

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

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

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

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Report of Independent Accountants

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

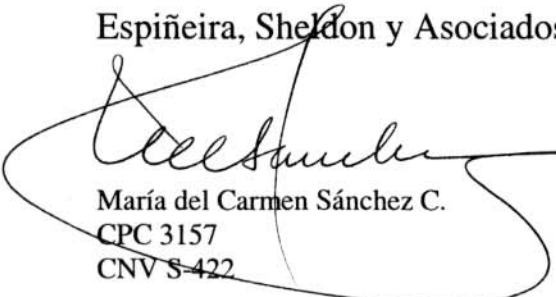
We have audited the consolidated balance sheets of Mercantil Servicios Financieros, C.A. and its subsidiaries at December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. The preparation of these financial statements and their notes is the responsibility of management of Mercantil Servicios Financieros, C.A. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Venezuela. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of Mercantil Servicios Financieros, C.A. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with the rules and instructions of the CNV.

Espiñeira, Sheldon y Asociados



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CPC 3157
CNV S-422

Caracas, Venezuela
February 20, 2008

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

<i>(Millions of bolivars)</i>	2007	2006 (•)
Assets		
Cash and due from banks (Note 3)		
Cash	422,006	346,024
Banco Central de Venezuela	5,213,551	2,911,146
Venezuelan banks and other financial institutions	4,238	2,867
Foreign banks and other financial institutions	110,590	60,277
Pending cash items	378,624	499,530
Provision for cash and due from banks	<u>(315)</u>	<u>(230)</u>
	<u>6,128,694</u>	<u>3,819,614</u>
Investment portfolio (Note 4)		
Investments in trading securities	260,393	398,438
Investments in available-for-sale securities	5,910,348	6,272,875
Investments in held-to-maturity securities	1,096,678	657,125
Share trading portfolio	33,520	16,294
Investments in time deposits and placements	3,995,194	4,305,053
Restricted investments and repurchase agreements	<u>176,074</u>	<u>309,436</u>
	<u>11,472,207</u>	<u>11,959,221</u>
Direct financial assets (Note 5)	<u>324,579</u>	<u>92,808</u>
Loan portfolio (Note 6)		
Current	19,545,543	14,726,303
Rescheduled	24,644	28,414
Overdue	116,978	103,767
In litigation	<u>7,779</u>	<u>7,283</u>
	19,694,944	14,865,767
Allowance for losses on loan portfolio	<u>(356,452)</u>	<u>(293,500)</u>
	<u>19,338,492</u>	<u>14,572,267</u>
Interest and commissions receivable (Note 7)	<u>245,939</u>	<u>186,174</u>
Long-term investments (Note 8)	<u>57,318</u>	<u>36,784</u>
Available-for-sale assets (Note 9)	<u>22,462</u>	<u>5,068</u>
Property and equipment (Note 10)	<u>426,255</u>	<u>319,368</u>
Other assets (Note 11)	<u>1,033,606</u>	<u>725,663</u>
Total assets	<u>39,049,552</u>	<u>31,716,967</u>
Memorandum accounts (Note 24)	<u>48,732,490</u>	<u>43,723,554</u>

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

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

<i>(Millions of bolivars)</i>	2007	2006 (•)
Liabilities and Shareholders' Equity		
Liabilities		
Deposits (Note 12)		
Non-interest-bearing checking accounts	6,644,492	5,128,745
Interest-bearing checking accounts	8,188,269	6,221,425
Savings deposits	8,777,472	7,160,491
Time deposits	<u>7,677,380</u>	<u>6,736,211</u>
	<u>31,287,613</u>	<u>25,246,872</u>
Debt authorized by the Venezuelan Securities and Exchange Commission (Note 13)		
Publicly traded debt securities issued by MERCANTIL	<u>356,144</u>	<u>259,087</u>
Financial liabilities (Note 14)		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	161,279	267,726
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	72,000	100,000
Liabilities with foreign banks and savings and loan institutions, up to one year	64,597	163,367
Liabilities with foreign banks and savings and loan institutions, more than one year	80,081	83,711
Direct financial liabilities	588,320	395,286
Liabilities under repurchase agreements	681,983	581,313
Other liabilities, up to one year	115,049	140,046
Other liabilities, more than one year	<u>3,488</u>	<u>5,168</u>
	<u>1,766,797</u>	<u>1,736,617</u>
Interest and commissions payable	<u>47,771</u>	<u>37,130</u>
Other liabilities (Note 15)	<u>1,936,796</u>	<u>1,576,382</u>
Subordinated debt (Note 16)	<u>244,656</u>	<u>268,247</u>
Total liabilities	<u>35,639,777</u>	<u>29,124,335</u>
Minority interests in consolidated subsidiaries	<u>2,161</u>	<u>3,209</u>
Shareholders' Equity (Note 21)		
Capital stock	156,479	107,717
Capital inflation adjustment	191,709	191,709
Share premium	201,668	52,304
Capital reserves	166,715	166,715
Translation adjustment of net assets of subsidiaries abroad	273,672	267,820
Retained earnings	2,447,230	1,823,396
Repurchased shares held by subsidiaries	(12,900)	(13,950)
Repurchased shares reserved for employee stock option plan	(29,127)	(25,170)
Unrealized gain from adjustment to market value of investments	<u>12,168</u>	<u>18,882</u>
Total shareholders' equity	<u>3,407,614</u>	<u>2,589,423</u>
Total liabilities and shareholders' equity	<u>39,049,552</u>	<u>31,716,967</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Income
Years ended December 31, 2007 and 2006

<i>(Millions of bolivars, except net income per share)</i>	2007	2006 (•)
Interest income (Note 2)		
Income from cash and due from banks	11,525	16,505
Income from investment portfolio (Note 4)	796,618	678,562
Income from loan portfolio (Note 6)	2,383,451	1,585,296
Income from financial assets	<u>29,838</u>	<u>1,132</u>
Total interest income	<u>3,221,432</u>	<u>2,281,495</u>
Interest expense (Note 2)		
Interest on demand and savings deposits	(532,103)	(361,659)
Interest on time deposits	(392,150)	(374,582)
Interest on securities issued by MERCANTIL (Note 13)	(88,407)	(29,180)
Interest on financial liabilities	<u>(130,703)</u>	<u>(77,289)</u>
Total interest expense	<u>(1,143,363)</u>	<u>(842,710)</u>
Gross financial margin	2,078,069	1,438,785
Allowance for losses on loan portfolio (Notes 2 and 6)	<u>(126,897)</u>	<u>(108,378)</u>
Net financial margin	<u>1,951,172</u>	<u>1,330,407</u>
Commissions and other income		
Trust fund operations	40,682	38,816
Foreign currency operations (Note 23)	3,765	2,020
Commissions on customer account transactions	181,808	153,105
Commissions on letters of credit and guarantees granted	32,576	24,622
Equity in long-term investments (Note 8)	41,333	32,909
Exchange gain (Note 23)	(1,537)	9,494
Gain on sale of investment securities (Note 4)	176,560	149,389
Other income (Note 19)	<u>380,764</u>	<u>447,496</u>
Total commissions and other income	<u>855,951</u>	<u>857,851</u>
Insurance premiums, net of claims (Note 2-o)		
Premiums	1,061,618	675,611
Claims	<u>(885,954)</u>	<u>(562,175)</u>
Total insurance premiums, net of claims	<u>175,664</u>	<u>113,436</u>
Operating expenses		
Salaries and employee benefits	(904,364)	(734,526)
Depreciation, property and equipment expenses, amortization of intangibles and other (Notes 10 and 11)	(225,053)	(169,523)
Fees paid to regulatory agencies	(113,320)	(77,280)
Other operating expenses (Note 20)	<u>(776,798)</u>	<u>(643,990)</u>
Total operating expenses	<u>(2,019,535)</u>	<u>(1,625,319)</u>
Operating income before tax and minority interests	<u>963,252</u>	<u>676,375</u>
Income tax (Note 17)		
Current	(188,552)	(124,699)
Deferred	<u>9,183</u>	<u>5,938</u>
Total tax	<u>(179,369)</u>	<u>(118,761)</u>
Net income before minority interests	783,883	557,614
Minority interests	<u>(550)</u>	<u>(1,880)</u>
Net income	<u>783,333</u>	<u>555,734</u>
Net income per share (Note 22)		
Basic	7,957.59	5,755.82
Diluted	7,947.10	5,713.19
Weighted average of outstanding common shares	98,438,449	96,551,614
Weighted average of outstanding diluted common shares	98,568,401	97,272,074

