regards those conducted under special regimes, was set at 29.5% (31.5% until June 4, 2009 and 33.5% until March 31, 2009).

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, SUDEBAN issued regulations on the method for calculating credit card interest. Under this method, credit card purchases will only begin to bear interest charges one month after purchases are billed.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

2. Basis of preparation

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries and have been 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 SUDEBAN, which differ in certain respects from accounting principles generally accepted in Venezuela (VEN NIF). In April 2008, the Venezuelan Federation of Public Accountants (FCCPV) approved the adoption of VEN NIF as the accounting principles of mandatory application in Venezuela as from January 1, 2008. These standards are mainly based on International Financial Reporting Standards issued by the International Accounting Standards Board, except for certain criteria concerning adjustments for inflation, among others. In October 2008, SUDEBAN established that consolidated or combined financial statements prepared under VEN NIF as supplementary information would be mandatory as from the six-month period ending June 30, 2010. Subsequently, SUDEBAN deferred the presentation of these financial statements and established that they must continue to be presented in accordance with generally accepted accounting principles in effect at December 31, 2007. However, SUDEBAN allowed their presentation in accordance with VEN NIF as from December 31, 2010.

The Bank's accompanying consolidated financial statements have been prepared based on the Accounting Manual and the accounting rules and instructions of SUDEBAN. These rules differ in certain respects from VEN NIF, mainly as follows:

	Accounting treatment	
	SUDEBAN	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 based on the Consumer Price Index (CPI).	The effects of inflation are recognized in the financial statements provided that inflation for the year exceeds one digit, based on the National Consumer Price Index (NCPI).
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.
Transactions with derivative instruments	Shown under memorandum accounts. Gains resulting from changes in the market value of derivative 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 instruments are shown in the income statement.
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 microcredits, which are subject to a general provision of 2%.	The Bank first assesses whether objective evidence of impairment exists individually for loans that are individually significant, or collectively for loans that are not individually significant. This allowance is also determined based on asset recoverability, considering the fair value of guarantees. VEN NIF do not provide for a general provision, which would have to be accounted for as a reduction of retained earnings in equity.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

	Accounting treatment	
	SUDEBAN	VEN NIF
Property and equipment	These assets are initially recorded at acquisition or construction cost, as applicable.	Property and equipment may be revalued, and any increase in value is credited to equity under revaluation surplus.
Assets received as payment for uncollectible loans and idle assets no longer used in operations	Assets received as payment 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.
Investments in trading and available-for-sale securities	Investments in trading securities may remain in this category for only 90 days from the date they were classified as held for trading. Investments in available-for-sale securities must be reclassified according to the terms established by SUDEBAN, as follows: (a) investments held before April 1, 2008 may remain in this category until December 31, 2008; (b) investments acquired between April 1, 2008 and March 31, 2009 may remain in this category for 18 months from the date they were classified as available-for-sale; and (c) investments acquired after April 1, 2009 may not remain in this category for more than one year as from the date they were classified as available-for-sale, except for securities issued and guaranteed by the Venezuelan government and investments in shares of mutual guarantee companies.	May remain in these categories indefinitely.
Commissions collected on loans granted	Shown as income when collected.	Shown as income over the term of the loan.
Deferred income tax	Recognized for temporary differences between the tax and the book balance sheets, except for provisions for losses on other than high risk or unrecoverable loans. A deferred tax asset is not recognized for any amount exceeding future taxable income.	A deferred tax asset is recognized for temporary differences between the tax and book balance sheets 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.
Expenses incurred during the currency redenomination process	These expenses were deferred and are being amortized according to their nature using the straight-line method over one to six years.	Must be recorded during the period in which they were incurred.
Leasehold improvements	Recorded as amortizable expenses and included under other assets.	Recorded within property and equipment.
Employee stock option plan	The Bank 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 purchased for the stock option plan on the financial statements is also recognized.
Goodwill	Amortized using the straight-line method over 10 to 20 years. As per instructions of SUDEBAN, 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 amount of the cash generating unit, and if the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the income statement.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

	Accounting treatment	
	SUDEBAN	VEN NIF
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 uncollectible. It is provided for based on collectibility.
Cash flows	Cash and due from banks are considered cash equivalents.	Investments and deposits maturing within 90 days are considered cash equivalents.
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.
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 the probability of collection or recovery. No timeframes are established for creating provisions for these items.
Rescheduled loans	Loans whose original payment schedule, term or other conditions have been modified at the request of the debtor must be reclassified within rescheduled loans.	Provide no specific guidance. However, they do state that impairment losses on financial assets carried at amortized cost shall be charged to the results for the year in which they are incurred.
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.
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.	For debt securities, any recovery of previously expensed impairment losses may be credited to income.
Reclassification of available-for-sale securities to held-to-maturity securities	Available-for-sale investments reclassified to the held-to-maturity category are recorded at their fair value at the reclassification date. Unrealized gains or losses are maintained separately in equity and are amortized over the investment's remaining life as an adjustment to yield.	The fair value of the investment at the reclassification date becomes the new amortized cost basis, and any gain or loss previously recognized in equity is accounted for as follows: a) gains or losses on fixed maturity investments, as well as any difference between the new amortized cost and value at maturity, are taken to profit and loss and amortized over the investment's remaining life; b) gains or losses on non-maturity investments will remain in equity until the asset is sold or otherwise disposed of, when it shall be recognized in profit or loss.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

	Accounting treatment	
	SUDEBAN	VEN NIF
Reclassification of held-to-maturity securities to available-for-sale securities	Reclassifications of held-to-maturity securities must be approved by SUDEBAN.	When reclassifications are for significant amounts and are due to a change in the investment's intended use not qualified as an isolated, external, nonrecurring or unusual event affecting the Bank, all investments in this category should be reclassified to available-for-sale securities.
Foreign currency	Foreign currency transactions, mainly in U.S. dollars, are shown at the official exchange rate in effect at the transaction date. Foreign currency balances at December 31, 2010 are shown at the official exchange rate of Bs 4.2893/US\$1, except for investments in Principal and Interest Covered Bonds (TICC) issued by Venezuelan public-sector entities, which are measured at the exchange rate of Bs 2.5935/US\$1. In December 2010 SUDEBAN established that these securities must be recorded at Bs 4.2893/US\$1 as from January 1, 2010. Exchange gains and losses are included in the income statement.	VEN NIF establish two options to measure transactions and balances in foreign currency: a) at the official exchange rates established in the exchange agreements issued by BCV or b) on the basis of best estimates of future cash flows in bolivars expected to be obtained using the exchange or settlement mechanisms permitted under Venezuelan law, such as the System for Transactions with Securities in Foreign Currency (SITME).

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

a) Consolidation

The consolidated financial statements include the accounts of the Bank, its Curacao 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, 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 SUDEBAN.

b) Use of estimates

The preparation of consolidated financial statements and their notes requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of income and expenses during the reporting periods. 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 loans

The provision for contingent loans 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 SUDEBAN regulations.

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Other assets

The Bank assesses the 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 SUDEBAN requirements.

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 known at the assessment date. The outcome of these processes could differ from that expected (Notes 14 and 15).

c) Translation of the financial statements of the branch and agency abroad

The asset, liability and equity accounts of the branch and agency abroad are translated at the current official exchange rate (Note 22). Income accounts are translated at the average exchange rate for the year. The effect from translation is included in the consolidated results for the year.

d) Investment securities

Investment securities are classified upon acquisition, based on their nature and intended use, as deposits with 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 BCV, overnight deposits and debt securities issued by Venezuelan financial institutions are included in this category. 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. Unrealized gains or losses resulting from differences in fair values are included in the consolidated income statement.

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 values are included in equity under unrealized gain (loss) on available-for-sale investments until they are sold or reclassified to investments in trading securities. 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 investments in instruments denominated in foreign currency is adjusted at the exchange rate in effect at year end.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

The Bank assesses at each balance sheet date, or sooner if circumstances require it, whether there is 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 year 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 and liquidity of the issuer, 3) a fall in the issuer's credit rating, 4) the disappearance of an active market for the security, and 5) the Bank's inability to hold the investment long enough to allow for recovery of fair value. For the years ended December 31, 2010 and 2009, the Bank has identified no permanent impairment in the value of its investments.

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 the sale of trading or available-for-sale securities.

e) Loan portfolio

As required by SUDEBAN, 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 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 has funds in bolivars 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.

f) Investments in affiliates

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

Investments in companies less than 20% owned that the Bank has the intention of holding, and over whose administration it has significant influence, are recorded under the equity method or at cost.

g) Property and equipment

Property and equipment is shown 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 income statement.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

The Bank assesses possible impairment in the value of its long-lived assets when events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized against consolidated income for the amount by which the asset's carrying amount exceeds fair value.

h) 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 income statement.

i) Deferred expenses

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

j) Income tax

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

k) Employee 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).

l) 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 consolidated results for the year. The net costs of the pension plan are based on actuarial assumptions that are revised annually, such as the discount rate of the obligation, the inflation rate and salary increases, and include service costs, interest expense and returns on plan assets, as well as deferral and amortization of certain components. Changes in assumptions may affect the amount of future contributions.

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.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Defined contribution scheme

The Bank maintains a defined contribution scheme called the MERCANTIL Supplementary Savings Plan (Plan de Ahorro Previsional Complementario) to replace the Supplementary Defined Benefit Plan (Plan Complementario de Pensiones de Jubilación). Contributions to the plan are recorded in the results for the year in which they are incurred. The Supplementary Savings 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 this Plan, employees contribute between 1% and 5% of their basic monthly salary and MERCANTIL doubles the employee's contribution up to a maximum of 10%.

Post-retirement benefits

The Supplementary Defined Benefit 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 being expensed over 10 years.

m) 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).

n) Direct financial assets and liabilities

These are mutuum or 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.

o) Recognition of revenue and expenses

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

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

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

p) Net income per share

Net income per share has been determined by dividing net income for the year by the number of outstanding shares.

q) Dividends

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

r) Assets received in trust

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

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

From May 2009, investment portfolios in foreign currency, comprised of direct trusts maintained through a related company abroad, are recorded at their acquisition or amortized cost.

s) Segment reporting

A business segment is a separate group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Most of the Bank's operations are conducted in Venezuela.

t) 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 risks

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

Liquidity risk arises from the difficulty in obtaining funds or selling financial assets when readily convertible liquid financial assets are unavailable.

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Foreign exchange risk arises from fluctuations in the value of financial instruments due to changes in foreign currency exchange rates. The Bank's transactions are mainly in bolivars.

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, debt securities issued by the Bolivarian Republic of Venezuela and other highly liquid financial obligations, within regulatory regulations.

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, 2010 and 2009, trust fund assets amount to Bs 8,420,514,000 and Bs 8,739,157,000, respectively, and are shown under memorandum accounts (Note 23).

3. Cash and due from banks

The balances with BCV included in cash and due from banks at December 31, comprise the following:

	2010	2009
	(Thousands of bolivars)	
Legal reserve in bolivars	6,708,304	6,544,358
Legal reserve in U.S. dollars	3,078	3,368
Demand deposits	<u>2,331,870</u>	<u>1,125,783</u>
	<u>9,043,252</u>	<u>7,673,509</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. Marginal increases in deposits as from July 2006 were subject to a legal reserve of 30% until January 30, 2009, when the rate was changed to 27%. Subsequently, the rate was changed to 25% in March 2009, 23% in November 2009 and 17% in October 2010. Legal reserve funds do not earn interest for the Bank.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

4. Investment securities

Investment securities at December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Investments		
Deposits with the BCV and overnight deposits	3,069,961	3,078,826
Investments in available-for-sale securities	4,015,294	3,182,041
Investments in held-to-maturity securities	<u>230,019</u>	<u>319,839</u>
	7,315,274	6,580,706
Less		
Investments assigned through liquid asset accounts and certificates of participation	<u>-</u>	<u>(711,897)</u>
	7,315,274	5,868,809
Restricted investments	<u>48,702</u>	<u>87,866</u>
	<u><u>7,363,976</u></u>	<u><u>5,956,675</u></u>

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

Deposits with BCV and overnight deposits at December 31 comprise the following:

	<u>Book value</u>	
	2010	2009
	(Thousands of bolivars)	
Investment securities acquired under resale agreements with BCV, maturing in January 2011 (January 2010 in 2009)	1,611,000 (1)	1,226,000 (1)
Deposits with BCV, maturing in January 2011 (January 2010 in 2009)	1,439,000 (1)	1,831,000 (1)
Overnight deposits in foreign currency, maturing in January 2011 (January 2010 in 2009)	19,961 (1)	18,826 (1)
Overnight deposits in local currency, maturing in January 2010	<u>-</u>	<u>3,000</u> (1)
	3,069,961	3,078,826
Less		
Investments assigned through liquid asset accounts and certificates of participation	<u>-</u>	<u>(703,173)</u>
	<u><u>3,069,961</u></u>	<u><u>2,375,653</u></u>

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

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

	<u>2010</u>		<u>2009</u>	
	<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Investments in securities under repurchase agreements	6.00	6.00	6.00	6.00
Deposits with BCV	6.00	6.00	6.00	7.00
Overnight deposits in foreign currency	0.12	0.25	0.04	0.25
Overnight deposits in local currency	-	-	2.00	2.00

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the consolidated financial statements

December 31, 2010 and 2009

Investments assigned at December 31, 2009 bear the following annual interest:

	Minimum rate %	Maximum rate %
Investments assigned		
Liquid asset accounts	12.50	12.50
Certificates of participation	1.50	14.50

b) Investments in available-for-sale securities

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

	2010				2009			
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value) (Thousands of bolivars)	Acquisition cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Securities issued or guaranteed by the Venezuelan government								
Fixed-interest securities (TIF) issued by the Bolivarian Republic of Venezuela, maturing between March 2011 and August 2019, with a par value of Bs 1,496,000 (maturing between May 2010 and November 2015, with a par value of Bs 838,677,000 in 2009)	1,492,563	2,284	(746)	1,494,101 (1)	841,744	1,725	(1,649)	841,820 (1)
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing between January and February 2019, with a par value of Bs 873,067,000 (maturing between January 2010 and September 2014, with a par value of Bs 261,958,000 in 2009)	851,826	468	(3,631)	848,663 (1)	259,516	446	(5,880)	254,082 (1)
National Public Debt Bonds of the Bolivarian Republic of Venezuela (Agriculture Bonds), maturing between September 2012 and March 2014, with a par value Bs 424,467,000	424,525	2,368	-	426,893 (1)	424,525	2,368	-	426,893 (1)
Principal and Interest Covered Bonds (TICC), maturing between November 2013 and March 2019, with a reference par value of US\$132,278,000, payable in bolivars at the official exchange rate (reference par value of US\$139,977,000 in 2009)	323,525	4,551	(3,068)	325,008 (1)	284,478	6,267	(2,913)	287,832 (1)
Treasury Notes issued by the Bolivarian Republic of Venezuela, maturing between January and August 2011, with a par value of Bs 326,790,000 (maturing between January and November 2010, with a par value of Bs 765,375,000 in 2009)	320,638	2,739	-	323,377 (1)	747,303	4,817	(960)	751,160 (1)
National Public Debt Bonds of the Bolivarian Republic of Venezuela in foreign currency, maturing between April 2011 and August 2022, with a par value of US\$37,433,000	159,370	-	(13,877)	145,493 (1)	-	-	-	-
Petrobonos 2011, maturing in July 2011, with a par value of US\$50,000,000 (Note 22)	-	-	-	-	193,035	43,568	-	236,603 (2)
National Public Debt Bonds of the Bolivarian Republic of Venezuela in foreign currency, maturing between April 2011 and 2025, with a par value of US\$39,503,000	-	-	-	-	81,673	-	(17,470)	64,203 (1)
Sovereign Bonds in foreign currency, maturing between October 2019 and 2024, with a par value of US\$12,000,000	-	-	-	-	17,444	-	(834)	16,610 (1)
Petrobonos 2014, 2015 and 2016, maturing between October 2014 and 2016, with a par value of US\$5,100,000	-	-	-	-	6,122	-	(203)	5,919 (1)
	<u>3,572,447</u>	<u>12,410</u>	<u>(21,322)</u>	<u>3,563,535</u>	<u>2,855,840</u>	<u>59,191</u>	<u>(29,909)</u>	<u>2,885,122</u>
Debt securities issued by foreign banks and other financial institutions								
Debt securities issued by Lloyds Bank, maturing in April 2012, with a par value of US\$5,000,000	21,447	201	-	21,648 (1)	10,723	233	-	10,956 (1)
Debt securities issued by Goldman Sachs Group INC, maturing in January 2015, with a par value of US\$2,154,000	9,240	-	(23)	9,217 (1)	-	-	-	-
Debt securities issued by Dexia Credit, maturing in January 2014, with a par value of US\$1,500,000	6,486	46	-	6,532 (1)	-	-	-	-
Debt securities issued by Sovereign Bancorporation, maturing in June 2012, with a par value of US\$4,100,000	-	-	-	-	8,911	67	-	8,978 (1)
Debt securities issued by Bank of America Corporation, maturing in 2012, with a par value of US\$5,975,000	-	-	-	-	12,828	57	-	12,885 (1)
	<u>37,173</u>	<u>247</u>	<u>(23)</u>	<u>37,397</u>	<u>32,462</u>	<u>357</u>	<u>-</u>	<u>32,819</u>
Investments in non-financial private-sector companies								
Other	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