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

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

<i>(Millions of bolivars)</i>	Capital stock	Capital inflation adjustment (Note 2-a)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad (Note 2-c)	Retained earnings	Repurchased shares held by subsidiaries (Note 21)	Repurchased shares reserved for employee stock option plan	Unrealized gain (loss) from adjustment to market value of investments (Note 2-d)	Total shareholders' equity
Balances at December 31, 2005	113,352	191,709	53,889	166,715	275,270	1,492,806	(139,197)	(25,292)	39,274	2,168,526
Net income for the year	-	-	-	-	-	555,734	-	-	-	555,734
Repurchased shares	-	-	-	-	-	-	(14,262)	-	-	(14,262)
Repurchased shares reserved for employee stock option plan	-	-	(1,585)	-	-	-	-	122	-	(1,463)
Cash dividends (Note 21)	-	-	-	-	-	(136,088)	-	-	-	(136,088)
Unrealized gain on investments	-	-	-	-	-	-	-	-	(20,392)	(20,392)
Translation adjustment of net assets of subsidiaries abroad (Note 21)	-	-	-	-	(7,450)	-	-	-	-	(7,450)
Redemption of repurchased shares	(5,635)	-	-	-	-	(122,222)	127,857	-	-	-
Sale of shares held by subsidiaries (Note 21)	-	-	-	-	-	<u>33,166</u>	<u>11,652</u>	-	-	<u>44,818</u>
Balances at December 31, 2006	107,717	191,709	52,304	166,715	267,820	1,823,396	(13,950)	(25,170)	18,882	2,589,423
Net income for the year	-	-	-	-	-	783,333	-	-	-	783,333
Repurchased shares	-	-	-	-	-	-	(27,151)	-	-	(27,151)
Repurchased shares reserved for employee stock option plan	-	-	5,364	-	-	-	-	(3,957)	-	1,407
Stock dividends	42,780	-	-	-	-	(42,780)	-	-	-	-
Cash dividends (Note 21)	-	-	-	-	-	(71,529)	-	-	-	(71,529)
Unrealized loss on investments	-	-	-	-	-	-	-	-	(6,714)	(6,714)
Capital increase	6,750	-	144,000	-	-	-	-	-	-	150,750
Redemption of repurchased shares	(768)	-	-	-	-	(21,310)	22,078	-	-	-
Minimum dividend payable (Note 2-y)	-	-	-	-	-	(24,116)	-	-	-	(24,116)
Translation adjustment of net assets of subsidiaries abroad (Note 21)	-	-	-	-	5,852	-	-	-	-	5,852
Sale of shares held by subsidiaries (Note 21)	-	-	-	-	-	<u>236</u>	<u>6,123</u>	-	-	<u>6,359</u>
Balances at December 31, 2007	<u>156,479</u>	<u>191,709</u>	<u>201,668</u>	<u>166,715</u>	<u>273,672</u>	<u>2,447,230</u>	<u>(12,900)</u>	<u>(29,127)</u>	<u>12,168</u>	<u>3,407,614</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Cash Flows
Years ended December 31, 2007 and 2006

<i>(Millions of bolivars)</i>	2007	2006 (•)
Cash flows from operating activities		
Net income for the year	783,333	555,734
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	93,426	71,668
Allowance for losses on loan portfolio	126,897	108,378
Decrease in allowance for losses on loan portfolio	(5,231)	(12,162)
Provision for interest receivable and other assets	14,951	5,041
Gain on equity in long-term investments	(41,333)	(32,909)
Minority interests	550	1,880
Deferred income tax	(9,183)	(5,938)
Provision for available-for-sale assets	148	1,139
Accrual for employee termination benefits	79,777	60,086
Payment of employee termination benefits	(78,812)	(60,681)
Net change in operating assets and liabilities		
Interest and commissions receivable	(59,765)	(28,555)
Interest and commissions payable	10,641	(2,949)
Available-for-sale and other assets	(600,004)	(244,969)
Other liabilities	<u>342,831</u>	<u>344,290</u>
Net cash provided by operating activities	<u>658,226</u>	<u>760,053</u>
Cash flows from investing activities		
Net change in investment portfolio	86,495	(707,364)
Loans granted	(63,707,182)	(79,580,459)
Loans collected	58,819,290	76,198,671
Additions to property and equipment, net	<u>(163,331)</u>	<u>(97,172)</u>
Net cash used in investing activities	<u>(4,964,728)</u>	<u>(4,186,324)</u>
Cash flows from financing activities		
Net change in		
Deposits	6,040,741	5,767,371
Short-term financial liabilities	78,509	932,151
Debt securities issued by MERCANTIL	97,057	88,505
Subordinated debt	(23,591)	75,061
New long-term financial liabilities	122,410	774,612
Long-term financial liabilities repaid	(155,719)	(958,764)
Minimum dividend payable	(24,116)	-
Cash dividends	(71,529)	(136,088)
Capital increase	6,750	-
Share premium	149,364	(1,585)
Repurchased shares	(27,151)	(14,262)
Repurchased shares reserved for employee stock option plan	(3,957)	122
Sale of shares held by subsidiaries	<u>6,359</u>	<u>44,818</u>
Net cash provided by financing activities	<u>6,195,127</u>	<u>6,571,941</u>
Cash and cash equivalents		
Net increase for the year	1,888,625	3,145,670
At the beginning of the year	<u>8,124,150</u>	<u>4,978,480</u>
At the end of the year	<u>10,012,775</u>	<u>8,124,150</u>
Supplementary information		
Taxes paid	<u>123,622</u>	<u>118,083</u>
Interest paid	<u>1,002,022</u>	<u>768,366</u>
Translation adjustment of net assets of subsidiaries abroad	<u>5,852</u>	<u>(7,450)</u>
Unrealized gain from adjustment to market value of investments	<u>(6,714)</u>	<u>(20,392)</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

1. Reporting Entity and Regulatory Environment

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

Mercantil Servicios Financieros, C.A. and its subsidiaries (MERCANTIL) provide financial and general banking services to corporate, middle market and retail customers. Third-party asset management services are provided both in Venezuela and the United States of America, as well as insurance services in Venezuela.

In 2007 the Board of Directors approved, as part of a global strategy, to use the MERCANTIL trademark for all subsidiaries in Venezuela and abroad.

The main subsidiaries of Mercantil Servicios Financieros, C.A. are Mercantil, C.A. Banco Universal in Venezuela (99.92% owned); Mercantil Commercebank Holding Corporation (wholly owned), which owns Mercantil Commercebank, N.A., a U.S.-based commercial bank; the insurance company Mercantil Seguros, C.A. (wholly owned) and; Mercantil Merinvest, C.A. and its subsidiaries, all wholly owned.

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

In December 2007 the Superintendency of Banks of Panama granted the subsidiary Banco del Centro, S.A. (domiciled in Panama) a general license to conduct local financial activities in addition to international activities.

The financial statements of MERCANTIL at December 31, 2007 and 2006 were approved by the Board of Directors on January 14, 2008 and January 11, 2007, respectively.

Below is a summary of the main regulations that govern MERCANTIL:

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

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

Regulations require the Bank to earmark at least 37% of its gross loan portfolio at December 31, 2007 to finance loans for agriculture, small businesses, mortgages and tourism (31.5% in 2006) (Note 6).

Deposit and lending rates are regulated by BCV. BCV sets maximum and minimum interest rates for deposits and credit operations based on reference rates. In this regard, the annual interest rate for lending operations, including credit cards, may not exceed 28%. Financial institutions may only charge an additional 3% on amounts overdue from clients. Annual interest rates for savings deposits may not fall below 10% (6.5% at June 30, 2007). Annual interest rates on time deposits for 28 or more days may not fall below 11% (10% at June 30, 2007). In January 2008 BCV established a 15% maximum interest rate for the agricultural loan portfolio.

b) Mercantil Commercebank, N.A.

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

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

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

c) Mercantil Bank Schweiz AG

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

d) Mercantil Seguros, C.A.

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

e) Mercantil Merinvest, C.A.