	2010				2009			
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Acquisition cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
	(Thousands of bolivars)							
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 July 2018 and February 2044, with a par value of US\$57,352,000 (maturing between July 2018 and February 2044, with a par value US\$101,435,000 at December 31, 2009)	261,953	6,827	(516)	268,264 (3)	229,628	2,167	(92)	231,703 (3)
Debt securities issued and guaranteed by other foreign government agencies, maturing between February and March 2015, with a par value of US\$6,850,000	35,797	-	(322)	35,475 (1)	-	-	-	-
Debenture bonds issued by Corporación Andina de Fomento (CAF), maturing between February and March 2012, with a par value of Bs 25,250,000	26,039	-	(1,459)	24,580 (1)	26,102	-	(1,647)	24,455 (1)
Debt securities with Total Capital S.A., maturing in October 2015, with a par value of US\$4,250,000	18,522	155	-	18,677 (1)	-	-	-	-
Debt securities with Hewlett Packard, maturing in September 2015, with a par value of US\$4,000,000	17,129	-	(187)	16,942 (1)	-	-	-	-
Debt securities with Goldman Sachs Group Inc., maturing between January and August 2015, with a par value of US\$3,000,000	13,595	14	(22)	13,587 (1)	-	-	-	-
Debt securities with Pepsico Inc., maturing in January 2015, with a par value of US\$2,000,000	8,831	118	-	8,949 (1)	-	-	-	-
Debt securities with Novartis, maturing in April 2015, with a par value of US\$2,000,000	8,728	85	-	8,813 (1)	-	-	-	-
Debt securities with AT&T Inc., maturing in August 2015, with a par value of US\$2,000,000	8,658	-	(110)	8,548 (1)	-	-	-	-
Debt securities with Statoilhydro Asa, maturing in April 2014, with a par value of US\$1,300,000	5,800	124	-	5,924 (1)	-	-	-	-
Debt securities with Merck & Co INC., maturing in June 2015, with a par value of US\$1,000,000	4,524	78	-	4,602 (1)	-	-	-	-
Debt securities with Burlington Resources, maturing in January 2010, with a par value of US\$2,000,000	-	-	-	-	4,609	85	-	4,694 (1)
Debt securities with Netherlands Government, maturing in January 2010, with a par value of €1,051,000	-	-	-	-	3,248	-	(1)	3,247 (1)
	<u>409,576</u>	<u>7,401</u>	<u>(2,616)</u>	<u>414,361</u>	<u>263,587</u>	<u>2,252</u>	<u>(1,740)</u>	<u>264,099</u>
	<u>4,019,197</u>	<u>20,058</u>	<u>(23,961)</u>	<u>4,015,294</u>	<u>3,151,890</u>	<u>61,800</u>	<u>(31,649)</u>	<u>3,182,041</u>

- (1) Based on the present value of estimated future cash flows.
(2) Corresponds to the national market value in bolivars.
(3) Market value based on prices listed on the stock exchange.

Petrobonos 2011 are traded on the national and international markets. At December 31, 2009, these securities are measured based on the national market value, which represents the estimated cash flows in bolivars expected to be received at the realization date, based on their intended use.

At December 31, 2010, the market value of securities of the Bolivarian Republic of Venezuela owned by the Bank and its subsidiaries is lower than cost by Bs 21,322,000 (Bs 29,909,000 at December 31, 2009). This loss is included in equity as an unrealized gain (loss) on available-for-sale investments. The Bank considers that this difference is temporary since it is related to, among other things, the state of world financial markets during 2010, the recent high volatility of international oil prices and the issue on the primary market of fixed income securities in local and foreign currency by the Venezuelan government and government agencies, which, in the opinion of management, do not significantly affect payment capabilities of the issuer. Therefore, this difference has not been recognized in the results for the year. In addition, the Bank has the ability to hold these securities for a sufficient period of time to recover unrealized losses.

In addition to securities of the Bolivarian Republic of Venezuela, at December 31, 2010, the Bank has other securities with values lower than cost by Bs 2,639,000 (Bs 1,740,000 at December 31, 2009). The Bank believes that these losses arise from normal stock market fluctuations and, consequently, are temporary. Management does not expect to realize these securities at a price below their book value.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	2010		2009	
	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %
Fixed-interest securities (TIF)	9.25	17.00	9.25	13.88
National Public Debt Bonds in local currency	12.07	15.21	11.50	12.28
National Public Debt Bonds in local currency (Agriculture Bonds)	9.10	9.10	9.10	9.10
Principal and Interest Covered Bonds (TICC)	5.25	8.63	5.25	8.63
Treasury Notes (effective yield)	0.86	8.51	0.93	10.84
Petrobonos	0.00	0.00	4.90	5.13
National Public Debt Bonds in foreign currency	1.28	12.75	1.28	8.25
Debt securities issued by foreign banks and other financial institutions	1.29	5.13	0.45	2.50
Debt securities issued and guaranteed by government agencies of the United States of America	1.30	10.5	1.30	10.50
Debt securities issued by foreign private-sector companies	2.13	10.25	3.00	10.26
Debt securities issued and guaranteed by foreign government agencies	7.25	9.88	-	-

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

	2010		2009	
Fixed-interest securities (TIF)	31	months	13	months
National Public Debt Bonds in local currency	43	months	25	months
National Public Debt Bonds in local currency (Agriculture Bonds)	30	months	42	months
Principal and Interest Covered Bonds (TICC)	54	months	68	months
Treasury Notes	2	months	2	months
Petrobonos	-	months	20	months
National Public Debt Bonds in foreign currency	142	months	21	months
Debt securities issued by foreign banks and other financial institutions	27	months	29	months
Debt securities issued and guaranteed by government agencies of the United States of America	282	months	293	months
Debt securities issued by foreign private-sector companies	54	months	23	months
Debt securities issued and guaranteed by other foreign government agencies	51	months	-	months

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

	2010		2009	
	Cost	Book value (equivalent to market value)	Cost	Book value (equivalent to market value)
(Thousands of bolivars)				
Up to 6 months	731,872	733,772	970,984	972,906
6 months to 1 year	148,159	148,209	354,300	355,272
1 to 5 years	2,468,291	2,471,459	1,311,242	1,346,426
5 to 10 years	360,651	353,051	304,632	295,445
Over 10 years	310,224	308,803	210,732	211,992
	<u>4,019,197</u>	<u>4,015,294</u>	<u>3,151,890</u>	<u>3,182,041</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	2010	2009
	(Thousands of bolivars)	
Investments in available-for-sale securities	(3,904)	30,152
Investments in held-to-maturity securities, reclassified from investments in available-for-sale securities	(3,823)	(3,900)
Restricted investments	414	836
Available-for-sale investments in affiliates	<u>14</u>	<u>1,220</u>
	<u>(7,299)</u>	<u>28,308</u>

During the year ended December 31, 2010, the Bank and its subsidiaries recorded gains and losses of Bs 402,788,000 and Bs 88,354,000, respectively, on the sale of available-for-sale securities (Bs 127,959,000 and Bs 44,691,000, respectively, during the year ended December 31, 2009), which are shown under other operating income and other operating expenses, respectively (Notes 18 and 19). The Bank received cash payments for the aforementioned sales of Bs 113,379,804,000 (Bs 49,880,705,000 during the year ended December 31, 2009).

In March 2008, Visa Inc. made a public offer of shares, assigning to the Bank 623,163 Class "C" Series I shares, of which 273,035 shares were accounted for by the subsidiary Inversiones y Valores Mercantil V, C.A. as investment securities, resulting in an unrealized equity gain of Bs 25 million. In July 2009, the subsidiary sold these shares to a third party for US\$16,558,000 (equivalent to Bs 35,511,000) at a gain for that amount.

During the year ended December 31, 2009, the Bank recorded a gain of US\$267,919, equivalent to Bs 575,000, on the sale of 1,930 Class "B" MasterCard shares, included under other operating income (Note 18).

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 9,573,000 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 an adjustment to yield. During the years ended December 31, 2010 and 2009, Bs 281,000 and Bs 1,051,000, respectively, have been amortized and recorded in this connection under other operating expenses.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

c) Investments in held-to-maturity securities

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

	2010			2009		
	Cost	Amortized cost	Fair market value	Cost	Amortized cost	Fair market value
	(Thousands of bolivars)					
Securities issued or guaranteed by the Venezuelan government						
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	191,498	193,560	174,334 (1)	158,353	159,406	163,802 (1)
Certificates of deposit, maturing in January 2011, with a par value of US\$8,500,000	36,459	36,459	36,459 (1)	-	-	-
National Public Debt Bonds of the Bolivarian Republic of Venezuela, maturing between January and April 2010, with a par value of Bs 157,419,000	-	-	-	165,793	158,462	158,224 (2)
	227,957	230,019	210,793	324,146	317,868	322,026
Time deposits with foreign financial institutions						
Mercantil Bank (Panamá), S.A., with a par value of US\$919,000, maturing in January 2010	-	-	-	1,971	1,971	1,971 (3)
	227,957	230,019	210,793	326,117	319,839	323,997
Less						
Investments assigned through liquid asset accounts and certificates of participation	-	-	-	(8,724)	(8,724)	(8,724)
	<u>227,957</u>	<u>230,019</u>	<u>210,793</u>	<u>317,393</u>	<u>311,115</u>	<u>315,273</u>

(1) Market value is determined from trading operations on the secondary market.

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

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

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

	2010		2009	
	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %
Principal and Interest Covered Bonds (TICC)	5.25	6.25	5.25	6.25
Time deposits with foreign financial institutions	0.26	0.26	0.25	0.25
National Public Debt Bonds in local currency	-	-	11.98	12.24
Investments assigned	-	-	1.50	14.50

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

	2010	2009
Principal and Interest Covered Bonds (TICC)	80 months	92 months
National Public Debt Bonds in local currency	-	4 months
Time deposits with foreign financial institutions	1 day	15 days

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	2010		2009	
	Amortized cost	Fair market value	Amortized cost	Fair market value
	(Thousands of bolivars)			
Under 1 year	36,459	36,459	160,433	160,195
5 to 10 years	193,560	174,334	159,406	163,802
	<u>230,019</u>	<u>210,793</u>	<u>319,839</u>	<u>323,997</u>

d) Restricted investments

Restricted investments at December 31 comprise the following:

	2010		2009	
	Amortized cost	Book value (equivalent to market value)	Amortized cost	Book value (equivalent to market value)
	(Thousands of bolivars)			
As guarantee				
Debt securities issued and guaranteed by government agencies of the United States of America, maturing between June 2033 and January 2040, with a par value of US\$8,022,000 (maturing between February 2029 and December 2037, with a par value of US\$12,897,880 in 2009)	35,937	36,362 (1)	29,088	29,851 (1)
Cash in trust fund (Note 14)	2,334	2,334 (2)	1,806	1,806 (2)
Investment trust with Banco Nacional de México, S.A.	695	695 (3)	328	328 (3)
Certificates of deposit issued by Mercantil Commercebank, N.A., maturing in October 2011, with a par value of US\$25,000 (maturing in August 2010 in 2009)	107	107 (2)	54	54 (2)
Debt securities issued by foreign private-sector companies, maturing in June 2015, with a par value of US\$2,000,000	9,216	9,204 (1)	-	-
Treasury Notes issued by the Bolivarian Republic of Venezuela, maturing in February 2010, with a par value of Bs 56,173,314	-	-	55,754	55,827 (1)
	<u>48,289</u>	<u>48,702</u>	<u>87,030</u>	<u>87,866</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 the trust fund for acquisition of Bank representation office premises.

Restricted investments at December 31 earn the following annual interest:

	2010		2009	
	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %
Debt securities issued and guaranteed by the government of the United States of America	0.86	5.00	0.83	7.00
Certificates of deposit	3.58	3.58	1.98	1.98
Debt securities issued by foreign private-sector companies	4.00	4.00	-	-
Treasury Notes (effective yield)	-	-	2.82	3.14

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	2010	2009
Debt securities issued and guaranteed by the government of the United States of America	332 months	336 months
Certificates of deposit	10 months	8 months
Debt securities issued by foreign private-sector companies	55 months	-
Treasury Notes	-	1 month

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

	2010		2009	
	Amortized cost	Book value	Amortized cost	Book value
	(Thousands of bolivars)			
Up to 6 months	695	695	57,560	57,633
6 months to 1 year	2,441	2,441	54	54
1 to 5 years	9,216	9,204	-	-
Over 10 years	<u>35,937</u>	<u>36,362</u>	<u>29,416</u>	<u>30,179</u>
	<u>48,289</u>	<u>48,702</u>	<u>87,030</u>	<u>87,866</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, 2010 and 2009, the Bank has collateral deposits of US\$25,000 with Mercantil Commercebank, N.A., shown as restricted investments. In addition, at December 31, 2010, standby letters of credit were pledged for MasterCard International and Visa International transactions amounting to US\$24,901,000 and US\$9,275,000, respectively (US\$24,901,000 and US\$13,275,000, respectively, in 2009) recorded under other debtor control accounts (Note 23).

At December 31, 2010 and 2009, restricted investments include securities of the Coral Gables agency with a market value of US\$10,623,123 and US\$13,919,202, respectively, pledged to regulating agencies in compliance with U.S. state laws.

Securities assigned through liquid asset accounts and certificates of participation are in custody at BCV, Caja Venezolana de Valores, C.A. and Clearstream Banking. Of the total balance at December 31, 2009, Bs 7,617,000 is in respect of assignments with government entities.

Interest borne by securities assigned through certificates of participation amounts to Bs 7,829,000 for the year ended December 31, 2010 (Bs 58,431,000 for the year ended December 31, 2009), of which Bs 2,842,000 is in respect of interest borne by investments assigned to government agencies (Bs 2,495,000 for the year ended December 31, 2009), shown net of income from investment securities.

In June 2006, SUDEBAN instructed financial institutions with rights and participations in investment securities assigned to the public to proportionally transfer the balances of these rights and participations to deposits on a quarterly basis within 20 quarters. In May 2007, SUDEBAN instructed financial institutions to transfer the balance of investments assigned at May 31, 2007 on a monthly basis within 47 months beginning June 2007. At December 31, 2009, deposits include Bs 230,951,000.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

For the year ended December 31, 2009, the Bank recorded Bs 27,557,000 in the consolidated statement of income within expenses from uncollectible accounts and write-down of financial assets, due to the difference between the cost represented by the national market value at purchase date and the international market value of securities denominated in foreign currency acquired in October 2009 (Note 19).