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

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

2. Accounting Principles in Use

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

- a) Presentation of inflation-adjusted financial statements. According to CNV instructions, MERCANTIL should not include the effects of inflation in its financial statements as from 1999, but accounting principles generally accepted in Venezuela continue requiring inflation adjustment. The CNV has ruled that the methodology to be followed by MERCANTIL for preparation and presentation of its nominal financial statements is as set out in International Accounting Standard No. 29 (IAS 29). According to this standard, when an economy is no longer hyperinflationary and an entity ceases to prepare and present inflation-adjusted financial statements, it should then take into consideration the amounts expressed in terms of purchasing power at the end of the previous reporting period as a basis for presentation of financial statements expressed in nominal bolivars. Therefore, MERCANTIL considered the amounts expressed in terms of purchasing power at December 31, 1999 as the basis for presenting its financial statements expressed in nominal bolivars for subsequent periods.
- b) Recognition of exchange gains or losses on investments in held-to-maturity securities in foreign currency. In accordance with CNV rules, exchange gains and losses are recognized in the statement of income, while according to the aforementioned accounting principles they are shown at amortized cost.
- c) Presentation of contracted amounts in transactions with derivative financial instruments. In accordance with CNV rules, these transactions are presented as memorandum accounts instead of on the balance sheet as required by the aforementioned accounting principles. In addition, differences between the fair value of spot agreements and the agreed-upon price are recorded as deferred charges with a credit to unrealized gain (loss) from adjustment to market value of investments in shareholders' equity, rather than in the results for the year in accordance with accounting principles generally accepted in Venezuela.
- d) Recording of personal and real property received as payment and idle assets. Property received as payment is recorded at the lower of assigned value, book value and market value and amortized using the straight-line method over one and three years. Assets idle for more than 24 months are written out of asset accounts. In accordance with accounting principles, available-for-sale assets and idle assets are recorded at the lower of cost and market value.
- e) Unrealized gains or losses resulting from exchange rate fluctuations on investments in debt securities, classified as investments in available-for-sale debt securities and investments in publicly traded shares denominated in foreign currency, are recorded in shareholders' equity. In conformity with accounting principles generally accepted in Venezuela, they should be included in the statement of income.

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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- f) MERCANTIL computes a deferred income tax asset or liability in respect of temporary differences between income and expenses arising in different periods for accounting and tax purposes, provided that there is a reasonable expectation of realization or recovery over time. In accordance with accounting principles generally accepted in Venezuela, a deferred income tax asset or liability is recognized in respect of all temporary differences between the tax balance sheet and the accounting balance sheet. Additionally, the amount by which the deferred income tax asset exceeds tax expense for the year is not recognized.
- g) Expenses incurred during the currency redenomination process (Note 1) to adapt the technological equipment or for advisory, training, travel and other personal expenses, publicity, software and security are deferred and will be amortized, according to their nature, using the straight-line method over one to six years. According to accounting principles, expenses incurred during the currency redenomination process should be recognized during the year in which they are incurred.

In December 2004 the CNV instructed companies that publicly trade securities to present their financial statements in accordance with International Financial Reporting Standards (IFRS) as from fiscal years beginning January 1, 2006. The CNV authorized MERCANTIL to continue presenting its financial statements in conformity with current accounting rules until the entities that regulate the subsidiaries forming MERCANTIL require presentation of financial information under IFRS. In December 2005 the CNV decided to postpone application of the aforementioned standards until they were adopted by the Venezuelan Federation of Public Accountants (FCCPV). In August 2006 the FCCPV set IFRS adoption for large-sized entities as from 2008 and as from 2010 for small and medium-sized entities. In March 2007 the FCCPV ratified that the IFRS adoption date for listed companies will be established by the CNV as regulating entity. However, the CNV has yet to set the adoption date. Until the FCCPV definitely approves the adoption schedule, MERCANTIL is unable to determine the differences that might arise between accounting standards established by CNV and accounting principles generally accepted in Venezuela.

Consolidated financial statements presented in accordance with accounting principles generally accepted in Venezuela are included as supplementary information (Note 34).

Below is a summary of the accounting principles in use:

a) Consolidation

The consolidated financial statements include the accounts of MERCANTIL and its more than 50%-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The accounting year-end of MERCANTIL is December 31, except for certain non-banking subsidiaries whose accounting year-end is November 30. Subsidiaries whose accounting year-end is November 30 are consolidated with the financial statements of MERCANTIL at December 31. There are no significant matters arising from differences in year-ends which, in the opinion of management, could have a significant impact on the financial position or results of operations of MERCANTIL.

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

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b) Use of estimates in the preparation of financial statements

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

c) Translation of financial statements of subsidiaries abroad

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

d) Investment portfolio

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

Trading securities

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

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

Available-for-sale securities

Available-for-sale debt securities are recorded at fair value and include debt securities acquired for more than 90 days. Debt securities may remain in this category indefinitely. Unrealized gains or losses arising from differences in market values are included in shareholders' equity as an unrealized gain or loss on available-for-sale securities until they are sold or reclassified to investments in trading securities. If these investments are reclassified to the held-to-maturity category, the unrealized gain or loss on available-for-sale securities will be maintained separately in shareholders' equity and will be amortized during the investment's remaining life.

Held-to-maturity securities

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

Share trading portfolio

These consist of investments in shares to be publicly traded.

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

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

Time deposits and placements

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

Restricted investments and repurchase agreements

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

Long-term investments

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

e) Investments in securities acquired under resale agreements

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

f) Direct financial assets and liabilities

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

g) Loan portfolio

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

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

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

h) Allowance for risk of uncollectibility of the loan portfolio, contingent loans and direct financial assets

This allowance is determined based on a collectibility assessment aimed at quantifying the specific allowance to be set aside for each loan or lender considering, among other things, economic conditions, client credit risk, credit history and the fair value of guarantees received.

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

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i) Property and equipment

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

MERCANTIL assesses possible impairment in the value of its long-lived assets when events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability of an asset to be held and used is measured by comparing the carrying amount with future undiscounted net cash flows expected to be generated by the asset. If an asset is impaired, the amount to be recognized as impairment is the amount by which the carrying amount of the asset exceeds fair value.

j) Available-for-sale and other assets

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

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

k) Deferred and systems development expenses

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

l) Goodwill

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

m) Deferred income tax

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

n) Liabilities under repurchase agreements

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

o) Reserves for insurance operations

The reserve for unearned premiums represents the unearned portion of insurance premiums. Reserves for insurance claims include the estimated cost of claims reported and related expenses in addition to the estimated provisions for claims incurred but not yet reported. Reserves are adjusted regularly based on historical claims experience.

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In determining the reserves for insurance policies and claims, MERCANTIL conducts an ongoing review of its reserves, including technical reserves and reinsurance. Since reserves are based on estimates, the actual amounts may be greater or smaller than those reserves. The effects of changes in estimated reserves are included in the results for the year in which they occur. Reserves for insurance operations are shown under other liabilities (Note 15).

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

p) Labor-related benefits

Accrual for employee termination benefits

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

Profit-sharing bonus and vacation leave

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

q) Employee benefit plans

Retirement pension plan

MERCANTIL has a long-term defined-benefit pension plan covering all eligible employees which is managed by Fundación BMA. Related costs and liabilities are calculated using actuarial methods and are recorded in the results for the year. The net costs of the pension plan are based on actuarial assumptions which are revised annually and include service costs, interest expense and returns on plan assets, as well as deferral and amortization of certain components, such as actuarial gains or losses, which are amortized over four years. MERCANTIL uses the projected unit credit method to calculate the present value of the Defined Benefit Obligation (DBO). MERCANTIL makes annual contributions to the plan, except when the DBO is already covered by plan assets.

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

Defined contribution scheme

MERCANTIL maintains a defined contribution scheme called the MERCANTIL Supplementary Savings Plan to replace the Supplementary Retirement Pension Plan. Contributions to the plan are recorded in the results for the year. This Plan is a voluntary programmed savings scheme in the form of individual capitalization accounts that is administered by the savings funds of certain subsidiaries. In the Supplementary Savings Plan, employees contribute between 1% and 5% of their basic monthly salary and MERCANTIL doubles the employee's contribution up to a maximum of 10% of said salary.

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Post-retirement benefits

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

Stock option plan

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

r) Derivative financial instruments

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

s) Recognition of revenue and expenses

Income, costs and expenses are recorded as earned or incurred, respectively. Interest on overdue or litigation loan portfolios or other credits classified as having high recoverability risk is recorded as income when collected. Interest collected in advance is recorded as income when earned.

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

t) Fair value of financial instruments

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

u) Foreign currency

Foreign currency transactions, mainly in U.S. dollars (US\$), Colombian pesos (Ps) and Swiss francs (CHF) are recorded at the exchange rate in effect at the transaction date. Foreign currency balances at December 31, 2007 are shown at the exchange rates of Bs 2,144.60/US\$1, Bs 1,046/Ps1 and Bs 1,902.42/CHF1 (Bs 2,144.60/US\$1, Bs 0.9581/Ps1 and Bs 1,759.74/CHF1 at December 31, 2006), as established in the Exchange Agreements described in Note 23. Exchange gains and losses are included in the results for the year, except those in respect of investments in available-for-sale debt securities and investments in shares publicly traded denominated in foreign currency, which are included in shareholders' equity.

v) Net income per share

Basic net income per share is determined by dividing net income for the year by the weighted average of outstanding shares, excluding repurchased shares reserved for the employee stock option plan and considering the share dividends in 2007 included for the calculation of both periods. Diluted net income per share is determined by applying the Treasury Stock Method, by which the net income per share is determined as if employee stock options had been exercised, and benefits provided upon

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award, representing funds from exercised options and the amount of the compensation cost attributable to unrecognized future periods, had been used to acquire MERCANTIL shares.

In 2007 MERCANTIL increased share par value and reduced the number of outstanding shares (Note 21). To determine income per share, the effect of reducing the number of shares is taken to have occurred on January 1, 2006.

w) Assets received in trust

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

x) Cash equivalents

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

y) Legal dividends

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

z) Reclassifications

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

3. Cash and Due from Banks

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

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

<i>(Millions of bolivars)</i>	2007	2006
Demand deposits	287,526	23,157
Legal reserve in local currency	4,895,556	2,866,665
Legal reserve in U.S. dollars	<u>30,469</u>	<u>21,324</u>
	<u>5,213,551</u>	<u>2,911,146</u>

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

At December 31, 2007, the legal reserve in Venezuela amounts to 17% (15% at December 31, 2006) of all deposits and other liabilities, except for liabilities with BCV, FOGADE and other financial institutions. This reserve must be made in U.S. dollars when deposits or liabilities are in foreign currencies. As from January 21, 2008, the legal reserve for deposits or borrowings in local and foreign currency should be made in legal tender. As from July 2006, the marginal increase of deposits is subject to a legal reserve of 30%. Legal reserve funds do not earn interest for MERCANTIL.

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4. Investment Portfolio

Investment portfolio comprises the following:

<i>(Millions of bolivars)</i>	December 31, 2007		December 31, 2006	
	Cost	Book value (equivalent to market value)	Cost	Book value (equivalent to market value)
Investments in trading securities				
Investments in securities issued by Venezuelan entities				
Securities issued or guaranteed by the Bolivarian Republic of Venezuela				
In local currency (1)	23,547	23,547	-	-
In foreign currency	<u>6,496</u>	<u>6,514</u>	<u>6,347</u>	<u>6,422</u>
	<u>30,043</u>	<u>30,061</u>	<u>6,347</u>	<u>6,422</u>
Investments in securities issued by entities in the United States of America				
Debt in companies sponsored and supervised by the government of the United States of America				
	59,672	59,672	219,961	219,961
Securities issued by the National Treasury of the United States of America				
	4,172	4,172	2,137	2,137
Other investments	<u>166,119</u>	<u>166,108</u>	<u>168,823</u>	<u>168,878</u>
	<u>229,963</u>	<u>229,952</u>	<u>390,921</u>	<u>390,976</u>
Investments in securities issued by foreign entities				
Other investments	<u>380</u>	<u>380</u>	<u>1,025</u>	<u>1,040</u>
	<u>260,386</u>	<u>260,393</u>	<u>398,293</u>	<u>398,438</u>

<i>(Millions of bolivars)</i>	December 31, 2007				December 31, 2006			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Available-for-sale investments								
Investments in securities issued by Venezuelan entities								
Investments in securities issued by Venezuelan entities								
In local currency (1)	1,142,982	25,226	(17,849)	1,150,359	1,563,189	9,561	(1,607)	1,571,143
In foreign currency	<u>247,833</u>	<u>4,987</u>	<u>(31,369)</u>	<u>221,451</u>	<u>82,260</u>	<u>5,840</u>	<u>(1)</u>	<u>88,099</u>
	<u>1,390,815</u>	<u>30,213</u>	<u>(49,218)</u>	<u>1,371,810</u>	<u>1,645,449</u>	<u>15,401</u>	<u>(1,608)</u>	<u>1,659,242</u>
Other investments								
In local currency	67,751	3,011	(3,663)	67,099	21,446	-	(84)	21,362
In foreign currency	<u>5,016</u>	<u>320</u>	<u>(133)</u>	<u>5,203</u>	<u>9,862</u>	<u>141</u>	<u>(172)</u>	<u>9,831</u>
	<u>72,767</u>	<u>3,331</u>	<u>(3,796)</u>	<u>72,302</u>	<u>31,308</u>	<u>141</u>	<u>(256)</u>	<u>31,193</u>
	<u>1,463,582</u>	<u>33,544</u>	<u>(53,014)</u>	<u>1,444,112</u>	<u>1,676,757</u>	<u>15,542</u>	<u>(1,864)</u>	<u>1,690,435</u>
Investments in securities issued by entities in the United States of America								
Securities issued or guaranteed by the government of the United States of America (2)								
	2,447,790	25,185	(5,220)	2,467,755	1,596,146	8,915	(8,871)	1,596,190
Debt in companies sponsored and supervised by the government of the United States of America (3)								
	962,080	7,296	(2,739)	966,637	1,356,423	1,528	(11,381)	1,346,570
Securities issued by the National Treasury of the United States of America								
	80,426	580	(5)	81,001	224,717	453	(231)	224,939
Other investments	<u>673,949</u>	<u>3,037</u>	<u>(10,310)</u>	<u>666,676</u>	<u>1,018,262</u>	<u>1,568</u>	<u>(1,019)</u>	<u>1,018,811</u>
	<u>4,164,245</u>	<u>36,098</u>	<u>(18,274)</u>	<u>4,182,069</u>	<u>4,195,548</u>	<u>12,464</u>	<u>(21,502)</u>	<u>4,186,510</u>
Investments in other countries								
	<u>290,295</u>	<u>21</u>	<u>(6,149)</u>	<u>284,167</u>	<u>394,843</u>	<u>1,249</u>	<u>(162)</u>	<u>395,930</u>
	<u>5,918,122</u>	<u>69,663</u>	<u>(77,437)</u>	<u>5,910,348</u>	<u>6,267,148</u>	<u>29,255</u>	<u>(23,528)</u>	<u>6,272,875</u>

- (1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$57 million payable in bolivars at the official exchange rate.
- (2) Includes securities of the Government National Mortgage Association and the Small Business Administration.
- (3) Includes shares of the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and the Federal Farm Credit Bank.

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At December 31, 2007, investments in available-for-sale securities with a market value of US\$821 million were pledged to guarantee deposits and investments sold under repurchase agreements. At December 31, 2007 and 2006, these investments include US\$123 million as collateral for advances received from the Federal Home Loan Bank.

At December 31, 2007, restricted investments include securities of the Coral Gables agency with a market value of US\$19,377,610 (US\$16,281,904 at December 31, 2006), pledged to regulatory entities in compliance with state requirements in the United States of America.

At December 31, 2007, the unrealized gain of Bs 12,168 million recorded in shareholders' equity includes net unrealized net gains of Bs 23,747 million in respect of the share trading portfolio; Bs 1,698 million in restricted investments; net losses of Bs 7,774 million on investments in available-for-sale securities; Bs 5,518 million of unamortized net losses on investments in available-for-sale securities that were reclassified as investments in held-to-maturity securities; and a net increase of Bs 15 million from adjustments to market value of securities spot agreements.

	December 31, 2007			December 31, 2006		
	Amortized cost	Unrealized loss	Market value	Amortized cost	Unrealized gain (loss)	Market value
<i>(Millions of bolivars)</i>						
Investments in held-to-maturity securities						
Investments in securities issued by Venezuelan entities						
Securities issued or guaranteed by the Bolivarian Republic of Venezuela						
In local currency (1)	222,610	(2,559)	220,051	277,374	943	278,317
In foreign currency	685,083	(20,532)	664,551	222,104	-	222,104
Other investments	<u>67,099</u>	<u>(7,040)</u>	<u>60,059</u>	<u>417</u>	<u>(74)</u>	<u>343</u>
	<u>974,792</u>	<u>(30,131)</u>	<u>944,661</u>	<u>499,895</u>	<u>869</u>	<u>500,764</u>
Investments in securities issued by entities in the United States of America in U.S. dollars						
Debt in companies sponsored and supervised by the government of the United States of America (2)						
	23,819	-	23,819	36,904	-	36,904
Mandatory redeemable preferred stock (3)	-	-	-	47,932	(33)	47,899
Other investments	<u>82,887</u>	<u>-</u>	<u>82,887</u>	<u>64,797</u>	<u>63</u>	<u>64,860</u>
	<u>106,706</u>	<u>-</u>	<u>106,706</u>	<u>149,633</u>	<u>30</u>	<u>149,663</u>
Investments in other countries	<u>15,180</u>	<u>-</u>	<u>15,180</u>	<u>7,597</u>	<u>(2)</u>	<u>7,595</u>
	<u>1,096,678</u>	<u>(30,131)</u>	<u>1,066,547</u>	<u>657,125</u>	<u>897</u>	<u>658,022</u>

(1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$29 million payable in bolivars at the official exchange rate.

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

(3) Includes shares of private companies.