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, 2010, 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 51.02%, 41.42% and 4.14%, respectively, of its investment securities portfolio (48.87%, 45.84% and 3.92%, respectively, at December 31, 2009).

5. Loan portfolio

The loan portfolio at December 31 is classified as follows:

	2010								2009			
	Current	%	Rescheduled	%	Overdue	%	In litigation	%	Total	%		
(Thousands of bolivars)												
Economic activity												
Commercial	8,161,348	30	59,647	33	24,028	11	271	1	8,245,294	30	6,244,733	30
Agriculture	4,218,887	15	68,790	38	88,039	40	15,651	83	4,391,367	16	2,939,591	14
Credit cards	4,661,769	17	-	-	2,548	2	-	-	4,664,317	17	3,220,782	15
Construction	1,927,323	7	-	-	-	-	-	-	1,927,323	7	1,606,441	8
Industrial	2,990,773	11	13,022	7	15,915	7	-	-	3,019,710	11	2,313,425	11
Car loans	1,348,329	5	-	-	2,368	1	-	-	1,350,697	5	1,217,172	6
Home purchases	1,970,201	7	1,100	1	42,981	19	-	-	2,014,282	7	1,717,668	8
Services	1,120,855	4	6,213	3	3,084	2	-	-	1,130,152	4	637,184	3
Foreign trade	44,903	-	-	-	14,234	6	-	-	59,137	-	68,102	-
Other	1,010,530	4	31,798	18	27,440	12	2,965	16	1,072,733	3	1,047,617	5
	<u>27,454,918</u>	<u>100</u>	<u>180,570</u>	<u>100</u>	<u>220,637</u>	<u>100</u>	<u>18,887</u>	<u>100</u>	<u>27,875,012</u>	<u>100</u>	<u>21,012,715</u>	<u>100</u>
Guarantee												
Unsecured	9,003,275	33	-	-	38,780	18	-	-	9,042,055	32	6,878,106	33
Debenture	11,247,604	41	45,893	25	63,632	29	15,716	83	11,372,844	41	8,229,269	39
Mortgage	5,828,597	21	103,607	57	103,196	47	3,171	17	6,038,572	22	4,650,015	22
Pledge	1,375,442	5	31,070	18	15,029	6	-	-	1,421,541	5	1,255,325	6
	<u>27,454,918</u>	<u>100</u>	<u>180,570</u>	<u>100</u>	<u>220,637</u>	<u>100</u>	<u>18,887</u>	<u>100</u>	<u>27,875,012</u>	<u>100</u>	<u>21,012,715</u>	<u>100</u>
Maturity												
Up to 3 months	13,146,528	48	45,372	25	212,932	97	18,887	100	13,423,719	48	12,029,642	57
3 to 6 months	1,493,774	5	1,343	1	722	-	-	-	1,495,839	5	1,429,490	7
6 months to 1 year	1,295,956	5	4,392	2	1,900	1	-	-	1,302,248	5	959,783	4
1 to 2 years	4,596,322	17	10,025	6	2,842	1	-	-	4,609,189	17	1,428,177	7
2 to 3 years	2,250,656	8	29,318	16	976	1	-	-	2,280,950	8	1,630,094	8
3 to 4 years	1,034,247	4	14,946	8	550	-	-	-	1,049,743	4	859,557	4
4 to 5 years	768,223	3	21,882	12	152	-	-	-	790,257	3	390,880	2
Over 5 years	2,869,212	10	53,292	30	563	-	-	-	2,923,067	10	2,285,092	11
	<u>27,454,918</u>	<u>100</u>	<u>180,570</u>	<u>100</u>	<u>220,637</u>	<u>100</u>	<u>18,887</u>	<u>100</u>	<u>27,875,012</u>	<u>100</u>	<u>21,012,715</u>	<u>100</u>
Type of loan												
Promissory notes	16,358,131	60	147,672	82	126,040	57	15,922	84	16,647,765	60	12,040,967	58
Consumer credit	6,649,064	24	-	-	25,748	12	-	-	6,674,812	24	5,115,065	25
Installment loans	4,045,261	15	32,898	18	43,870	20	2,965	16	4,124,994	15	3,429,690	16
Letters of credit	19,168	-	-	-	14,234	6	-	-	33,402	-	68,102	-
Financial lease contracts	80,014	-	-	-	813	-	-	-	80,827	-	43,381	-
Factoring and discounts	52,037	-	-	-	901	-	-	-	52,938	-	80,212	-
Checking account credits	20,576	-	-	-	3,637	2	-	-	24,213	-	16,319	-
Other	230,667	1	-	-	5,394	3	-	-	236,061	1	218,979	1
	<u>27,454,918</u>	<u>100</u>	<u>180,570</u>	<u>100</u>	<u>220,637</u>	<u>100</u>	<u>18,887</u>	<u>100</u>	<u>27,875,012</u>	<u>100</u>	<u>21,012,715</u>	<u>100</u>
Geographic location												
Venezuela	27,342,324	100	176,601	98	220,637	100	18,887	100	27,758,449	100	21,010,035	100
Mexico	31,097	-	3,969	2	-	-	-	-	35,066	-	2,680	-
Chile	21,447	-	-	-	-	-	-	-	21,447	-	-	-
Brazil	25,736	-	-	-	-	-	-	-	25,736	-	-	-
Cayman Islands	34,314	-	-	-	-	-	-	-	34,314	-	-	-
	<u>27,454,918</u>	<u>100</u>	<u>180,570</u>	<u>100</u>	<u>220,637</u>	<u>100</u>	<u>18,887</u>	<u>100</u>	<u>27,875,012</u>	<u>100</u>	<u>21,012,715</u>	<u>100</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	<u>2010</u>		<u>2009</u>	
	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>
	(Thousands of bolivars)			
Risk				
Normal	26,762,315	96	20,282,924	97
Potential	362,818	1	228,586	1
Real	472,033	2	350,652	2
High	226,776	1	131,173	-
Unrecoverable	51,070	-	19,380	-
	<u>27,875,012</u>	<u>100</u>	<u>21,012,715</u>	<u>100</u>

In 2001 a group of debtors with indexed mortgage loans and vehicle loans 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, 2010 and 2009, no refinanced interest is included in the results for the year, nor is there any restricted surplus in respect of mortgage loans or vehicle loan balances.

At December 31, 2010, regulations require commercial and universal banks to earmark a minimum nominal percentage of 52.01% of their gross loan portfolio to finance loans for agriculture, tourism, mortgages, manufacturing and small businesses (47% for agriculture, mortgages, small businesses, manufacturing and tourism at December 31, 2009) as follows:

Agriculture

At December 31, 2010, 25% is the minimum financing required for agriculture based on the average gross loan portfolio balances for the end of the prior two years (21% at December 31, 2009). At December 31, 2010, the Bank has earmarked Bs 4,391,368,000, equivalent to 24% of the required base (Bs 2,939,591,000 in 2009, equivalent to 20.95% of the required base).

In April 2009, the Venezuelan government approved the issue of National Public Debt Bonds to finance the Integral Agricultural Development Plan for 2009-2010. These bonds may be imputed to the mandatory agricultural portfolio for an amount of up to 15% of the total loan portfolio. At December 31, 2010 and 2009, the Bank maintains Bs 426,893,000 in these bonds (Note 4), representing 9.34% of the portfolio required at December 31, 2010 (14.52% of the required base at December 31, 2009), which together with agricultural loans granted amounts to 26.33% of the required base (23.93% at December 31, 2009).

At least 70% of the total agricultural loan portfolio must be used to finance priority agricultural activities, for which percentages of compliance by activity were established, and 30% to finance non-priority activities. 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. Furthermore, commercial and universal banks must place at least 10% of the total agricultural loan portfolio in medium (between 3 and 5 years) and long-term loans. At December 31, 2010, the Bank has Bs 1,469,801,000 in medium and long-term

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the consolidated financial statements

December 31, 2010 and 2009

agricultural loans (Bs 1,098,651,000 at December 31, 2009), representing 33.47% (37.37% at December 31, 2009) of the total agricultural loan portfolio.

At December 31, 2010, the Bank has earmarked 87.36% of its agricultural loan portfolio for priority agricultural items and 12.64% for non-priority agricultural items (88.44% and 11.56%, respectively, in 2009). In addition, at December 31, 2010, the Bank has a total of 2,263 debtors in the agricultural loan portfolio (2,169 debtors in 2009), of which 672 are new borrowers for the year (588 new borrowers in 2009). Of the total amount of new borrowers, 506 are individuals (455 individuals in 2009).

Small businesses

At December 31, 2010, 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, 2010. At December 31, 2010, Bs 749,539,000 has been earmarked in this connection, equivalent to 3.40% of the gross loan portfolio at June 30, 2010 (in 2009 Bs 542,757,000, equivalent to 3.37% of the gross loan portfolio at June 30, 2009). At December 31, 2010, the small business loan portfolio comprises 12,685 debtors (12,840 debtors in 2009) and 13,752 loans have been granted (13,951 loans in 2009).

Mortgages

At December 31, 2010, 4.2% and 5.8% were the minimum percentages to be earmarked for short-term mortgage loans effectively granted at December 31, 2010 and long-term mortgage loans that have been officially recorded and granted at December 31, 2010, respectively, for the acquisition, construction and subcontracted construction of primary residences, based on the gross loan portfolio at prior year end (4% and 6%, respectively, at December 31, 2009), which will be applied according to the borrower's household monthly income. Compliance with the aforementioned percentages shall be measured at December 31, 2010. In April 2009, a maximum interest rate of between 4.66% and 14.39% was set for these loans. At December 31, 2010, Bs 764,018,000 in short-term loans and Bs 1,819,237,000 in long-term loans (Bs 732,745,000 and Bs 1,494,843,000, respectively, at December 31, 2009) were granted, equivalent to 3.64% and 8.66%, respectively (4.70% and 9.59% at December 31, 2009) of the established base.

At December 31, 2010, the Bank's mortgage loan portfolio amounted to Bs 2,583,255,000 (Bs 2,227,588,000 in 2009), comprising 13,624 debtors (11,941 debtors in 2009) and 13,671 loans (11,991 loans in 2009).

Tourism

In February 2010, the People's Power Ministry for Tourism established at 3% the minimum percentages of the gross loan portfolio to be earmarked by each commercial and universal bank to finance tourism at December 31, 2010. This percentage is calculated based on the gross loan portfolio balance at December 31, 2009 and 2008 (at December 31, 2009, 3% of the gross loan portfolio at December 31, 2008).

At December 31, 2010, Bs 585,069,000 was earmarked for tourism loans, representing 3.20% of the gross loan portfolio at December 31, 2009 and 2008 (Bs 495,215,000 in 2009, equivalent to 3.18% of the gross loan portfolio at December 31, 2008). At December 31, 2010, the tourism loan portfolio comprises 38 debtors (36 debtors in 2009) and 120 loans (113 loans in 2009).

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

In August 2009, the Tourism Law established, among other things, that the loan portfolio was to be distributed in segments according to the borrower's total billings for the year, as follows: 40% for segment A (up to 20,000 tax units), 35% for segment B (between 20,000 and 100,000 tax units) and 25% for segment C (over 100,000 tax units). At December 31, 2010, the Bank's loan portfolio distribution is 0.44%, 3.07% and 96.49% for segments A, B and C, respectively (0.45%, 4.71% and 94.84% for segments A, B and C, respectively, at December 31, 2009).

Manufacturing

In December 2009, BCV required banks to maintain the percentage of their gross loan portfolio earmarked at December 31, 2009 to finance manufacturing activities, which should not be under 10% (at December 31, 2009, 10% of their gross loan portfolio earmarked at March 31, 2009). In addition, BCV set the maximum annual interest rate to be charged by banks for manufacturing loans at 19%. At December 31, 2009, the percentage of the Bank's gross loan portfolio earmarked to finance manufacturing activities was 11.01%. At December 31, 2010, the manufacturing loan portfolio amounts to Bs 3,019,650,000, representing 14.37% of the gross loan portfolio at June 30, 2010 (Bs 2,313,425,000 at December 31, 2009, representing 16.23% of the gross loan portfolio at March 31, 2009).

At December 31, 2010, the manufacturing loan portfolio comprises 1,395 debtors (1,374 debtors at December 31, 2009) and 3,276 loans (3,253 loans at December 31, 2009).

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

	2010	2009
	(Thousands of bolivars)	
Balance at the beginning of the year	725,289	462,289
Provided in the year, including the branch and agency abroad and subsidiaries	684,187	475,835
Decrease in branch allowance	(1,692)	(2,807)
Write-off of uncollectible accounts	(237,417)	(206,728)
Reclassification to allowance for interest receivable and other	-	(3,300)
Effect of translation of allowances in foreign currency	<u>1,260</u>	<u>-</u>
Balance at the end of the year	<u>1,171,627</u>	<u>725,289</u>

At December 31, 2010, the inactive loan portfolio (overdue and in litigation), which has ceased to bear interest, amounts to Bs 239,525,000 (Bs 191,398,000 in 2009), of which Bs 14,234,000 is in respect of overdue letters of credit (Bs 30,910,000 in 2009). During the year ended December 31, 2010, interest accrued but not recorded in respect of this inactive loan portfolio amounted to Bs 306,617,000 (Bs 405,514,000 during the year ended December 31, 2009). In addition, interest income for the year ended December 31, 2010 includes Bs 278,006,000 (Bs 399,683,000 during the year ended December 31, 2009) for interest collected on this portfolio that had been deferred in previous years.

During the year ended December 31, 2010, the Bank wrote off unrecoverable loans of Bs 237,417,000 (Bs 206,728,000 during the year ended December 31, 2009) against the allowance for losses on the loan portfolio. The Bank also collected loans written off as uncollectible in previous years for Bs 87,207,000 (Bs 100,436,000 during the year ended December 31, 2009), included in the consolidated income statement under income from financial assets recovered. This account also includes Bs 1,692,000 in respect of the decrease in the allowance for losses on the loan portfolio of the Curacao branch (Bs 2,807,000 during the year ended December 31, 2009).

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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, 2010 and 2009, 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:

	2010	2009
	(Thousands of bolivars)	
Investments in Venezuelan non-financial institutions		
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	-	118,933
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	98,456
Inversiones Platco, C.A., 573,985 fully paid common shares with a par value of Bs 100 each, equivalent to 50% of its capital stock	51,886	48,676
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	-	23,137
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	6,763	2,979
Inmobiliaria Asociación Bancaria, C.A., 28,862 fully paid common shares with a par value of Bs 1 each, equivalent to 7.4% of its capital stock	-	167
Other	3,301	2,244
Provision for investments in affiliates	<u>(18)</u>	<u>(18)</u>
	<u>160,388</u>	<u>294,574</u>

During the year ended December 31, 2010, the Bank sold to Mercantil Inversiones y Valores, C.A. its entire shareholding in its subsidiary Mercantil Promotora de Valores 2005 V, C.A., in cash at equity value of Bs 5,730,000, at no gain or loss.

During the year ended December 31, 2010, the Bank sold its 19.5% shareholding in Inversiones y Valores Mercantil VI, C.A. and its 19.5% shareholding in Mercantil Merinvest, C.A. in cash at market value of Bs 180,502,000 and Bs 24,464,000, respectively, calculated by an independent appraiser. This transaction resulted in a gain of Bs 3,293,000 and Bs 704,000, respectively, shown under other operating income.

In July 2010, the Bank made a cash contribution of Bs 585,000 to its affiliate Mercantil Merinvest, C.A. (Bs 195,000 during 2009).

During 2009 the Bank contributed Bs 37,889,000 to the capital stock of its affiliate Inversiones Platco, C.A. by assigning points of sale (POS) at their estimated market value, and recorded deferred income of Bs 21,922,000 arising from the difference between the book value and the estimated market value of the POS. This difference was amortized over the useful lives of the POS assigned since equity in this affiliate includes the depreciation expense of the higher market value.

In addition, during 2010, the Bank made cash capital contributions of Bs 16,000,000 to its affiliate Inversiones Platco, C.A. and the latter reduced contributions for future capitalizations by Bs 13,302,500.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

During the year ended December 31, 2010, the Bank made contributions for future capitalizations in the form of National Public Debt Bonds in foreign currency to its subsidiary Inversiones y Valores Mercantil V, C.A. of Bs 85,790,000 (US\$20,000,877).

During the year ended December 31, 2009, the Bank sold a building in New York to a related company at market value of US\$20,000,000, equivalent to Bs 42,892,000, determined by an independent appraiser. The net book value at the transaction date was Bs 1,630,000, and deferred income amounted to Bs 41,262,000 (Notes 12 and 14).

During the year ended December 31, 2009, the Bank and its subsidiary Inversiones y Valores Mercantil V, C.A. made cash contributions for future capitalizations and contributed National Public Debt Bonds in foreign currency to its subsidiary Promotora de Valores Mercantil 2009 VII, C.A. of Bs 148,300,000 (US\$69,051,350). This capitalization covered the risk derived from Total Return Swaps of Bs 112,702,000 (US\$52,551,440) assigned to this subsidiary on that same date (Note 23). Promotora de Valores Mercantil 2009 VII, C.A. was subsequently sold in bolivars to Mercantil Inversiones y Valores, C.A. (subsidiary of Mercantil Servicios Financieros, C.A.) at its equity value, at no gain or loss.

During the year ended December 31, 2009, the affiliates Inversiones y Valores Mercantil VI, C.A. and Mercantil Merinvest, C.A. reduced contributions for future capitalizations by Bs 5,557,000 and Bs 3,900,000, respectively. In addition, in February and May 2009, the Bank received cash dividends from the subsidiaries and affiliates (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. In 2010 Bank management adjusted this market value without identifying fair value impairment.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

b) For information purposes, below is a summary of the combined financial statements of the Bank's branch in Curacao and the Coral Gables, FL agency at December 31, denominated in U.S. dollars:

Balance sheet

	2010	2009
	(Thousands of U.S. dollars)	
Assets		
Cash and due from banks	4,917	3,878
Investment securities	114,868	149,744
Loan portfolio	27,070	986
Interest and commissions receivable	829	662
Property and equipment	-	1
Other assets	<u>629</u>	<u>404</u>
Total assets	<u>148,313</u>	<u>155,675</u>
Liabilities and Equity		
Deposits	37,748	48,458
Borrowings	173	265
Interest and commissions payable	6	24
Other liabilities	<u>240</u>	<u>1,010</u>
Total liabilities	<u>38,167</u>	<u>49,757</u>
Equity	<u>110,146</u>	<u>105,918</u>
Total liabilities and equity	<u>148,313</u>	<u>155,675</u>

Income statement

	Years ended	
	December 31,	
	2010	2009
	(Thousands of U.S. dollars)	
Gross financial margin	6,731	6,918
Operating expenses, net	(625)	(680)
Total expenses	<u>(1,952)</u>	<u>(860)</u>
Net income	<u>4,154</u>	<u>5,378</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

7. Available-for-sale assets

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

	2010			2009		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	(Thousands of bolivars)					
Idle assets	<u>33,527</u>	<u>(19,975)</u>	<u>13,552</u>	<u>31,480</u>	<u>(7,718)</u>	<u>23,762</u>

During the year ended December 31, 2010, the Bank sold fully amortized assets received as payment that had been recorded under memorandum accounts at a gain of Bs 2,211,000 (Bs 4,465,000 during the year ended December 31, 2009) and Bs 17,534,000 from the sale of idle assets (Bs 7,188,000 during the year ended December 31, 2009). Gains are shown in the consolidated income statement under income from available-for-sale assets.

During the year ended December 31, 2009, the Bank reclassified Bs 31,326,000 to idle assets, of which Bs 13,455,000 is in respect of furniture and constructions for the Bank's offices at the Sambil La Candelaria shopping mall (Note 9).

During the year ended December 31, 2010, the Bank recorded amortization expense in respect of idle assets of Bs 16,472,000 (Bs 8,444,000 during the year ended December 31, 2009), included in the consolidated income statement under expenses from available-for-sale assets.

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

8. Property and equipment

Property and equipment at December 31 comprises the following:

	2010			2009		
	Cost	Accumulated depreciation	Book value	Cost	Accumulated depreciation	Book value
	(Thousands of bolivars)					
Furniture and equipment	289,934	(197,988)	91,946	247,682	(162,244)	85,438
Buildings and facilities	116,688	(19,718)	96,970	101,296	(18,305)	82,991
Work in progress	33,691	-	33,691	24,479	-	24,479
Land	1,611	-	1,611	1,750	-	1,750
Other assets	<u>13,211</u>	<u>(1,062)</u>	<u>12,149</u>	<u>13,329</u>	<u>(1,043)</u>	<u>12,286</u>
	<u>455,135</u>	<u>(218,768)</u>	<u>236,367</u>	<u>388,536</u>	<u>(181,592)</u>	<u>206,944</u>

During the year ended December 31, 2010, the Bank recorded depreciation expense of Bs 40,064,000 (Bs 40,388,000 during the year ended December 31, 2009), included in the consolidated income statement under general and administrative expenses (Note 17).

At December 31, 2010, buildings, facilities and land with a book value of Bs 98,582,000 have an estimated market value of Bs 1,711,199,000, based on valuations performed by independent appraisers between April and June 2009.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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 at December 31, 2010:

	Original useful life (Years)	Average remaining useful life (%)
Buildings	40	33.79
Main office	40	20.78
Furniture	10	1.87
Computer hardware	4	0.98
Currency redenomination equipment	5	2.24
Other equipment	8	4.23
Vehicles	5	-
Computer hardware for chip project	6	4.75

9. Other assets

Other assets at December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Goodwill on acquisition of shareholding in Interbank, C.A. (Banco Universal), net of accumulated amortization of Bs 65,611,000 (Bs 59,050,000 in 2009) (Note 2)	65,611	72,172
Goodwill on acquisition of shareholding in Inversiones y Valores Mercantil VI, C.A., net of accumulated amortization of Bs 9,438,000 in 2009 (Note 2)	-	12,768
Goodwill on acquisition of shareholding in Mercantil Merinvest Casa de Bolsa, C.A., net of accumulated amortization of Bs 2,123,000 in 2009 (Note 2)	-	2,872
Deferred expenses, net of accumulated amortization of Bs 128,787,000 (Bs 100,796,000 in 2009) (Note 2)	79,057	115,358
Software, net of accumulated amortization of Bs 108,407,000 (Bs 92,475,000 in 2009)	28,423	33,564
Expenses from currency redenomination, net of accumulated amortization of Bs 10,299,000 (Bs 8,791,000 in 2009) (Note 1)	3,303	4,810
Deferred income tax (Note 15)	107,008	83,436
Prepaid taxes	51,189	18,858
Other accounts receivable	39,614	31,093
Stationery and office supplies	40,795	18,407
Advances and guarantee deposits	38,646	13,383
Insurance and other prepaid expenses	19,569	16,494
Advances to suppliers	18,211	18,931
Sambil La Candelaria shopping mall rights (Note 14)	13,429	13,429
Pending items and main office, branches and agencies	11,658	13,325
Accounts receivable from other credit card companies	10,464	6,509
Prepaid advertising	5,858	10,741
Transactions with derivative instruments (Note 14)	5,033	1,158
Other	943	946
Provision for other assets	<u>(28,488)</u>	<u>(27,082)</u>
	<u>510,322</u>	<u>461,172</u>

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the consolidated financial statements

December 31, 2010 and 2009

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 SUDEBAN. The purchase price was determined based on valuations by independent appraisers. Goodwill is amortized using the straight-line method over 10 years (Notes 2 and 6).

The Bank assesses recoverability of deferred tax assets using a model which considers the historic financial performance, taxable income projections and the future realization of existing temporary differences, among others. This assessment is based on approved business plans, among others, and includes management judgment on assumptions used, which may vary from one year to the next. At December 31, 2010, the Bank, based on its assessment, estimates that the net deferred tax asset of Bs 107,008,000 is realizable.

Sambil La Candelaria shopping mall rights were mainly acquired to set up the Bank's main office and for other purposes. At December 31, 2010, the Bank's consolidated financial statements include Bs 10 million (Bs 16 million in 2009) for the aforementioned rights, as well as idle assets (Note 7). In January 2010, the Venezuelan National Assembly declared this property of public and social interest, and urged the Capital District government to proceed with its expropriation. On February 24, 2010, the Capital District government ordered the expropriation. To date, the expropriation terms are unknown. Based on an independent appraisal, the fair value of these assets is considered to exceed their book value.

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. The balances of these accounts are provided for in accordance with aging criteria set by SUDEBAN. Deposits with these characteristics are included under accruals and other liabilities (Note 14).

At December 31, 2010, pending items and main office, branches and agencies also comprise spot transactions not yet cleared and payroll account payments to third parties not yet cleared for Bs 3,808,000, respectively (in-transit operations related to spot transactions not yet cleared and payroll account payments to third parties not yet cleared for Bs 5,933,000 and Bs 2,090,000, respectively, in 2009).

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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.

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

Accounts receivable from other credit card companies relate mainly to consumer transactions conducted by cardholders from other institutions at establishments affiliated to the Bank's credit cards.

At December 31, 2010, expenses incurred during the currency redenomination process of Bs 3,303,000 (Bs 4,810,000 during the year ended December 31, 2009) 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 two to six years. At December 31, 2010, the Bank recorded amortization expenses in this connection of Bs 1,507,000 (Bs 3,469,000 during the year ended December 31, 2009), shown in the consolidated income statement under general and administrative expenses (Note 17).

During the year ended December 31, 2010, the Bank recorded expenses from the provision for other assets of Bs 4,446,000 (Bs 3,549,000 during the year ended December 31, 2009), shown in the consolidated income statement under sundry operating expenses.

Amortization of deferred expenses and goodwill during the year ended December 31, 2010 amounted to Bs 55,764,000 (Bs 55,239,000 during the year ended December 31, 2009) and is shown under general and administrative expenses (Note 17).

10. Deposits

Deposits at December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Demand deposits	24,609,032	17,598,014
Savings deposits	13,232,528	10,650,173
Time deposits	497,339	750,027

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

Type of deposit	2010				2009			
	Deposits in bolivars		Deposits in U.S. dollars		Deposits in bolivars		Deposits in U.S. dollars	
	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %	Minimum rate %	Maximum rate %
Interest-bearing checking accounts	0.50	3.50	0.03	0.35	0.50	3.00	0.03	0.35
Savings deposits	12.50	12.50	0.03	0.45	12.50	12.50	0.03	0.45
Time deposits	14.50	14.76	0.10	1.03	14.50	17.00	0.10	1.79
Restricted deposits	0.50	14.50	0.00	1.19	0.50	14.50	0.03	3.00
Rights and certificates of participation in investment securities	0.75	14.50	-	-	1.50	14.50	-	-

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

	2010		2009	
	Thousands of bolivars	%	Thousands of bolivars	%
Up to 30 days	172,800	35	258,311	34
31 to 60 days	125,318	25	237,197	32
61 to 90 days	55,994	11	71,953	10
91 to 180 days	143,062	29	180,924	24
181 to 360 days	165	-	1,642	-
	<u>497,339</u>	<u>100</u>	<u>750,027</u>	<u>100</u>

At December 31, 2010, deposits include Bs 893,912,000 (Bs 957,342,000 at December 31, 2009) from the Venezuelan government and other government agencies, equivalent to 2.22% of total deposits (2.99% at December 31, 2009).

At December 31, 2010, restricted deposits relate to guarantee time deposits and dormant savings and checking accounts amounting to Bs 546,668,000 (Bs 425,150,000 in 2009).

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

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

	2010	2009
	(Thousands of bolivars)	
Interest-free demand deposits with BANAVIH	20	29
Other accounts payable to BANAVIH	<u>13</u>	<u>10</u>
	<u>33</u>	<u>39</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).

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

12. Borrowings

Borrowings at December 31 comprise the following:

	2010			2009				
	Original term	Up to one year	More than one year	Total	Original term	Up to one year	More than one year	Total
	(Thousands of bolivars)							
Borrowings with Venezuelan financial institutions								
Credit balances with correspondent banks		132,861	-	132,861		120,309	-	120,309
Demand deposits		<u>4,678</u>	-	<u>4,678</u>		<u>14,135</u>	-	<u>14,135</u>
		<u>137,539</u>	-	<u>137,539</u>		<u>134,444</u>	-	<u>134,444</u>
Borrowings with foreign financial institutions								
Credit balances with correspondent banks		1,667	-	1,667		447	-	447
Demand deposits		<u>649</u>	-	<u>649</u>		<u>250</u>	-	<u>250</u>
		<u>2,316</u>	-	<u>2,316</u>		<u>697</u>	-	<u>697</u>
Borrowings								
Funds received for special financing programs, with annual interest at between 18% and 22.29%	Between November 1992 and 2003	<u>2,104</u>	<u>7</u>	<u>2,111</u>	Between November 1992 and 2003	<u>2,057</u>	<u>54</u>	<u>2,111</u>
		<u>141,959</u>	<u>7</u>	<u>141,966</u>		<u>137,198</u>	<u>54</u>	<u>137,252</u>

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

	2010	2009
	(Thousands of bolivars)	
Up to 6 months	141,912	136,890
6 months to 1 year	<u>47</u>	<u>308</u>
	<u>141,959</u>	<u>137,198</u>

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

	2010	2009
	(Thousands of bolivars)	
Year		
2011	-	47
2012 and beyond	<u>7</u>	<u>7</u>
	<u>7</u>	<u>54</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

13. Other liabilities from financial intermediation

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

	2010	2009
	(Thousands of bolivars)	
Liabilities from letters of credit issued	15,390	18,210
Liabilities with credit card merchants	1,275	1,048
Liabilities from futures operations (Note 23)	15	177
Other	<u>59</u>	<u>59</u>
	<u>16,739</u>	<u>19,494</u>

14. Accruals and other liabilities

Accruals and other liabilities at December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Suppliers and other accounts payable	320,400	170,805
Provision for contingencies and other (Notes 15 and 23)	196,466	114,454
Employee profit sharing, vacation and bonuses	132,443	82,529
Direct financial liabilities (mutuums)	-	363,011
Deferred income		
Deferred interest	101,830	75,226
Deferred gain on rights and sale of property and other	66,947	72,800
Deferred income from loan portfolio	47,826	27,297
Taxes (Note 15)	246,019	87,937
Collected and withheld taxes	63,105	56,732
Labor contributions	20,837	10,902
Pending items and main office, branches and agencies (Note 9)	19,785	22,745
Law on Narcotic and Psychotropic Substances (Note 28)	15,598	14,365
Provision for operating risks	11,439	24,939
Provision for Supplementary Savings Plan (Note 16)	-	3,572
Commissions payable	<u>355</u>	<u>-</u>
	<u>1,243,050</u>	<u>1,127,314</u>

At December 31, 2010 and 2009, the Bank maintains provisions for operating risks of Bs 11,439,000 and Bs 24,939,000, 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 income statement under sundry operating expenses.

At December 31, 2010 and 2009, the Bank has invested in technology and innovation projects to cover the 0.5% contribution of territorial gross income during the prior year required by the Law for the Advancement of Science, Technology and Innovation.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

At December 31, 2009, the Bank had mutuum or securities loan agreements represented by Treasury Notes of the Bolivarian Republic of Venezuela for Bs 363,012,000, with a par value of Bs 365,265,000 and annual yield at 0.5%, maturing in January 2010.