	December 31, 2007				December 31, 2006			
	Cost	Unrealized gain	Unrealized loss	Book Value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book Value (equivalent to market value)
<i>(Millions of bolivars)</i>								
Share trading portfolio								
Shares issued by Venezuelan companies	8,166	19,257	(3,746)	23,677	4,186	16,928	(5,780)	15,334
Shares issued by foreign companies	<u>1,607</u>	<u>8,236</u>	<u>-</u>	<u>9,843</u>	<u>375</u>	<u>585</u>	<u>-</u>	<u>960</u>
	<u>9,773</u>	<u>27,493</u>	<u>(3,746)</u>	<u>33,520</u>	<u>4,561</u>	<u>17,513</u>	<u>(5,780)</u>	<u>16,294</u>

During the year ended December 31, 2006, one of the subsidiaries sold Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), C.A. shares in cash at market value to third parties. A gain on sale of Bs 62,436 million was recorded in shareholders' equity under unrealized gain from adjustment to market value of investments in securities and is shown under gain on sale of investment securities.

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During the year ended December 31, 2007, certain subsidiaries sold MERCANTIL shares in cash at market value to third parties. A gain on sale of Bs 236 million (Bs 33,166 million for the year ended December 31, 2006) was recorded under retained earnings.

<i>(Millions of bolivars)</i>	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Cost	Market value	Cost	Market value
Investments in time deposits and placements				
Investments in securities issued by Venezuelan entities				
Time deposits				
Banco Central de Venezuela	3,275,000	3,275,000	3,783,000	3,783,000
Financial institutions	22,500	22,500	46,178	46,178
Overnight deposits	<u>133,330</u>	<u>133,330</u>	<u>63,100</u>	<u>63,100</u>
	<u>3,430,830</u>	<u>3,430,830</u>	<u>3,892,278</u>	<u>3,892,278</u>
Investments in securities issued by financial institutions in the United States of America				
Time deposits				
Overnight deposits	88,075	88,075	255,475	255,475
	<u>288,242</u>	<u>288,242</u>	<u>72,574</u>	<u>72,574</u>
	<u>376,317</u>	<u>376,317</u>	<u>328,049</u>	<u>328,049</u>
Investments in securities issued by foreign entities				
	<u>188,047</u>	<u>188,047</u>	<u>84,726</u>	<u>84,726</u>
	<u>3,995,194</u>	<u>3,995,194</u>	<u>4,305,053</u>	<u>4,305,053</u>

Investments in time deposits and placements include Bs 3,884,081 million, maturing within 90 days (Bs 4,304,536 million at December 31, 2006).

<i>(Millions of bolivars)</i>	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Cost	Market Value	Cost	Market value
Restricted investments and repurchase agreements				
Securities issued by the Bolivarian Republic of Venezuela				
In local currency				
In foreign currency	41,053	41,102	15,238	15,262
	<u>46</u>	<u>46</u>	<u>7,808</u>	<u>7,808</u>
	<u>41,099</u>	<u>41,148</u>	<u>23,046</u>	<u>23,070</u>
Securities issued or guaranteed by the government of the United States of America				
	<u>129,646</u>	<u>131,295</u>	<u>280,354</u>	<u>281,899</u>
Investments in other countries				
	<u>3,631</u>	<u>3,631</u>	<u>4,467</u>	<u>4,467</u>
	<u>174,376</u>	<u>176,074</u>	<u>307,867</u>	<u>309,436</u>

Below is a classification of investments by maturity at December 31, 2007:

<i>(Millions of bolivars)</i>	<u>Available-for-sale investments</u>			<u>Held-to-maturity investments</u>		
	Cost	Book value (equivalent to market value)	Yield (1)	Cost	Amortized cost	Yield (1)
In bolivars						
Less than one year	552,257	567,360	10,84	289,208	286,555	9,18
From 1 to 5 years	423,876	405,437	10,66	403,511	399,414	8,41
Over five years	303,351	307,456	13,01	60,926	66,212	5,88
In U.S. dollars						
Less than one year	589,644	589,592	6,10	10,718	10,735	5,92
From 1 to 5 years	265,272	268,033	5,44	171,688	183,246	5,67
Over five years	<u>3,783,722</u>	<u>3,772,470</u>	5,77	<u>148,563</u>	<u>150,516</u>	6,15
	<u>5,918,122</u>	<u>5,910,348</u>		<u>1,084,614</u>	<u>1,096,678</u>	

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

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During the year ended December 31, 2007, a net loss of Bs 85,814 million (net loss of Bs 149,389 million during the year ended December 31, 2006) was recorded on the sale of securities and included in the consolidated statement of income under gain on sale of investment securities.

During the year ended December 31, 2007, MERCANTIL swapped debt securities issued by the Bolivarian Republic of Venezuela denominated in foreign currency for debt securities issued by the Bolivarian Republic of Venezuela denominated in bolivars. These were subsequently sold, giving rise to a gain of approximately Bs 262,374 million, included in the statement of income under gain on sale of investment securities.

The control environment of MERCANTIL includes policies and procedures to determine investment risks by entity and economic sector. At December 31, 2007, MERCANTIL has investment securities issued or guaranteed by the Venezuelan government and investment securities with Banco Central de Venezuela (BCV), which represent 18.95% and 28.46%, respectively, of its investment securities portfolio (18.17% and 32.14%, respectively, at December 31, 2006). Furthermore, MERCANTIL has investments in bonds issued by the government and other government agencies of the United States of America representing 34.06% of its investment portfolio (30.36% at December 31, 2006).

5. Direct Financial Assets

At December 31, 2007, MERCANTIL has securities loan agreements with third parties, represented by Treasury Notes of the Bolivarian Republic of Venezuela and National Public Debt Bonds for Bs 324,579 million, with a par value of Bs 327,449 million and yields between 7.82% and 10.27% (with a par value of Bs 93,560 million and yields between 3% and 12% at December 31, 2006) and maturities as follows:

<i>(Millions of bolivars)</i>	2007	2006
Up to 30 days	123,064	26,867
31 to 60 days	186,255	10,734
61 and 90 days	<u>15,260</u>	<u>55,207</u>
Total	<u>324,579</u>	<u>92,808</u>

6. Loan Portfolio

The loan portfolio is classified as follows:

<i>(Millions of bolivars)</i>	December 31, 2007						December 31, 2006	
	Current	Rescheduled	Overdue	In litigation	Total	%	Total	%
Economic activity								
Commercial	6,132,882	4,716	31,291	2,528	6,171,417	31	5,132,321	35
Construction	2,642,940	-	31,257	1,553	2,675,750	14	1,938,107	12
Agriculture	1,845,344	6,436	2,914	314	1,855,008	9	1,182,278	8
Foreign trade	1,734,678	5,187	17,930	-	1,757,795	9	1,346,949	9
Industrial	1,654,008	2,165	1,146	129	1,657,448	8	996,465	7
Car loans	1,547,876	-	7,103	-	1,554,979	8	1,029,293	7
Credit cards	1,509,207	-	1,058	-	1,510,265	8	956,734	6
Home purchase	1,012,854	2,945	6,725	1,940	1,024,464	5	829,030	6
Services	541,731	3,195	3,829	255	549,010	3	411,881	3
Other	<u>924,023</u>	<u>-</u>	<u>13,725</u>	<u>1,060</u>	<u>938,808</u>	<u>5</u>	<u>1,042,709</u>	<u>7</u>
	<u>19,545,543</u>	<u>24,644</u>	<u>116,978</u>	<u>7,779</u>	<u>19,694,944</u>	<u>100</u>	<u>14,865,767</u>	<u>100</u>

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Below is the movement of the allowance for loan portfolio:

<i>(Millions of bolivars)</i>	Years ended	
	December 31,	
	2007	2006
Balance at the beginning of the year	293,500	229,404
Allowance for the year	126,897	108,378
Effect of translation of allowances in foreign currency	191	191
Decrease in allowance (Note 19)	(5,231)	(12,162)
Write-off of uncollectible loans	(63,023)	(29,736)
Transfers from (to) other reserves	<u>4,118</u>	<u>(2,575)</u>
Balance at the end of the year	<u>356,452</u>	<u>293,500</u>

At December 31, 2007, the loan portfolio no longer earning interest amounts to Bs 142,849 million and includes US\$34.2 million.

During the year ended December 31, 2007, interest accrued but not recorded as income on loans overdue and in-litigation amounts to Bs 32,274 million and includes US\$1.6 million (Bs 15,918 million during the year ended December 31, 2006). Interest on the loan portfolio for the year ended December 31, 2007, includes Bs 27,239 million (Bs 11,158 million during the year ended December 31, 2006) for interest collected on loans overdue and in-litigation deferred in previous years.