At a Special Shareholders' Meeting of the subsidiary Holding de Inversión Mercantil de Colombia, S.A. held in December 2006, approval was granted to liquidate this subsidiary and distribute the remainder among shareholders. The amount to cover certain administrative and labor contingencies, as well as undetermined contingencies and liquidator fees, was calculated at Bs 3,463,000 to be managed under a trust agreement. At December 31, 2010, the balance of this trust fund is Bs 2,334,000 (Bs 1,806,000 in 2009) (Note 4).

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

New labor-related laws and their regulations that have financial effects have been introduced in Venezuela, such as the Workplace Hazard Prevention, 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 and have set aside the required provisions.

In June 2008, the Bank was notified by BANAVIH, ascribed to the People's Power Ministry for Housing, of an assessment of Bs 25,364,000 in respect of alleged differences in the contributions made under the Housing Loan Law. The Bank appealed this assessment in July 2008. In August 2008, BANAVIH ruled partially in favor of the Bank and reduced the assessment to Bs 11,647,000. However, in September 2008, the 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.

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 Bs 36,978,000 for general damages and loss of profits, plus monetary indexation. In November 2006, the Bank's legal advisors filed for annulment of the ruling, which includes allegations for nonfeasance and law infringement. In March 2009, the Supreme Tribunal of Justice ruled in favor of the annulment appeal filed by the Bank against the March 2006 ruling and ordered that a new ruling be issued. In the opinion of Bank management and its legal advisors, the new ruling will be favorable to the Bank.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

15. Taxes

The tax expense at December 31 comprises the following:

	2010	2009
	(Thousands of bolivars)	
Income tax		
Current		
In Venezuela	245,808	87,935
Abroad	293	248
Deferred		
In Venezuela	<u>(51,341)</u>	<u>(11,866)</u>
	<u>194,760</u>	<u>76,317</u>

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

	2010	2009
	(Thousands of bolivars)	
Property and equipment, organization and facility expenses and other	149,461	65,538
Other provisions	27,215	8,412
Loan portfolio	10,621	-
Allowances for losses on loan portfolio and interest receivable and other	-	2,250
Labor-related provisions	2,027	979
Income collected in advance	92	6,258
Provision for deferred income tax	<u>(82,408)</u>	<u>-</u>
Deferred income tax	<u>107,008</u>	<u>83,437</u>

a) 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, 2010, 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 tax-exempt income from National Public Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela. For the year ended December 31, 2010, the Bank estimated income tax expense of Bs 245 million.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

The following is a reconciliation between book income and taxable income for the year ended December 31, 2010:

Statutory tax rate	<u>34%</u>
	(Thousands of bolivars)
Notional tax expense based on book income in Venezuela computed at the effective tax rate	547,959
Difference between notional tax expense and actual tax expense	
Net effect of shareholdings	(19,161)
Effect of the annual inflation adjustment	(421,101)
Net effect of exemption of securities issued or guaranteed by the Venezuelan government	(214,111)
Nondeductible provisions	
Loan portfolio, net	151,821
Other provisions	25,653
Other effects, net	<u>99,289</u>
Effect of applying the tax rate to taxable income in Venezuela	170,349
Effect of applying the tax rate to foreign-earned taxable income	<u>74,805</u>
Effect of applying the tax rate to net taxable income in Venezuela, plus foreign-earned taxable income	<u>245,154</u>

At December 31, 2010, the Bank's subsidiaries have estimated tax loss carryforwards of Bs 10.6 million, of which Bs 7.1 million relates to the inflation adjustment and may be used until 2011; Bs 2.4 million and Bs 940,000 relate to tax losses in Venezuela and may be used until 2011 and 2013, respectively and; Bs 1,611 relates to extraterritorial losses and may be used until 2013.

b) Transfer pricing

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

c) Contingencies

In the normal course of business, the Bank is defendant 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.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Bank management identified a maximum risk of Bs 27,054,000 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 April 2008, the Bank was subject to a tax assessment of Bs 62,679,000 in respect of the proportional tax on dividends. In June 2008, the Bank filed a discharge claim with the Tax Authorities stating its legal arguments against this assessment. In December 2008, the National Integrated Customs and Tax Administration Service (SENIAT) confirmed this tax assessment and in January 2009 the Bank filed an appeal against the payment forms issued. In the opinion of Bank management and its legal advisors, this assessment is not well grounded in law.

In February 2009, the Bank was notified of a tax assessment of Bs 1,408,000 in respect of income tax for 2007. The assessment is based on the taxability of interest on the overdue or in-litigation loan portfolio. In April 2009, the Bank filed a discharge claim in this connection. In the opinion of 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 Defined Benefit Plan). Active employees have the option of subscribing to the new plan or remaining in the existing defined benefit plan.

Expenses in connection with this Plan for the Bank for the year ended December 31, 2010 amount to Bs 27,750,000 (Bs 29,496,000 for the year ended December 31, 2009).

b) Supplementary Defined Benefit Plan

This Plan is based on a minimum 10-year length-of-service period and a minimum retirement age. The retirement pension is based on the employee's average salary over the last three years of employment preceding retirement and is payable at a maximum of 60% of this average salary.

c) Post-retirement benefits

The Supplementary Defined Benefit 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 length of service, mainly health insurance, with costs and obligations determined based on actuarial methods. These benefits are recorded in the consolidated income statement for the year.

For the year ended December 31, 2010, expenses in connection with the Supplementary Defined Benefit Plan and post-retirement benefits amounted to Bs 23,035,000 (Bs 15,576,000 for the year ended December 31, 2009).

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	Supplementary Defined Benefit Plan		Post-retirement benefits	
	2010	2009	2010	2009
	(Thousands of bolivars)			
Variation in projected benefit obligation				
Benefit obligation	39,722	34,454	25,641	31,577
Service cost	76	109	2,149	2,536
Interest expense	6,091	5,388	5,835	6,113
Actuarial (gain) loss	12,457	1,934	5,104	(12,087)
Benefits paid	(7,023)	(5,866)	(3,240)	(2,498)
Plan modification and other	<u>17,660</u>	<u>3,703</u>	-	-
Projected benefit obligation	<u>68,983</u>	<u>39,722</u>	<u>35,489</u>	<u>25,641</u>
Variation in restricted Plan assets				
Opening fair value of assets	39,722	34,454	18,461	15,536
Yield on assets	14,303	1,249	(2,961)	154
Contribution	19,199	4,725	-	1,450
Transfer of obligations	<u>(4,241)</u>	<u>(706)</u>	<u>4,094</u>	<u>1,321</u>
Closing fair value of assets	<u>68,983</u>	<u>39,722</u>	<u>19,594</u>	<u>18,461</u>
Financial position at year end				
Present value of obligations (DBO)	(68,983)	(39,722)	(35,488)	(25,641)
Assets of external fund supporting the Plan	<u>68,983</u>	<u>39,722</u>	<u>19,594</u>	<u>18,461</u>
Excess (deficit) of assets over projected obligation	-	-	(15,894)	(7,180)
Unrecognized past service cost	-	-	5,470	6,328
Unrecognized actuarial (gain) loss	<u>-</u>	<u>-</u>	<u>686</u>	<u>(4,187)</u>
	<u>-</u>	<u>-</u>	<u>(9,738)</u>	<u>(5,039)</u>
Components of net benefit cost for the year				
Service cost	76	109	2,149	2,536
Interest expense	6,091	5,388	5,834	6,113
Expected yield from Plan assets	(14,303)	(1,249)	2,961	(154)
Amortization of unrecognized past service cost	-	-	858	854
Amortization of actuarial gain	<u>12,630</u>	<u>(1,509)</u>	<u>(223)</u>	<u>(629)</u>
Net benefit cost	<u>4,494</u>	<u>2,739</u>	<u>11,579</u>	<u>8,720</u>

The following are the assumptions used to determine benefit obligations at December 31:

	Supplementary Defined Benefit Plan		Post-retirement benefit	
	2010	2009	2010	2009
	%	%	%	%
Discount rate	22.5	24.00	22.5	24.00
Salary increase	22.5	24.00	22.5	24.00
Yield on assets				
Bolivars	17	20.00	17	20.00
U.S. dollars	6	6.00	6	6.00
Increase in medical expenses	26.5	27.00	26.5	27.00

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

The estimated cost of the Plan for 2011 is Bs 6,583,000.

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 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, 2010, 32 employees are participating in this Plan.

Below is a breakdown of shares included in the Plan at December 31, 2010, which are deposited in the Mercantil Seguros, C.A. trust fund:

Phase	Approval date	Number of shares		Option price		Deadline for exercising options
		Class "A"	Class "B"	Class "A"	Class "B"	
				(In bolivars)		
IV	2004	111,991 (1)	93,335 (1)	25.00	25.00	2011
V	2007	308,825 (2)	540,834 (2)	47.65	47.65	-
Shares available		<u>1,160,420</u>	<u>543,924</u>			
Total trust fund shares		<u>1,581,236</u> (3)	<u>1,178,093</u> (3)			

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

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

(3) Includes stock dividends.

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

Below is the movement of shares awarded in Phase IV:

	Shares awarded		
	Class "A"	Class "B"	Total
Balances at December 31, 2008	796,697	662,743	1,459,440
Options exercised	(204,806)	(169,637)	(374,443)
Options recovered	<u>(3,422)</u>	<u>(2,854)</u>	<u>(6,276)</u>
Balances at December 31, 2009	588,469	490,252	1,078,721
Options exercised	(429,412)	(358,492)	(787,904)
Options recovered	<u>(47,066)</u>	<u>(38,425)</u>	<u>(85,491)</u>
Balances at December 31, 2010	<u>111,991</u>	<u>93,335</u>	<u>205,326</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

The market value of each option is estimated at the 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 IV	37.52	11.02	1.06	13.33

17. General and administrative expenses

General and administrative expenses for the years ended December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Transportation of valuables and communications	110,406	94,884
External services, fees and other	113,921	93,635
Maintenance of property and equipment	90,202	74,460
Taxes and contributions (Note 15)	86,768	84,056
Sundry general expenses	83,725	54,120
Services and supplies	64,909	58,596
Amortization of deferred expenses (Note 9)	48,670	45,958
Transportation and surveillance	48,278	38,367
Depreciation of property and equipment (Note 8)	40,064	40,388
Advertising	36,228	29,293
Leases	36,193	27,825
Insurance for property and equipment	33,200	13,127
Software licenses	45,014	27,807
Amortization of goodwill (Note 9)	8,601	9,281
Legal	2,188	2,486
Other	<u>4,024</u>	<u>104</u>
	<u>852,391</u>	<u>694,387</u>

18. Other operating income

Other operating income for the years ended December 31 comprises the following:

	2010	2009
	(Thousands of bolivars)	
Commissions on services (Note 23)	734,443	508,841
Exchange gain (Note 22)	670,737	17,109
Gain on sale of investment securities (Notes 4 and 19)	402,788	127,959
Commissions on trust funds (Note 24)	54,107	45,283
Income from equity in affiliates	26,457	50,774
Gain on sale of investments of subsidiaries and affiliates	3,997	-
Discount obtained from investment securities	783	749
Exchange and currency arbitration gains (Note 22)	<u>23</u>	<u>16</u>
	<u>1,893,335</u>	<u>750,731</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

19. Other operating expenses

Other operating expenses for the years ended December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Exchange loss (Note 22)	136,508	16,526
Commissions on services	125,729	65,934
Loss on sale of investment securities (Notes 4 and 18)	89,054	44,691
Loss from equity in affiliates	4,541	6,916
Amortization of premium on investment securities	1,320	8,570
Permanent write-down of investment securities (Note 4)	<u>-</u>	<u>27,557</u>
	<u>357,152</u>	<u>170,194</u>

20. Extraordinary expenses

Extraordinary expenses for the years ended December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Loss from theft, robbery and fraud	49,305	57,939
Donations made by the Bank (Note 25)	5,978	6,764
Loss from sundry claims	913	722
Other	<u>1,566</u>	<u>1,001</u>
	<u>57,762</u>	<u>66,426</u>

21. Equity

a) Capital stock

At December 31, 2010 and 2009, the Bank's paid-in capital amounts to Bs 268,060,233 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 146,078,970 Class "A" common shares and 121,793,477 Class "B" common shares (146,076,891 and 121,792,180, respectively, at December 31, 2009), representing 99.93% of the Bank's capital stock.

At December 31, 2010 and 2009, the Bank complies with minimum paid-in capital requirements for universal banks of Bs 170,000,000.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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	July 2010	0.50	July 2010
Ordinary	March 2010	0.78	April 2010
Ordinary	February 2009	0.74	April 2009

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 SUDEBAN established a requirement to set aside an equity reserve of 50% of income for each period to restricted surplus, exclusively for capital increase purposes. During the year ended December 31, 2010, the Bank recorded Bs 657,053,000 (Bs 318,522,000 during the year ended December 31, 2009), equivalent to 50% of the net result at that date, under restricted surplus.

At December 31, 2010, restricted surplus of Bs 2,154,816,000 (Bs 1,573,279,000 in 2009) includes Bs 52,681,000 in respect of income from subsidiaries and affiliates (Bs 128,196,000 in 2009), 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, 2010, the Bank released Bs 99,774,000 from restricted surplus for the sale of the subsidiaries Inversiones y Valores Mercantil VI, C.A., Mercantil Merinvest Casa de Bolsa, C.A., and Mercantil Promotora de Valores 2005 V, C.A., for Bs 90,177,000, Bs 5,658,000, and Bs 3,939,000, respectively.

During the years ended December 31, 2010 and 2009, the Bank reclassified from restricted surplus, mainly in respect of sales and cash dividends received from subsidiaries and affiliates.

c) Appropriation to legal reserve

In accordance with its bylaws and the General Bank Law, the Bank records biannually an appropriation to the 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 the legal reserve will be 10% of net income for each six-month period until the reserve reaches 100% of its capital stock.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

d) Risk-based capital ratios

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

	<u>2010</u> Maintained %	<u>2009</u> Maintained %	Required %
Equity to risk-weighted assets and contingent operations	17.6	17.0	12
Equity to total assets	11.2	10.2	8

In July 2009, SUDEBAN eliminated the requirement to deduct goodwill from equity. Also, among the changes to risk-based capital ratios are: a) contributions pending capitalization and treasury stock are considered primary equity (Level 1); b) goodwill and investments in Venezuelan financial subsidiaries or affiliates should be deducted from primary equity (Level 1) and; c) the weighting applicable to mandatory loan portfolios for agriculture, mortgages, microcredits, tourism and manufacturing is 50%.

22. Financial assets and liabilities in foreign currency

a) Exchange control regime

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

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

b) Applicable exchange rates

On March 2, 2005, the Ministry of Finance and BCV changed the official exchange rates, effective as from that date, from Bs 1.915/US\$1 to Bs 2.1446/US\$1 (purchase) and from Bs 1.92/US\$1 to Bs 2.15/US\$1 (sale). In January 2010, the Venezuelan government and the Central Bank of Venezuela (BCV) introduced a two-tiered exchange rate of Bs 2.5935/US\$1 or Bs 4.2893/US\$1 (purchase) and Bs 2.60/US\$1 or Bs 4.30/US\$1 (sale), thereby modifying the official exchange rates that had remained in effect since March 2005. The rate applicable to imports for priority sectors such as food, health, education, machinery and equipment, and science and technology, as well as for external public debt servicing, among others, is Bs 2.60/US\$1; whereas Bs 4.30/US\$1 shall apply to imports for all other sectors.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

In January 2010, BCV established that foreign currency assets and liabilities held by banks, exchange offices and other financial institutions, whether public or private, regulated by the Law on Banking Sector Institutions, the Stock Market Law, the Insurance Activity Law, and other special laws shall be measured and recorded at Bs 2.60/US\$1 and public-sector securities at Bs 4.30/US\$1, except for Principal and Interest Covered Bonds (TICC), which shall be measured at Bs 2.60/US\$1. In June 2010, BCV further modified this regulation by establishing a single exchange rate of Bs 4.30/US\$1; however, the Bs 2.60/US\$1 exchange rate remained unchanged for TICCs. In December 2010, BCV established that as from January 2011 the exchange rate applicable to all foreign currency transactions will be Bs 4.2893/US\$1 (purchase) and Bs 4.30/US\$1 (sale), including TICCs.

c) Measurement and recording of foreign currency assets and liabilities

SUDEBAN established that net gains derived by financial institutions from changes in the official exchange rate should be recorded in equity, and may only be used to offset losses, increase capital stock, set aside provisions for assets and offset deferred expenses, including goodwill. In addition, subject to previous approval, SUDEBAN allows recording of these exchange gains in profit and loss for the period when such gains derive from the sale of the securities that gave rise to the exchange gains. In December 2010, SUDEBAN authorized the Bank to record exchange gains of Bs 775,117,000 in the income statement, of which Bs 473,329,000 was recognized at December 31, 2010 and, based on the approval, the remaining Bs 301,788,000 will be recognized during 2011 as an offset to expenses in respect of the allowance for losses on the loan portfolio.

The Bank's consolidated balance sheet at December 31 includes the following balances of financial assets and liabilities in foreign currency, denominated mainly in U.S. dollars, stated at the exchange rates described in Note 2:

	2010		2009	
	Equivalent in bolivars	US\$	Equivalent in bolivars	US\$
	(In millions)			
Assets				
Cash and due from banks	395	92	279	130
Investment securities	626	146	390	182
Loan portfolio	154	36	73	35
Interest and commissions receivable	4	1	3	1
Investments in subsidiaries and affiliates	4	1	-	-
Other assets	<u>47</u>	<u>11</u>	<u>17</u>	<u>8</u>
Total assets	<u>1,230</u>	<u>287</u>	<u>762</u>	<u>356</u>
Liabilities				
Deposits	163	38	104	48
Other liabilities from financial intermediation	17	4	18	8
Accruals and other liabilities	<u>94</u>	<u>22</u>	<u>36</u>	<u>17</u>
Total liabilities	<u>274</u>	<u>64</u>	<u>158</u>	<u>73</u>

The estimated effect of every Bs 0.1/US\$1 increase in the exchange rate of Bs 4.2893/US\$1 for the year ended December 31, 2010 would be an increase in assets and equity of Bs 28,700,000 and Bs 22,300,000, respectively (an increase in assets and equity of Bs 35,531,000 and Bs 28,164,000, respectively, in the exchange rate of Bs 2.1446/US\$1 at December 31, 2009).

At December 31, 2010, memorandum accounts include foreign currency sales commitments of US\$47,529,000 (foreign currency sales commitments of US\$54,823,000 in 2009).

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

During the year ended December 31, 2010, net exchange gains from revaluation of the foreign currency position amounted to Bs 534,229,000 (Bs 583,000 for the year ended December 31, 2009) (Notes 18 and 19).

BCV excludes from this limit a portion of the capital and income of the agency and branch abroad for US\$61,838,978 and securities issued by the Bolivarian Republic of Venezuela (Global Bonds 2019 and 2024) for US\$15,094,324 (US\$7,745,280 at December 31, 2009). At December 31, 2009, Securities issued by Petróleos de Venezuela, S.A. (Petrobonos 2011, 2014, 2015 and 2016) for Bs 113,084,646 as well as securities issued by the Bolivarian Republic of Venezuela, with a reference value in foreign currency and payable in bolivars at the official exchange rate, for Bs 521,272,000 (Bs 447,238,000 at December 31, 2009) are also excluded.

23. Memorandum accounts

Memorandum accounts at December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Contingent debtor accounts		
Letters of credit	429,412	171,489
Guarantees granted	460,780	333,312
Transactions with derivative instruments	678,348	613,301
Tourism loan commitments	33,048	25,059
Other contingencies	839,649	776,959
Investments in securities under repurchase agreement	<u>1,611,000</u>	<u>1,226,000</u>
	<u>4,052,237</u>	<u>3,146,120</u>
Assets received in trust	<u>8,420,514</u>	<u>8,739,157</u>
Other special trust services	<u>19,778</u>	<u>21,334</u>
Other debtor memorandum accounts		
Guarantees received	50,309,091	34,173,361
Unused lines of credit	7,240,644	4,920,479
Valuables received in custody	9,501,469	6,531,568
Collections	104,725	82,744
Other control accounts (Note 4)	<u>14,688,869</u>	<u>9,679,081</u>
	<u>81,844,798</u>	<u>55,387,233</u>
Other debtor control accounts	<u>5,146</u>	<u>5,146</u>

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.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Guarantees granted

After conducting a credit risk analysis, the Bank provides guarantees to certain customers within their line of credit. These guarantees are issued to a beneficiary and may be executed if the customer fails to comply with the terms of the agreement. These guarantees mature after more than one year and earn annual commissions between 1% and 2% (0.25% and 3% during the year ended December 31, 2009) 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.

Transactions with derivative 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, 2010 amounted to Bs 108,240,000 and Bs 50,166,000, respectively (Bs 133,677,000 and Bs 80,905,000, respectively, during the year ended December 31, 2009), recorded in the consolidated income statement under other interest income and 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). 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, 2009, the difference between the economic values of both securities resulted in a gain and loss for the Bank of Bs 34,919,000 and Bs 24,354,000, respectively, recorded under other interest income and expenses from other liabilities from financial intermediation, respectively. In September 2009, these agreements were assigned to a subsidiary at their net market value of Bs 112,702,000 (US\$52,551,000) (Note 6).

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

	2010		2009	
	Thousands of bolivars	Maturity	Thousands of bolivars	Maturity
Non-hedging futures				
Contracts				
Securities				
Purchases	678,348	January 2011	363,765	January 2010
Sales	-		<u>249,536</u>	January 2010
	<u>678,348</u>		<u>613,301</u>	

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	<u>2010</u>		<u>2009</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Services	678,348	100	519,699	85
Financial entities	-	-	93,602	15
	<u>678,348</u>	<u>100</u>	<u>613,301</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 foreign 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. The nominal credit card interest rate is variable and for the years ended December 31, 2010 and 2009 was 29% 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, 2010 and 2009, in accordance with the Accounting Manual, the Bank has set aside general and specific provisions for contingent debtor accounts of Bs 5,597,000 and Bs 4,897,000, respectively (Note 14).

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

b) Assets received in trust

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

	2010	2009
	(Thousands of bolivars)	
Assets		
Cash and due from banks (Note 10)	384,734	286,323
Investment securities	3,408,901	4,720,761
Loan portfolio	4,179,730	3,247,598
Interest and commissions receivable	58,041	52,979
Assets received for administration	4,133	5,115
Other assets	<u>384,975</u>	<u>426,381</u>
Total assets	<u>8,420,514</u>	<u>8,739,157</u>
Liabilities		
Fees and other accounts payable	26,676	24,258
Other liabilities	<u>692</u>	<u>1,229</u>
Total liabilities	<u>27,368</u>	<u>25,487</u>
Equity	<u>8,393,146</u>	<u>8,713,670</u>
Total liabilities and equity	<u>8,420,514</u>	<u>8,739,157</u>

Trust fund equity at December 31 is classified as follows:

	2010	2009
	(Thousands of bolivars)	
Trust fund		
Employee termination benefits	6,689,381	5,705,788
Administration	581,072	2,060,996
Investment	359,924	295,681
Guarantee and custody	439,468	393,137
Savings fund	<u>323,301</u>	<u>258,068</u>
	<u>8,393,146</u>	<u>8,713,670</u>
Trust fund		
Private sector	4,675,913	5,147,727
Public sector	<u>3,717,233</u>	<u>3,565,943</u>
	<u>8,393,146</u>	<u>8,713,670</u>

Mercantil, C.A. Banco Universal and its Subsidiaries

Notes to the consolidated financial statements

December 31, 2010 and 2009

At December 31, 2010 and 2009, trust funds do not exceed five times the Bank's equity, in accordance with the General Bank Law.

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

	2010		2009	
	Book value	Fair value	Book value	Fair value
	(Thousands of bolivars)			
1) Debt securities issued by foreign private-sector companies				
Debt securities issued by foreign private-sector companies, with annual yield at between 5.7% and 10%, maturing between June 2011 and 2012, and with a par value of US\$1,075,000 (annual yield at between 2.90% and 10%, maturing between August 2010 and June 2012, and with a par value of US\$3,245,000 in 2009)	4,843	4,864 (1)	7,286	7,326 (1)
2) Debt securities issued by Venezuelan private-sector companies				
Debt securities issued by Venezuelan private-sector companies, with annual yield at between 0.081% and 17.73%, maturing between January 2011 and September 2012, and with a par value of Bs 222,925,226 (annual yield at between 9.85% and 19.5%, maturing between February 2010 and December 2012, and with a par value of Bs 503,022,485 in 2009)	221,119	217,916 (2)	497,937	490,165 (2)
3) Securities issued or guaranteed by the Venezuelan government				
National Public Debt Bonds, with annual interest at between 9.25% and 18%, maturing between February 2011 and November 2020, and with a par value of Bs 2,759,111,406 (annual interest at between 9.25% and 13.88%, maturing between January 2010 and October 2020, and with a par value of Bs 2,547,356,911 in 2009)	2,717,937	2,674,052 (2)	2,501,808	2,448,257 (2)
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\$122,096,138, payable in bolivars at the official exchange rate (reference par value of US\$122,830,500, payable in bolivars at the official exchange rate in 2009)	296,610	280,894 (2)	299,282	262,636 (2)
National Public Debt Bonds in foreign currency, with annual interest at between 1.29% and 12.75%, maturing between April 2011 and April 2025, and with a par value of US\$16,079,000 (annual interest at between 1.28% and 10.75%, maturing between August 2010 and September 2027, and with a par value of US\$246,703,000 in 2009)	59,957	59,903 (2)	364,013	411,679 (2)
Venezuelan Securities (TCC) in foreign currency issued by the Central Bank of Venezuela, with 4% annual interest, maturing in December 2010, and with a par value of US\$319,419	-	-	685	669 (3)
	<u>3,074,504</u>	<u>3,014,849</u>	<u>3,165,788</u>	<u>3,123,241</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 0.11% and 5%, maturing between January and December 2011, and with a par value of US\$7,605,000 (annual interest at between 0.14% and 0.16%, maturing between January and November 2010, and with a par value of US\$7,833,620 in 2009)	32,588	32,587 (1)	16,790	16,790 (1)
Bonds issued by foreign public-sector agencies (governments of Mexico and Argentina), with annual interest at between 6.38% and 7%, maturing between August 2013 and October 2015, and with a par value of US\$1,801,000 (governments of Mexico and Argentina, with annual interest at between 0.94% and 7%, maturing between August 2012 and October 2015, and with a par value of US\$1,810,938 in 2009)	8,058	8,503 (1)	4,132	4,305 (1)
	<u>40,646</u>	<u>41,090</u>	<u>20,922</u>	<u>21,095</u>
5) Investments issued by Venezuelan non-financial private-sector companies				
Inversora Previcredito, C.A., 22,150 common shares with a par value of Bs 0.06 each	9	9 (4)	9	9 (4)
Other	16	142	19	134
	<u>25</u>	<u>151</u>	<u>28</u>	<u>143</u>
6) Investments issued by Venezuelan non-financial public-sector companies				
Siderurgica Venezolana, S.A. (SIVENSA), 1,658 common shares with a par value of Bs 2 each	3	14	-	-
7) Investments in Venezuelan banks and other financial institutions				
Time deposits, with annual interest at between 14.5% and 16.5%, maturing between January and March 2010	-	-	537,719	537,719 (4)
Other	1,898	2,019	1,888	2,063
	<u>1,898</u>	<u>2,019</u>	<u>539,607</u>	<u>539,782</u>
8) Investments in foreign banks and other financial institutions				
Time deposits, with annual interest at between 0.12% and 0.68%, maturing between January and September 2011, and with a par value of US\$15,354,000 (annual interest at between 0.26% and 10.26%, maturing between January and March 2010, and with a par value of US\$228,103,000 in 2009)	65,859	65,859 (3)	489,190	489,190 (3)
9) Other investments	4	1	3	1
	<u>3,408,901</u>	<u>3,346,763</u>	<u>4,720,761</u>	<u>4,670,943</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.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

At December 31, 2010, the market value of securities of the Bolivarian Republic of Venezuela is lower than amortized cost by Bs 78,951,000 (Bs 95,406,000 in 2009). 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 income statement. In addition, the trust fund has the ability to hold these securities for a sufficient period of time to recover unrealized losses.

Investments classified by maturity at December 31 are as follows:

	<u>2010</u>		<u>2009</u>	
	Book value	Fair value	Book value	Fair value
	(Thousands of bolivars)			
Up to six months	608,764	611,134	1,390,297	1,390,026
Six-months to one year	138,271	138,485	172,843	172,245
One to five years	1,963,332	1,922,301	2,703,316	2,675,208
Over five years	696,603	672,658	452,386	431,256
No fixed maturity	<u>1,931</u>	<u>2,185</u>	<u>1,919</u>	<u>2,208</u>
	<u>3,408,901</u>	<u>3,346,763</u>	<u>4,720,761</u>	<u>4,670,943</u>

Investment securities at December 31 comprise the following:

	<u>2010</u>	<u>2009</u>
		(Thousands of bolivars)
Non-directed	3,324,342	3,344,207
Directed	<u>84,559</u>	<u>1,376,554</u>
	<u>3,408,901</u>	<u>4,720,761</u>

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

	<u>2010</u>		<u>2009</u>	
	Directed	Non-directed	Directed	Non-directed
	(Thousands of bolivars)			
Debt securities issued by foreign public and private-sector companies	17,652	27,841	12,057	16,154
Deposits with other Venezuelan financial institutions	-	-	376,092	-
Securities issued or guaranteed by the Venezuelan government	988	3,073,515	337,538	2,828,249
Investments in Venezuelan private-sector companies	60	222,986	50	499,804
Deposits with other foreign banks	65,859	-	489,190	-
Investments in Venezuelan public-sector entities	-	-	<u>161,627</u>	-
	<u>84,559</u>	<u>3,324,342</u>	<u>1,376,554</u>	<u>3,344,207</u>

Based on internal procedures of the 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.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	2010	2009
	(Thousands of bolivars)	
Loans to beneficiaries of employee termination benefits	3,931,281	3,104,786
Mortgage loans	244,589	136,440
Loans to government agencies	2,890	5,402
Company loans	<u>970</u>	<u>970</u>
	<u>4,179,730</u>	<u>3,247,598</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, 2010, loans to beneficiaries of employee termination benefit trust funds include Bs 438,412,000 and Bs 24,230,000 in respect of loans granted to the Bank and Mercantil Seguros, C.A. employees, respectively, on employee termination benefit balances (Bs 344,637,000 and Bs 13,391,000, respectively, in 2009).

At December 31, 2010, mortgage loans include Bs 16,429,000 (Bs 17,540,000 in 2009) 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 Bs 228,160,000 (Bs 118,900,000 in 2009) in respect of mortgage loans to beneficiaries of employee termination benefits.

Other assets received in trust mainly comprise guarantees received for administration, withdrawal of prepaid benefits, accounts receivable from government entities 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 528,015,000 and Bs 39,220,000, respectively, at December 31, 2010 (Bs 423,269,000 and Bs 24,139,000, respectively, in 2009).