During the year ended December 31, 2007, uncollectible loans written-off in previous years for Bs 33,786 million were collected (Bs 83,426 million during the year ended December 31, 2006) and are included in the consolidated statement of income under other income (Note 19).

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

7. Interest and Commissions Receivable

Interest and commissions receivable comprise the following:

<i>(Millions of bolivars)</i>	2007	2006
Interest on		
Loan portfolio	154,129	102,262
Investment securities	<u>88,592</u>	<u>68,576</u>
	242,721	170,838
Commissions receivable	5,695	17,635
Provision for contingent losses	<u>(2,477)</u>	<u>(2,299)</u>
	<u>245,939</u>	<u>186,174</u>

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8. Long-term Investments

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

	Par value	December 31, 2007			December 31, 2006		
		Number of shares	Equity %	Millions of bolivars	Number of shares	Equity %	Millions of bolivars
Todo 1 Services, Inc.	2,144 (1)	26,187	47,04	14,542	26,187	47,00	9,349
Cestaticket Accor Services, C.A.	1,000	2,580,000	43,00	35,481	279,500	43,00	25,494
Proyectos Conexus	100	343,334	33,00	2,003	343,334	33,00	1,742
Inversiones Platco, C.A.	100,000	30,000	50,00	3,000	-	-	-
Other				<u>2,292</u>			<u>199</u>
				<u>57,318</u>			<u>36,784</u>

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

During the year ended December 31, 2007, MERCANTIL increased the capital stock of Cestaticket Accor Services, C.A. by Bs 2,301 million in cash.

During the year ended December 31, 2007, MERCANTIL recorded income from equity participation of approximately Bs 41,333 million (Bs 32,909 millions at December 31, 2006), including Bs 36,826 million from Cestaticket Accor Services, C.A. and Bs 5.193 million from Todo 1 Services, Inc. (Bs 27,593 million and Bs 4,245 million, respectively, during the year ended December 31, 2006) and received dividends of Bs 29,140 million (Bs 22,629 million during the year ended December 31, 2006).

9. Available-for-sale Assets

Available-for-sale assets comprise the following:

(Millions of bolivars)	Balances at December 31, 2006	Additions	Withdrawals	Fully depreciated write-offs	Other	Translation adjustment	Balances at December 31, 2007
Real property received as payment	3,370	25	(340)	(405)	(2,916)	342	76
Other available-for-sale assets	2,262	41,045	(20,679)	-	(215)	25	22,438
Accumulated amortization	<u>(564)</u>	<u>(148)</u>	<u>301</u>	<u>405</u>	<u>(37)</u>	<u>(9)</u>	<u>(52)</u>
	<u>5,068</u>	<u>40,922</u>	<u>(20,718)</u>	<u>---</u>	<u>(3,168)</u>	<u>358</u>	<u>22,462</u>

During the year ended December 31, 2007, MERCANTIL recorded amortization expense in respect of available-for-sale assets of Bs 148 million (Bs 1,139 million during the year ended December 31, 2006). Fully amortized personal and real property is shown under memorandum accounts (Note 2-i).

MERCANTIL sold assets received as payment and idle assets, resulting in a gain on sale of Bs 6,665 million and a loss of Bs 229 million (gain of Bs 13,375 million during the year ended December 31, 2006), shown in the statement of income under other income and other expenses, respectively (Notes 19 and 20).

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10. Property and Equipment

Property and equipment comprises the following:

<i>(Millions of bolivars)</i>	Costs						Balances at December 31 2007
	Balances at December 31, 2006	Additions	Withdrawals	Fully depreciated write-offs	Other	Translation adjustment	
Buildings and facilities	246,774	297	(1,490)	(18)	(1,060)	86	244,589
Office furniture and equipment	290,598	58,923	(17,215)	(8,011)	(1,744)	2	322,553
Vehicles	4,377	1,174	(384)	-	(24)	6	5,149
Land	17,634	-	(342)	-	(189)	22	17,125
Construction in progress	29,782	82,261	(7,146)	-	(2)	-	104,895
Other property	<u>16,562</u>	<u>31,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>48,509</u>
Total	<u>605,727</u>	<u>174,595</u>	<u>(26,577)</u>	<u>(8,029)</u>	<u>(3,019)</u>	<u>123</u>	<u>742,820</u>

<i>(Millions of bolivars)</i>	Accumulated depreciation						Balances at December 31, 2007
	Balances at December 31, 2006	Additions	Withdrawals	Fully depreciated write-offs	Other	Translation adjustment	
Buildings and facilities	(103,531)	(11,506)	420	18	1,994	(6)	(112,611)
Office furniture and equipment	(181,054)	(41,823)	16,653	8,011	(1,051)	-	(199,264)
Vehicles	(1,774)	(987)	205	-	-	(6)	(2,562)
Other property	<u>-</u>	<u>(2,128)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,128)</u>
Total	<u>(286,359)</u>	<u>(56,444)</u>	<u>17,278</u>	<u>8,029</u>	<u>943</u>	<u>(12)</u>	<u>(316,565)</u>

At December 31, 2007, property and equipment and other assets include Bs 31,525 million and Bs 23,591 million, respectively, related to the acquisition of a corporate airplane (Note 11). The useful life assigned to this asset is 10 years.

During the year ended December 31, 2007, MERCANTIL recorded depreciation expense of Bs 56,444 million (Bs 45,360 million during the year ended December 31, 2006) shown in the consolidated statement of income under operating expenses.

At December 31, 2007, buildings, facilities and land for Bs 149,103 million have an estimated market value of Bs 722,059 million, based on valuations performed by independent appraisers in December 2005.

At December 31, 2007, construction in progress is mainly in respect of construction or remodeling of offices to be used by MERCANTIL.

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

	Useful life (Years)	Remaining useful life (Years)
Buildings and facilities	40	23
Office furniture and equipment	4-10	3
Other property	10	9

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11. Other Assets

Other assets at December 31 comprise the following:

<i>(Millions of bolivars)</i>	2007	2006
Sale of securities in process of collection	209,680	117,802
Insurance premiums receivable	194,812	112,527
Goodwill	138,927	151,352
Deferred expenses, net of accumulated amortization of Bs 80,121 million (Bs 61,077 million at December 31, 2006)	105,165	62,674
Pending items	75,592	38,225
Prepaid expenses	52,658	25,411
Prepaid taxes, insurance and other prepaid expenses	51,630	40,504
Shopping mall rights	39,191	39,191
Advances for acquisition of personal and real property (Note 10)	36,293	2,612
Deferred income tax (Note 17)	32,233	41,128
Systems development, net of accumulated amortization of Bs 88,821 million (Bs 83,081 million at December 31, 2006)	26,274	15,798
Currency redenomination expenses (Notes 1 and 2-g)	9,222	-
Prepaid advertising	8,886	4,964
Accounts receivable from other credit card institutions	7,404	18,054
Adjustment to market value of securities under spot and forward agreements (Note 24)	3,215	(832)
Cross Currency Swap valuation (Notes 15 and 24)	905	30
Other	<u>58,920</u>	<u>64,191</u>
	1,051,007	733,631
Provision for estimated losses and other assets	<u>(17,401)</u>	<u>(7,968)</u>
	<u>1,033,606</u>	<u>725,663</u>

In 2000, 2001 and 2006, MERCANTIL acquired a majority shareholding in a commercial bank in Venezuela (Interbank, C.A.), an insurance company (C.A. Seguros Orinoco) and a bank in Florida, U.S.A. (Florida Savings Bank), giving rise to goodwill of Bs 131,223 million, Bs 19,600 million and Bs 40,170 million, respectively. These three companies were later merged into Mercantil, C.A. Banco Universal, Mercantil Seguros C.A. and Mercantil Commercebank N.A., respectively. To acquire Seguros Orinoco, former shareholders provided guarantees covering a 10-year period for recovery of certain assets and resolution of certain contingencies. In November 2007 an agreement was signed between the subsidiary Inversiones y Valores Mercantil VI, C.A. and certain former shareholders of C.A. Seguros Orinoco, whereby the parties agreed to close the trust fund consisting of guarantees granted for acquisition of C.A. Seguros Orinoco. The settlement amounted to Bs 1,293 million including US\$273,541.

In 2006 MERCANTIL purchased a bank in Florida through a merger, giving rise to goodwill of Bs 40,170 million for excess cost over book value. The bank had three branches located in Dade County, Miami, Florida, United States of America, and loans of US\$108 million (Bs 231,617 million), total assets of US\$132 million (Bs 283,087 million) and total deposits of US\$121 million (Bs 259,497 million).

During the year ended December 31, 2007, amortization of goodwill in respect of equity acquired in Todo 1 Services, Inc. was completed.

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.