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

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

The Venezuelan Housing Policy Law appointed BANAVIH as the sole administrator of public and private funds to finance housing. Therefore, the financial institutions regulated by the General Bank Law 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. SUDEBAN instructed financial institutions to write out of their 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

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

global account. During the year ended December 31, 2010, the Bank recorded income from financial transactions of Bs 15,652,000, shown under interest income (Bs 25,559,000 during the year ended December 31, 2009).

d) Other debtor accounts

Other control accounts are mainly in respect of returned checks and guarantees pending release. At December 31, 2010, these accounts also include US\$69,564,407, equivalent to Bs 298,382,610 (US\$89,897,000, equivalent to Bs 192,793,000 in 2009), of which US\$34,864,528 is prior to December 31, 2008 and relates to the balance receivable from CADIVI for payments in foreign currency made by the Bank on behalf of customers for credit card use abroad.

24. Balances and transactions with related companies

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

Below is a breakdown of the Bank's balances with related companies at December 31:

a) Balance sheet

	2010	2009
	(Thousands of bolivars)	
Cash and due from banks	<u>301,811</u>	<u>113,654</u>
Mercantil Commercebank, N.A.	301,506	113,500
Mercantil Bank (Panamá), S.A.	214	107
Mercantil Bank (Schweiz) AG	91	47
Investment securities	<u>153,917</u>	<u>294,373</u>
Servicio Panamericano de Protección, C.A.	98,456	98,456
Inversiones Platco, C.A.	51,886	48,676
Proyectos Conexus, C.A.	3,301	2,979
Inmobiliaria Asociación Bancaria, C.A.	167	167
Mercantil Commercebank, N.A.	107	54
Mercantil Bank (Panamá), S.A.	-	1,971
Inversiones y Valores Mercantil VI, C.A.	-	118,933
Mercantil Merinvest, C.A.	-	23,137
Other assets	<u>30,573</u>	<u>23,302</u>
Fideicomiso Mercantil Banco Universal	25,403	22,640
Cestaticket Accor Services, C.A.	3,585	375
Servicio Panamericano de Protección, C.A.	1,584	-
Inversiones Platco, C.A.	1	-
Mercantil Commercebank, N.A.	-	207
Mercantil Bank (Panamá), S.A.	-	1
Todo I Services, Inc.	-	79
Total assets	<u>486,301</u>	<u>431,329</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

	2010	2009
	(Thousands of bolivars)	
Deposits	<u>595,644</u>	<u>398,811</u>
Checking accounts	<u>503,339</u>	<u>293,287</u>
Non-interest bearing checking accounts	<u>138,510</u>	<u>40,386</u>
Mercantil Seguros, C.A.	53,012	26,938
Servicio Panamericano de Protección, C.A.	49,552	2,866
Cestaticket Accor Services, C.A.	18,112	2,371
Mercantil Financiadora de Primas, C.A.	6,586	5,392
Inversiones y Valores Mercantil VIII, C.A.	3,776	-
Fundación BMA	2,122	542
Fundación Mercantil	1,576	78
Mercantil Merinvest Casa de Bolsa, C.A.	1,188	-
Innovex, C.A.	917	1,010
Inversiones Platco, C.A.	815	155
Mercantil Servicios Financieros, C.A.	392	91
Mercantil Sociedad Administradora de Entidades de Inversión Colectiva, C.A.	130	72
Mercantil Servicios de Inversión, C.A.	102	31
Mercantil Merinvest, C.A.	49	31
Mercantil Inversiones y Valores, C.A.	21	119
Inversiones y Valores Mercantil VI, C.A.	11	13
Servibien, C.A.	4	256
Other	145	421
Interest-bearing checking accounts	<u>364,829</u>	<u>252,901</u>
Fideicomiso Mercantil Banco Universal	364,378	252,783
Fundación BMA	451	118
Savings accounts	<u>2,775</u>	<u>21,284</u>
Fundación BMA	2,468	20,105
Fundación Mercantil	307	1,179
Time deposits	<u>89,530</u>	<u>84,240</u>
Mercantil Seguros, C.A.	65,500	45,000
Mercantil Merinvest Casa de Bolsa, C.A.	15,000	-
Fundación BMA	4,670	2,670
Mercantil Servicios Financieros, C.A.	3,400	4,000
Mercantil Inversiones y Valores, C.A.	315	785
Servibien, C.A.	200	-
Mercantil Promotora de Valores 2005 IV, C.A.	-	5,595
Inversiones y Valores Mercantil VI, C.A.	-	25,708
Other	445	482
Other liabilities	<u>62,343</u>	<u>402,746</u>
Mercantil Inversiones y Valores, C.A.	41,262	41,262
Inversiones Platco, C.A.	20,360	22,391
Fundación BMA	601	337
Fundación Mercantil	46	34
Mercantil Seguros, C.A.	36	160
Mercantil Merinvest Casa de Bolsa, C.A.	24	-
Cestaticket Accor Services, C.A.	8	338,559
Other	<u>6</u>	<u>3</u>
Total liabilities	<u>657,987</u>	<u>801,557</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

b) Income statement

	Years ended	
	December 31,	
	2010	2009
	(Thousands of bolivars)	
Interest income	<u>2,118</u>	<u>35,631</u>
Income from cash and due from banks	<u>265</u>	<u>69</u>
Mercantil Commercebank, N.A.	262	59
Mercantil Bank (Panamá), S.A.	3	10
Other interest income	<u>1,853</u>	<u>35,562</u>
Mercantil Servicios Financieros, C.A.	778	34,919
Mercantil Commercebank, N.A.	1,074	643
Mercantil Bank and Trust limited (Cayman)	1	-
Interest expense	<u>6,689</u>	<u>39,744</u>
Fundación BMA	4,018	4,825
Inversiones Platco, C.A.	1,339	7,158
Mercantil Servicios Financieros, C.A.	704	26,263
Fundación Mercantil	370	868
Mercantil Merinvest Casa de Bolsa, C.A.	102	1
Mercantil Inversiones y Valores, C.A.	99	472
Mercantil Promotora de Valores VIII, C.A.	31	-
Mercantil Promotora de Valores 2005 V, C.A.	25	152
Holding Mercantil Internacional, C.A.	1	3
Mercantil Bank Curacao, N.V.	-	2
Operating income	<u>138,097</u>	<u>128,160</u>
Fideicomiso Mercantil, C.A. Banco Universal (Note 18)	54,107	45,282
Inversiones y Valores Mercantil VI, C.A.	38,933	39,261
Mercantil Seguros, C.A.	11,158	4,543
Inversiones Platco, C.A.	10,321	22,505
Mercantil Financiadora de Primas, C.A.	8,746	5,771
Mercantil Inversiones y Valores, C.A.	4,903	209
Mercantil Merinvest, Casa de Bolsa C.A.	3,984	9,632
Mercantil Servicios Financieros, C.A.	3,222	-
Todo 1 Services, Inc.	2,417	69
Proyecto Conexus, C.A.	280	881
Mercantil Promotora de Valores 2005 V, C.A.	25	-
Fundación BMA	1	7
Operating expenses	<u>48,966</u>	<u>11,981</u>
Inversiones Platco, C.A.	44,371	6,915
Mercantil Commercebank, N.A.	2,420	2,245
Mercantil Bank Curacao, N.V.	1,711	967
Mercantil Services Corporation	251	356
Proyecto Conexus, C.A.	213	-
Mercantil Inversiones y Valores, C.A.	-	1,498
Extraordinary expenses		
Fundación Mercantil (Note 25)	<u>5,828</u>	<u>6,759</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

c) Memorandum accounts

	2010	2009
	(Thousands of bolivars)	
Memorandum accounts	<u>463,934</u>	<u>402,747</u>
Transactions with derivative instruments Cestaticket Accor Services, C.A.	463,934	402,747

d) Trust fund

	2010	2009
	(Thousands of bolivars)	
Cash and due from banks	<u>364,768</u>	<u>253,363</u>
Mercantil Commercebank, N.A.	390	573
Mercantil, C.A. Banco Universal	364,378	252,783
Mercantil Bank & Trust Limited	-	7
Investment securities	<u>-</u>	<u>4</u>
Mercantil Servicios Financieros, C.A.	-	4
Total assets	<u>364,768</u>	<u>253,367</u>
Fees payable		
Mercantil, C.A. Banco Universal	<u>25,403</u>	<u>22,640</u>
Total liabilities	<u>25,403</u>	<u>22,640</u>

e) Transactions

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

Cash and due from banks, deposits and other liabilities from financial intermediation 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, 2009, the Curacao branch had US\$1 million in participations in loans acquired from the agency and related banks. Purchase and sale transactions with related banks of participations in loans were conducted with unrelated borrowers under the same terms used by the branch for granting loans.

Mercantil Merinvest Casa de Bolsa, C.A. (Merinvest), subsidiary of Mercantil Servicios Financieros, C.A., as security broker, provides services to the trust fund by transacting purchases and sales of securities with different customers. These transactions are in cash at market prices. During the year ended December 31, 2010, the trust fund conducted purchases and sales of securities in cash at market values through Merinvest and other related companies, resulting in a gain of Bs 372,000 (loss of Bs 657,000 during the year ended December 31, 2009).

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Mercantil Servicios de Inversión, C.A. (MSI), subsidiary of Mercantil Servicios Financieros, C.A., is authorized by the Venezuelan Securities Superintendency (SNV) 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 Disposal. Trustee responsibility is not delegated as part of the service for which MSI charges an annual commission on the portfolio collections. During the year ended December 31, 2010, the Bank paid MSI Bs 4,634,000 (Bs 5,857,000 during the year ended December 31, 2009) in this connection.

At December 31, 2009, the trust fund has investments of Bs 4,000 related to directed trust funds in Mercantil Servicios Financieros, C.A.

At December 31, 2010, and 2009, fees payable include commissions payable to the Bank as set out in trust fund agreements signed by trustors and the trust fund. 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, 2010, the Bank recorded income of Bs 54,108,000 and has Bs 25,403,000 receivable in respect of these commissions (Bs 42,171,000 and Bs 22,640,000, respectively, at December 31, 2009).

During the year ended December 31, 2010, other operating income includes Bs 2,869,000 in respect of the Customer Call Center (CAM) provided to Mercantil Seguros, C.A. (Bs 8,561,000 during the year ended December 31, 2009). In addition, other operating income includes Bs 8,287,000 in respect of commissions from the sale of Mercantil Seguros, C.A. products (Bs 13,944,000 during the year ended December 31, 2009).

At December 31, 2009, the trust fund maintains investment portfolios in foreign currency at Mercantil Bank & Trust Limited of Bs 795,734,000.

During the year ended December 31, 2010, 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 5,146,588,000 and Bs 3,888,399,000, respectively (Bs 2,365,333,000 and Bs 2,452,713,000, respectively, during the year ended December 31, 2009), resulting in net income of Bs 2,687,000 (net losses of Bs 3,627,000 during the year ended December 31, 2009), included under other operating income (Note 19).

The trust fund has been engaged as auxiliary trustee for trust funds at Mercantil Seguros, C.A. according to the terms of the respective agreement. During the years ended December 31, 2010 and 2009, the trust fund recorded income from trust fund management services of Bs 47,000 and Bs 135,000, respectively.

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, 2010 of Bs 5,828,000 (Bs 6,759,000 during the year ended December 31, 2009), shown under extraordinary expenses.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

26. Maturity of financial assets and liabilities

At December 31, 2010, financial assets and liabilities are classified according to maturity as follows:

	June 30, 2011	December 31, 2011	June 30, 2012	December 31, 2012	June 30, 2013	December 31, 2013	June 30, 2014	December 31, 2014	Beyond 2015	Total
	(Thousands of bolivars)									
Assets										
Cash and due from banks	10,940,639	-	-	-	-	-	-	-	-	10,940,639
Investment securities, net of investments assigned	3,840,887	150,650	168,886	369,725	219,422	582,704	297,700	223,430	1,510,572	7,363,976
Loan portfolio	14,919,558	1,302,248	614,852	3,994,337	978,717	1,302,233	566,258	483,485	3,713,324	27,875,012
Interest and commissions receivable	<u>354,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>354,223</u>
Total financial assets	<u>30,055,307</u>	<u>1,452,898</u>	<u>783,738</u>	<u>4,364,062</u>	<u>1,198,139</u>	<u>1,884,937</u>	<u>863,958</u>	<u>706,915</u>	<u>5,223,896</u>	<u>46,533,850</u>
Liabilities										
Deposits	40,266,339	12,959	314	-	-	-	-	-	-	40,279,612
Liabilities to BANAVIH	33	-	-	-	-	-	-	-	-	33
Borrowings	141,912	47	7	-	-	-	-	-	-	141,966
Other liabilities from financial intermediation	16,739	-	-	-	-	-	-	-	-	16,739
Interest and commissions payable	<u>6,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,364</u>
Total financial liabilities	<u>40,431,387</u>	<u>13,006</u>	<u>321</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,444,714</u>

27. Fair value of financial instruments

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

	2010		2009	
	Book value	Fair value	Book value	Fair value
	(Thousands of bolivars)			
Assets				
Cash and due from banks	10,940,639	10,940,639	9,143,190	9,143,190
Investment securities	7,363,976	7,344,750	5,956,675	5,960,833
Loan portfolio, net of allowance	26,703,385	26,703,385	20,287,426	20,287,426
Interest and commissions receivable, net of provision	<u>342,337</u>	<u>342,337</u>	<u>236,048</u>	<u>236,048</u>
	<u>45,350,337</u>	<u>45,331,111</u>	<u>35,623,339</u>	<u>35,627,497</u>
Liabilities				
Deposits	40,279,612	40,279,612	32,013,443	32,013,443
Deposits and liabilities with BANAVIH	33	33	39	39
Borrowings	141,966	141,966	137,252	137,252
Other liabilities from financial intermediation	16,739	16,739	19,494	19,494
Interest and commissions payable	<u>6,364</u>	<u>6,364</u>	<u>12,732</u>	<u>12,732</u>
	<u>40,444,714</u>	<u>40,444,714</u>	<u>32,182,960</u>	<u>32,182,960</u>
Memorandum accounts				
Contingent debtor accounts	<u>4,052,237</u>	<u>4,052,237</u>	<u>3,146,120</u>	<u>3,146,120</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	2010	2009
	(Thousands of bolivars)	
Unused lines of credit	7,240,644	4,920,479
Guarantees granted	460,781	333,312
Letters of credit issued but not negotiated (standby)	424,840	164,702
Letters of credit confirmed but not negotiated	4,572	6,787
Other contingencies	<u>839,649</u>	<u>776,959</u>
	<u>8,970,486</u>	<u>6,202,239</u>

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

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

Short-term financial instruments

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

Short-term financial instruments, both assets and liabilities, are shown in the consolidated balance sheet at book value, which does not significantly differ from fair market value due to their short-term maturity. These instruments include cash and due from banks, deposits with no fixed maturity and short-term maturity, other liabilities from financial intermediation with short-term maturity, and commissions and interest receivable and payable.

Investment securities

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

Loan portfolio

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

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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 and its Regulations require the Bank to set aside 1% of its annual net income for the purpose of preparing employee-oriented programs for the prevention of drug abuse and traffic (Note 16). In addition, in compliance with resolutions of SUDEBAN, the Bank has a Money Laundering Prevention Unit and has 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.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

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

Supplementary consolidated balance sheet
December 31, 2010 and 2009

	2010	2009
	(Thousands of constant bolivars at December 31, 2010)	
Assets		
Cash and due from banks	10,940,639	11,645,142
Investment securities	7,364,298	7,586,989
Loan portfolio	26,703,385	25,838,898
Interest and commissions receivable	342,337	300,640
Investments in affiliates	241,872	457,968
Available-for-sale assets	39,733	44,667
Property and equipment	1,143,043	1,196,888
Other assets	<u>1,037,541</u>	<u>1,136,226</u>
Total assets	<u>47,812,848</u>	<u>48,207,418</u>
Liabilities and Equity		
Deposits	40,279,612	40,773,637
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat	33	50
Borrowings	141,966	174,809
Other liabilities from financial intermediation	16,739	24,828
Interest and commissions payable	6,364	16,216
Accruals and other liabilities	<u>1,268,050</u>	<u>1,404,934</u>
Total liabilities	<u>41,712,764</u>	<u>42,394,474</u>
Equity		
Capital stock	268,060	268,060
Capital inflation adjustment	4,035,330	4,035,330
Contributions pending capitalization	264,955	264,955
Capital reserves	1,784,323	1,784,323
Equity adjustments	338,162	-
Retained earnings	1,789,578	1,797,247
Unrealized gain (loss) on available-for-sale investments	(7,299)	36,054
Initial cumulative result from exposure to inflation	<u>(2,373,025)</u>	<u>(2,373,025)</u>
Total equity	<u>6,100,084</u>	<u>5,812,944</u>
Total liabilities and equity	<u>47,812,848</u>	<u>48,207,418</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Supplementary consolidated income statement
Years ended December 31, 2010 and 2009

	2010	2009
	(Thousands of constant bolivars at December 31, 2010)	
Interest income	<u>5,263,807</u>	<u>5,965,573</u>
Interest expense	<u>(1,810,179)</u>	<u>(2,451,606)</u>
Gross financial margin	3,453,628	3,513,967
Income from financial assets recovered	100,884	141,781
Expenses from uncollectible accounts and write-down of financial assets	<u>(736,837)</u>	<u>(673,463)</u>
Net financial margin	2,817,675	2,982,285
Other operating income	2,149,344	1,017,127
Other operating expenses	<u>(528,100)</u>	<u>(274,329)</u>
Financial intermediation margin	<u>4,438,919</u>	<u>3,725,083</u>
Operating expenses	<u>(2,834,242)</u>	<u>(2,814,721)</u>
Gross operating margin	1,604,677	910,362
Income from available-for-sale assets	19,207	16,641
Sundry operating income	129,149	299,289
Expenses from available-for-sale assets	(33,057)	(18,318)
Sundry operating expenses	<u>(190,535)</u>	<u>(94,405)</u>
Net operating margin	<u>1,529,441</u>	<u>1,113,569</u>
Extraordinary expenses	<u>(62,885)</u>	<u>(93,459)</u>
Gross income before tax and loss from net monetary position	<u>1,466,556</u>	<u>1,020,110</u>
Income tax	(204,866)	(102,213)
Loss from net monetary position	<u>(875,329)</u>	<u>(762,419)</u>
Net income	<u><u>386,361</u></u>	<u><u>155,478</u></u>
Appropriation of net income	<u><u>386,361</u></u>	<u><u>155,478</u></u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Supplementary consolidated statement of changes in equity
Years ended December 31, 2010 and 2009

	Capital stock	Capital inflation adjustment	Contributions pending capitalization	Capital reserves	Equity adjustments	Retained earnings		Unrealized gain (loss) on available-for-sale investments	Initial cumulative result from exposure to inflation	Total equity
						Restricted surplus	Unappropriated surplus			
(Thousands of constant bolivars at December 31, 2010)										
Balances at December 31, 2008	268,060	4,035,330	264,955	1,765,084	-	1,557,958	411,783	(66,226)	(2,373,025)	5,863,919
Net income	-	-	-	-	-	-	155,478	-	-	155,478
Cash dividends	-	-	-	-	-	-	(308,733)	-	-	(308,733)
Appropriation to legal reserve	-	-	-	19,239	-	-	(19,239)	-	-	-
Adjustment of available-for-sale investments to market value	-	-	-	-	-	-	-	96,978	-	96,978
Restricted surplus from participation in the results of subsidiaries and equity in affiliates	-	-	-	-	-	579	(579)	-	-	-
Reclassification of 50% of net income for the year to restricted surplus	-	-	-	-	-	67,830	(67,830)	-	-	-
Release of restricted surplus	-	-	-	-	-	(60,124)	60,124	-	-	-
Unrealized monetary gain	-	-	-	-	-	-	-	5,302	-	5,302
Balances at December 31, 2009	268,060	4,035,330	264,955	1,784,323	-	1,566,243	231,004	36,054	(2,373,025)	5,812,944
Net income	-	-	-	-	-	-	386,361	-	-	386,361
Cash dividends	-	-	-	-	-	-	(394,030)	-	-	(394,030)
Appropriation to legal reserve	-	-	-	-	338,162	-	-	-	-	338,162
Adjustment of available-for-sale investments to market value	-	-	-	-	-	-	-	(43,233)	-	(43,233)
Restricted surplus from participation in the results of subsidiaries and equity in affiliates	-	-	-	-	-	(3,570)	3,570	-	-	-
Reclassification of 50% of net income for the year to restricted surplus	-	-	-	-	-	194,966	(194,966)	-	-	-
Release of restricted surplus	-	-	-	-	-	(129,734)	129,734	-	-	-
Unrealized monetary loss	-	-	-	-	-	-	-	(120)	-	(120)
Balances at December 31, 2010,	<u>268,060</u>	<u>4,035,330</u>	<u>264,955</u>	<u>1,784,323</u>	<u>338,162</u>	<u>1,627,905</u>	<u>161,673</u>	<u>(7,299)</u>	<u>(2,373,025)</u>	<u>6,100,084</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Supplementary consolidated cash flow statement
Years ended December 31, 2010 and 2009

	2010	2009
	(Thousands of constant bolivars at December 31, 2010)	
Cash flows from operating activities		
Net income	386,361	155,478
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in affiliates	(3,570)	579
Allowance for losses on loan portfolio and provision for contingent loans	734,202	672,528
Write-off of uncollectible accounts	(237,417)	(263,298)
Provision for investment securities	-	(8,118)
Provision for other accounts receivable	1,884	934
Provision for other assets	4,937	5,275
Write-offs against the provision for other assets	(4,062)	(3,476)
Provision for investments in affiliates	6,050	7,705
Deferred income tax	(10,936)	(13,929)
Other provisions	378,901	263,438
Depreciation	108,031	158,755
Amortization of deferred expenses and goodwill	118,194	161,823
Amortization of available-for-sale assets	33,057	18,320
Accrual for employee termination benefits	159,964	177,454
Payment of employee termination benefits	(163,162)	(176,389)
Net change in		
Deposits with the Central Bank of Venezuela (BCV) and overnight deposits	(44,232)	827,964
Interest and commissions receivable	(41,696)	82,266
Other assets	(11,334)	160,290
Interest and commissions payable	(9,851)	(4,438)
Accruals and other liabilities	(512,588)	(648,950)
Net cash provided by operating activities	<u>892,733</u>	<u>1,574,211</u>
Cash flows from financing activities		
Net change in		
Deposits	(494,024)	(11,157,342)
Deposits and liabilities with Banco Nacional de Vivienda y Hábitat	(17)	(14)
Borrowings	(32,843)	(47,834)
Other liabilities from financial intermediation	(8,089)	(6,793)
Adjustment from exchange rate differences	338,162	(308,733)
Dividends paid	(394,030)	-
Net cash used in financing activities	<u>(590,841)</u>	<u>(11,520,716)</u>
Cash flows from investing activities		
Loans granted during the year	(34,089,141)	(31,061,773)
Loans collected during the year	32,727,868	29,608,614
Net change in		
Available-for-sale investments	(5,868)	1,211,374
Held-to-maturity investments	166,230	108,430
Restricted investments	63,208	30,624
Investments in affiliates	213,616	117,034
Available-for-sale assets	(28,123)	(6,098)
Property and equipment	(54,186)	168,763
Net cash provided by (used in) investing activities	<u>(1,006,396)</u>	<u>176,968</u>
Cash and cash equivalents		
Net change	(704,504)	(301,135)
At the beginning of the year	<u>11,645,142</u>	<u>11,946,276</u>
At the end of the year	<u>10,940,638</u>	<u>11,645,141</u>
Supplementary information on non-cash activities		
Adjustment of available-for-sale investments to market value	<u>(43,353)</u>	<u>102,280</u>
Taxes paid	<u>11,307</u>	<u>176,221</u>
Interest paid	<u>1,820,031</u>	<u>2,466,691</u>
Gain on transactions with derivative instruments	<u>5,033</u>	<u>1,475</u>
Reclassification of		
Allowance for losses on loan portfolio to allowance for interest and commissions receivable	<u>-</u>	<u>4,203</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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 and their interpretations 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, prepared in conformity with the rules and instructions of SUDEBAN, in currency of uniform purchasing power to take account of changes in the Consumer Price Index (CPI) for the Metropolitan Area of Caracas published by BCV. Consequently, the accompanying supplementary consolidated financial statements do not purport to reflect market or realizable values of nonmonetary assets, which will normally differ from amounts adjusted on the basis of the CPI.

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

Inflation rate

The inflation rate for the year ended December 31, 2010 was 27.36% (26.91% at December 31, 2009).

Monetary assets and liabilities and result from monetary position

Monetary assets and liabilities at December 31, 2010, including amounts in foreign currency are, by their nature, shown in terms of purchasing power at that date. For comparative purposes, monetary assets and liabilities at December 31, 2009 have been adjusted for the effects of inflation and are expressed in terms of purchasing power at December 31, 2010. The result from monetary position reflects the loss or gain obtained from maintaining a net monetary asset or net monetary liability position during an inflationary period and is shown in the consolidated income statement under loss from net monetary position.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

Analysis of consolidated monetary result

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

	Years ended	
	December 31,	
	2010	2009
	(Thousands of constant bolivars at December 31, 2010)	
Net monetary asset position at the beginning of the year	<u>3,276,191</u>	<u>3,352,400</u>
Transactions that increased net monetary asset position		
Income	7,662,391	7,440,411
Adjustment from exchange rate differences	338,163	-
Net change in investments in affiliates	216,127	(30,522)
Deferred income tax	54,481	13,929
Net change in other assets	23,779	(48,887)
Realization of deferred credits	6,629	19,218
Net change in securities	<u>-</u>	<u>20,624</u>
Subtotal	<u>8,301,570</u>	<u>7,414,773</u>
Transactions that decreased net monetary asset position		
Expenses	(6,196,661)	(6,284,954)
Cash dividends	(394,031)	(308,733)
Additions to property and equipment, net	(54,184)	(175,708)
Additions to available-for-sale assets, net	(27,361)	(61,448)
Unrealized gain (loss) on available-for-sale investments	<u>(9,874)</u>	<u>102,280</u>
Subtotal	<u>(6,682,111)</u>	<u>(6,728,563)</u>
Estimated net monetary asset position	4,895,650	4,038,610
Net monetary asset position at the end of the year	<u>(4,020,321)</u>	<u>(3,276,191)</u>
Loss from net monetary position	<u>(875,329)</u>	<u>(762,419)</u>

Available-for-sale assets and property and equipment

Available-for-sale assets are recorded at restated cost less accumulated amortization. Property and equipment is expressed in constant currency at December 31, 2010, based on the CPI at their dates of origin.

Income tax

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

Equity

All equity accounts are shown in constant currency at December 31, 2010. Dividends are stated in constant currency based on the date they were paid.

Income statement

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.

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

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

	December 31,					
	2010			2009		
	Cost	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Book value (equivalent to market value)
	(Thousands of constant bolivars at December 31, 2010)					
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	4,019,198	(3,905)	4,015,293	4,014,375	38,402	4,052,777
Investments in non-financial companies						
Other	323	-	323	323	-	323
	323	-	323	323	-	323
	<u>4,019,521</u>	<u>(3,905)</u>	<u>4,015,616</u>	<u>4,014,698</u>	<u>38,402</u>	<u>4,053,100</u>

	December 31,			
	2010		2009	
	Cost	Book value	Cost	Book value
	(Thousands of constant bolivars at December 31, 2010)			
Deposits with the BCV and overnight deposits	3,069,961	3,069,961	3,025,729	3,025,729
Investments in held to maturity securities	233,842	230,019	404,245	396,250
Restricted investments	48,289	48,702	11,084	111,910

b) Property and equipment

	December 31,	
	2010	2009
	(Thousands of constant bolivars at December 31, 2010)	
Buildings and facilities	1,634,958	1,659,660
Furniture and equipment	1,082,166	1,052,084
Work in progress	41,015	34,053
Land	109,261	110,500
Other assets	118,495	120,065
Accumulated depreciation	<u>(1,842,852)</u>	<u>(1,779,474)</u>
	<u>1,143,043</u>	<u>1,196,888</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

The net restated value of property and equipment at December 31, 2010 includes Bs 98,582,000 (Bs 888,844,000 at December 31, 2009) in respect of real property used as Bank premises. The net historic cost of this property is Bs 98,582,000 (Bs 84,741,000 at December 31, 2009), while the market value is Bs 1,711,199,000, based on valuations made by independent appraisers between April and June 2009.

c) Other assets

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	(Thousands of constant bolivars at December 31, 2010)	
Goodwill on acquisition of shareholding in Interbank, C.A. (Banco Universal), net of accumulated amortization of Bs 526,668,000 (Bs 507,105,000 in 2009)	526,668	546,204
Goodwill on acquisition of shareholding in Inversiones y Valores Mercantil VI, C.A., net of accumulated amortization of Bs 24,595,000	-	34,885
Goodwill on acquisition of shareholding in Mercantil Merinvest, C.A., net of accumulated amortization of Bs 5,928,000	-	9,427
Deferred expenses, net of accumulated amortization of Bs 459,216,000 (Bs 324,816,000 in 2009)	103,775	177,419
Software, net of accumulated amortization of Bs 523,207,000 (Bs 493,130,000 in 2009)	41,639	60,665
Currency redenomination expenses, net of accumulated amortization of Bs 10,299,000 (Bs 16,441,000 in 2009)	7,731	9,513
Deferred income tax	107,008	106,269
Other accounts receivable	39,303	40,500
Rights on Sambil shopping mall premises	35,707	35,706
Advances to suppliers	18,211	24,111
Prepaid taxes	51,189	24,018
Stationery and office supplies	42,324	23,081
Insurance and other prepaid expenses	19,921	20,508
Advances and guarantee deposits	38,649	17,047
Pending items and main office, branches and agencies	11,969	16,972
Prepaid advertising	5,493	13,424
Accounts receivable from other credit card companies	10,464	8,290
Other items from transactions with derivative instruments	5,033	1,476
Other	945	1,203
Provision for other assets	<u>(28,488)</u>	<u>(34,492)</u>
	<u>1,037,541</u>	<u>1,136,226</u>

Mercantil, C.A. Banco Universal and its Subsidiaries
Notes to the consolidated financial statements
December 31, 2010 and 2009

d) Accruals and other liabilities

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	(Thousands of constant bolivars at December 31, 2010)	
Suppliers and other accounts payable	320,973	217,755
Taxes	246,019	112,000
Provisions for contingencies and other	227,586	145,772
Deferred income		
Deferred interest	103,713	97,537
Deferred income from rights, asset sales and other	47,030	53,745
Deferred income from loan portfolio	62,309	41,157
Employee profit sharing and bonuses	129,654	104,901
Collected and withheld taxes	63,105	72,256
Labor contributions	20,837	13,885
Pending items and main office, branches and agencies	19,786	28,970
Law on Narcotic and Psychotropic Substances	15,598	18,296
Provision for operating risks	11,439	31,763
Direct financial liabilities (mutuums)	-	462,347
Provision for Supplementary Savings Plan	-	4,550
	<u>1,268,049</u>	<u>1,404,934</u>

30. Subsequent event

The Agricultural Aid Law was published in January 2011 to meet the needs of producers affected by the floods that hit the country in late 2010. This Law provides for the partial or full debt relief for the production of strategic crops for food security and sovereignty.

Management is analyzing the effects of this Law and believes that existing provisions reasonably cover these effects.