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In 2006 the subsidiary Mercantil, C.A. Banco Universal sold land to a third party at market value of Bs 39,191 million, giving rise to a gain of Bs 20,328 million, shown under other income (Note 19). This land will be developed into a shopping mall within approximately three years. MERCANTIL simultaneously acquired 20% of the premises to be used as its main office and other facilities.

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

During the year ended December 31, 2007, MERCANTIL recorded amortization expense of Bs 36,982 million (Bs 26,308 million during the year ended December 31, 2006), shown in the consolidated statement of income under operating expenses.

Below is the movement of goodwill for the year ended December 31, 2007:

	<u>Cost</u>		
	December 31, 2006	Additions	December 31, 2007
<i>(Millions of bolivars)</i>			
Interbank, C.A.	131,222	-	131,222
Florida Savings Bank	40,519	643	41,162
C.A. Seguros Orinoco	19,602	-	19,602
Mercantil Seguros, C.A.	3,989	-	3,989
Todo 1 Service Inc.	<u>3,291</u>	<u>-</u>	<u>3,291</u>
	<u>198,623</u>	<u>643</u>	<u>199,266</u>
		<u>Accumulated amortization</u>	
	December 31, 2006	Additions	December 31, 2007
<i>(Millions of bolivars)</i>			
Interbank, C.A.	39,366	6,562	45,928
Florida Savings Bank	1,182	2,077	3,259
C.A. Seguros Orinoco	5,304	1,061	6,365
Mercantil Seguros, C.A.	1,296	200	1,496
Todo 1 Service Inc.	<u>123</u>	<u>3,168</u>	<u>3,291</u>
	<u>47,271</u>	<u>13,068</u>	<u>60,339</u>

12. Deposits

Deposits comprise the following:

Type of deposit

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
Non-interest-bearing checking accounts	6,644,492	21	5,128,745	20
Interest-bearing checking accounts	8,188,269	26	6,221,425	25
Savings accounts	8,777,472	28	7,160,491	28
Time deposits	<u>7,677,380</u>	<u>25</u>	<u>6,736,211</u>	<u>27</u>
	<u>31,287,613</u>	<u>100</u>	<u>25,246,872</u>	<u>100</u>

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Time deposits by maturity

	December 31, 2007		December 31, 2006	
	Millions of bolivars	%	Millions of bolivars	%
Up to 30 days	3,204,948	42	3,233,495	48
31 to 60 days	839,323	11	759,052	11
61 to 90 days	674,802	9	568,934	8
91 to 180 days	793,748	10	530,802	8
181 to 360 days	435,421	6	458,104	7
Over 360 days	<u>1,729,138</u>	<u>22</u>	<u>1,185,824</u>	<u>18</u>
	<u>7,677,380</u>	<u>100</u>	<u>6,736,211</u>	<u>100</u>

Deposits bear interest at the rates shown below:

	December 31, 2007				December 31, 2006			
	Deposits in bolivars		Deposits in U.S. dollars		Deposits in bolivars		Deposits in U.S. dollars	
	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate
	%		%	%		%		%
Interest-bearing checking accounts	0,50	5,25	0,10	3,90	0,50	5,00	0,10	5,60
Savings deposits	9,87	10,00	0,10	4,10	6,50	7,00	0,10	5,50
Time deposits	10,00	11,25	0,50	6,57	10,00	10,75	0,15	6,57

At December 31, 2007, deposits include Bs 1,091,002 million (Bs 828,885 million at December 31, 2006) from the Venezuelan government and other government entities, equivalent to 3.5% of total deposits (3.3% at December 31, 2006).

13. Debt Authorized by the Venezuelan Securities and Exchange Commission

At December 31, 2007, MERCANTIL has issued by public offering debenture bonds and commercial paper with the following characteristics:

a) Debenture bonds

<i>(Millions of bolivars)</i>	Amount of issue	Pending issue (Note 24)	Amount placed	Date of issue	Term (Years)	Percentage of return compared to TAM (*)
Issue 2004-IV	30,000	-	15,000	November 2004, March and May 2005	3	91
Issue 2005-I	35,000	-	35,000	November and December 2005	3	88
Issue 2006-I	60,000	-	60,000	November 2006	2	Fixed rate of 8.25
Issue 2006-II	40,000	-	40,000	November 2006	4	76
Issue 2007-I	100,000	-	100,000	May and June 2007	4	72.5
Issue 2007-II	<u>180,000</u>	<u>135,624</u>	<u>44,376</u>	October 2007	2-3	74-75-76
	<u>445,000</u>	<u>135,624</u>	294,376			
Bonds acquired by subsidiaries			<u>(38,824)</u>			
			<u>255,552</u>			

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

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b) Commercial paper

<i>(Millions of bolivars)</i>	Amount of issue	Pending issue (Note 24)	Amount placed	Date of issue	Term (Days)	Discount %
Issue 2007-I						
Series I	100,000	-	20,000	May 2007	360	7.25
Issue 2007-II						
Series I	20,000	-	20,000	September 2007	268	11.25
Series II	20,000	5,543	14,457	September 2007	360	11.75
Series III	20,000	8,995	11,005	September 2007	354	11.75
Series IV	20,000	4,870	15,130	September 2007	353	11.75
Series V	<u>20,000</u>	<u>-</u>	<u>20,000</u>	September 2007	180	10.50
	<u>200,000</u>	<u>19,408</u>	<u>100,592</u>			

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

14. Financial Liabilities

Financial liabilities are classified by type and maturity as follows:

<i>(Millions of bolivars)</i>	December 31, 2007			December 31, 2006		
	Up to one Year	More than one year	Total	Up to one year	More than one year	Total
Liabilities with Venezuelan banks and savings and loan institutions						
Credit balances with correspondent banks	102,180	-	102,180	49,127	-	49,127
Loans granted by Venezuelan financial institutions, with annual interest at between 10.5% and 26% (8% and 13.59% at December 31, 2006)	<u>59,099</u>	<u>72,000</u>	<u>131,099</u>	<u>218,599</u>	<u>100,000</u>	<u>318,599</u>
	<u>161,279</u>	<u>72,000</u>	<u>233,279</u>	<u>267,726</u>	<u>100,000</u>	<u>367,726</u>
Liabilities with foreign banks and savings and loan institutions						
New York office mortgage loan of US\$5,590,697, with 9.63% fixed annual interest (US\$5,783,610, with 9.3% fixed annual interest)	-	11,990	11,990	-	12,403	12,403
Federal Home Loan Bank, with a par value of US\$33,280,513 with annual interest at between 3.1% and 5.9% (US\$109,250,000, and annual interest at between 3.1% and 5.9% at December 2006)	3,282	68,091	71,373	162,990	71,308	234,298
Loans granted by foreign financial institutions with annual interest at between 0.4% and 7.13%	60,063	-	60,063	-	-	-
Other	<u>1,252</u>	<u>-</u>	<u>1,252</u>	<u>377</u>	<u>-</u>	<u>377</u>
	<u>64,597</u>	<u>80,081</u>	<u>144,678</u>	<u>163,367</u>	<u>83,711</u>	<u>247,078</u>
Direct financial liabilities						
Short sale of securities at par value of US\$88,075,340 with annual interest at between 3.52% and 6.27% (par value of US\$138,354,240 with annual interest at between 4.44% and 5.94 at December 31, 2006)	-	188,886	188,886	-	296,714	296,714
Securities loan agreements	<u>399,434</u>	<u>-</u>	<u>399,434</u>	<u>98,572</u>	<u>-</u>	<u>98,572</u>
	<u>399,434</u>	<u>188,886</u>	<u>588,320</u>	<u>98,572</u>	<u>296,714</u>	<u>395,286</u>
Liabilities under repurchase agreements						
Liabilities under repurchase agreements with a par value of US\$318,000,000, and annual interest at between 3.51% and 5.51% (US\$271,059,000 with annual interest at between 3.66% and 5.51% at December 2006)	<u>23,591</u>	<u>658,392</u>	<u>681,983</u>	<u>-</u>	<u>581,313</u>	<u>581,313</u>
Other liabilities						
Funds received for special financing programs, with annual interest at between 18% and 22.29% (18% and 22.29% at December 31, 2006)	-	3,358	3,358	-	4,434	4,434
Liabilities in respect of letters of credit	114,808	-	114,808	137,231	-	137,231
Other	<u>241</u>	<u>130</u>	<u>371</u>	<u>2,815</u>	<u>734</u>	<u>3,549</u>
	<u>115,049</u>	<u>3,488</u>	<u>118,537</u>	<u>140,046</u>	<u>5,168</u>	<u>145,214</u>
	<u>763,950</u>	<u>1,002,847</u>	<u>1,766,797</u>	<u>669,711</u>	<u>1,066,906</u>	<u>1,736,617</u>

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Maturities of financial liabilities are as follows:

Up to one year

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
Up to 30 days	621,219	81	228,729	33
Between 31 and 60 days	58,126	8	68,225	10
Between 61 and 90 days	8,785	1	21,103	3
Between 91 and 180 days	2,085	-	91,918	14
Between 181 and 270 days	-	-	30,000	5
Between 271 and 360 days	<u>73,735</u>	<u>10</u>	<u>229,736</u>	<u>35</u>
Total	<u>763,950</u>	<u>100</u>	<u>669,711</u>	<u>100</u>

More than one year

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	%	Millions of bolivars	%
2007	-	-	203,999	19
2008	-	-	65,475	6
2009	96,207	12	136,410	13
2010	337,374	33	661,022	62
2011	103,183	10	-	-
2012 and beyond	<u>466,083</u>	<u>45</u>	<u>-</u>	<u>-</u>
Total	<u>1,002,847</u>	<u>100</u>	<u>1,066,906</u>	<u>100</u>

At December 31, 2007, certain subsidiaries of MERCANTIL have securities loan agreements represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela with annual yields between 1% and 12.43% (Treasury Notes of the Bolivarian Republic of Venezuela with annual yields between 1% and 5% at December 31, 2006).

Liabilities under repurchase agreements

Below is a summary of liabilities under repurchase agreements at December 31:

<i>(Millions of bolivars)</i>	2007	2006
Balance at year end	681,983	581,313
Fair value of financial instruments (1)	681,983	581,313
Total maximum balance outstanding at the end of any month of the year	681,983	584,112
Average balance for the year	648,027	379,620

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

Weighted average interest rate	%
For the year	
in foreign currency	4.72
Interest rate at year end	
in foreign currency	4.70

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

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15. Other Liabilities

Other liabilities at December 31 comprise the following:

<i>(Millions of bolivars)</i>	2007	2006
Reserves for insurance operations (Note 2-o)	629,542	415,348
Cashier's checks issued to clients	222,906	178,657
Provision for contingencies and other (Note 32)	168,880	174,689
Other demand liabilities	151,716	59,918
Provisions for taxes payable (Note 17)	123,484	69,858
Taxes collected and withheld	111,056	82,767
Accrued expenses	107,304	136,793
Personnel profit sharing and bonuses	86,626	26,501
Pending items	67,085	205,942
Accounts payable to suppliers	60,329	12,557
Provision for operating risks	49,852	41,982
Deferred interest	48,395	44,553
Labor contributions	13,943	18,612
Law on Narcotic and Psychotropic Substances	8,585	9,909
Law for the Advancement of Science, Technology and Innovation	4,621	8,555
Supplementary Savings Plan (Note 18-a)	4,040	4,007
Cross Currency Swap valuation (Notes 11 and 24)	150	7
Other	<u>78,282</u>	<u>85,727</u>
	<u>1,936,796</u>	<u>1,576,382</u>

Pending items mainly include commitments acquired by Mercantil Commercebank, N.A. in respect of security transactions pending settlement at year end, which clear during the first days of January.

At December 31, 2007, MERCANTIL maintains provisions for operating risks of Bs 49,852 million (Bs 41,982 million at December 31, 2006) determined on the basis of methodologies for risk management assessment, measurement and control. Provisions for contingencies and other operating risks are recorded in the consolidated statement of income under other operating expenses (Note 20).

At December 31, 2007, technology and innovation investment projects have been executed by MERCANTIL to cover the 0.5% contribution of gross income obtained in the country during the preceding year required by the Law for the Advancement of Science, Technology and Innovation. At December 31, 2007, a provision of Bs 4,621 million (Bs 8,555 million at June 30, 2007) is maintained in this connection.

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16. Subordinated Debt

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

Issue date	Maturity date	Annual interest %	Original amount in millions of US\$	Balance at December 31, 2007 in millions of US\$	December 31, 2007 equivalent in millions of bolivars	December 31, 2006 equivalent in millions of bolivars
June 1998	June 2028	8.90	40	27	57,539	59,684
September 2000	September 2030	10.60	15	15	32,169	32,169
March 2001	June 2031	10.18	10	10	21,446	21,446
July 2002	July 2032	LIBOR + 3.65	10	-	-	21,446
December 2002	January 2033	LIBOR + 3.35	9	9	19,838	19,838
April 2003	April 2033	LIBOR + 3.25	8	8	17,157	17,157
March 2004	April 2034	LIBOR + 2.85	5	5	10,723	10,723
September 2006	December 2038	LIBOR + 1.75	25	25	53,615	53,615
December 2006	December 2036	LIBOR + 1.75	15	15	<u>32,169</u>	<u>32,169</u>
					<u>244,656</u>	<u>268,247</u>

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

17. Taxes

Tax expense comprises the following:

<i>(Millions of bolivars)</i>	<u>Years ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Taxes		
Current		
In Venezuela	135,824	64,821
Abroad	<u>52,728</u>	<u>59,878</u>
	<u>188,552</u>	<u>124,699</u>
Deferred		
In Venezuela	7,510	1,506
Abroad	<u>1,673</u>	<u>4,432</u>
	<u>9,183</u>	<u>5,938</u>

Taxes in Venezuela

Venezuelan Income Tax Law

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

MERCANTIL's tax year ends on December 31. For the years ended December 31, 2007 and 2006, the main differences between book income and taxable income arise from the net effect of the annual inflation adjustment, income from shareholdings, provisions and accruals, nontaxable income and the net effect of tax-exempt income from National Public Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela.

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At December 31, 2007, MERCANTIL has tax loss carryforwards of Bs 144,724 million with sources and maturities as shown below:

<i>(Millions of bolivars)</i>	Territorial	Extraterritorial	Total global
Tax losses	89,352	55,372	144,724
Maturities			
2008	74,216	39,210	113,426
2009	6,204	16,161	22,365
2010	8,932	1	8,933

The aforementioned amount mainly comprises tax losses of MERCANTIL (Bs 59,514 million), Inversiones y Valores Mercantil V, C.A. (Bs 51,330 million) and Mercantil Merinvest Casa de Bolsa, C.A. (Bs 6,286 million).

The subsidiary Mercantil, C.A. Banco Universal computed taxable income for the year ended December 31, 2007, giving rise to an estimated tax expense of Bs 106,584 million (Bs 59,748 million for the year ended December 31, 2006). The following is a reconciliation between book expense and tax expense for the subsidiary Mercantil, C.A. Banco Universal for the year ended December 31, 2007:

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

Bank debit tax

In March 2002, the Venezuelan government enacted the Bank Debit Tax Law. This tax was levied upon debits or withdrawals made from checking and savings accounts, custody deposits, or any other type of demand deposit, liquid asset funds, trust funds and other financial market funds or financial instruments. Venezuelan banks and other financial institutions were also required to pay this tax on transactions such as investments, interbank loans, and personnel and operating expenses, among others. Bank debit tax was set at 0.50%. This tax was repealed in February 2006. Bank debit tax expense for the year ended December 31, 2006 amounted to approximately Bs 754 million.

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Tax on financial transactions for incorporated and unincorporated entities

In October 2007, the Venezuelan government enacted by Decree Law the Tax on Financial Transactions for Incorporated and Unincorporated Entities. This tax is levied upon debits or withdrawals made from current and savings accounts, custody deposits or any other type of demand deposits, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by incorporated and unincorporated entities with Venezuelan banks and other financial institutions. Debt payments made without the mediation of financial institutions are also subject to this tax. The tax rate was set at 1.5% as from November 1, 2007 until December 31, 2008. Tax expense for 2007 amounted to approximately Bs 28,162 million and is included under other operating expenses (Note 20).

Taxes in the United States of America

Federal taxes

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

Deferred income tax for the subsidiary Mercantil Commercebank, N.A. comprises the following:

<i>(Thousands of U.S. dollars)</i>	2007	2006
Assets		
Allowance for losses on loan portfolio	12,789	9,180
Unrealized gain (loss) in valuation of available-for-sale securities	(4,418)	2,642
Deferred commissions on loans granted	1,239	1,652
Unrecorded interest earned	566	646
Depreciation and amortization	1,263	597
Core deposit premium amortization	131	98
Other	<u>2,125</u>	<u>1,791</u>
	<u>13,695</u>	<u>16,606</u>

State taxes

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

Transfer pricing

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

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18. Employee Benefit Plans

a) Supplementary Savings Plan

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

Expenses in connection with this plan for MERCANTIL for the year ended December 31, 2007 amount to Bs 23 billion (Bs 62 billion for the year ended December 31, 2006).

b) Supplementary Defined Benefit Pension Plan

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

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

c) Post-retirement benefits

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

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

	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>December 31,</u>		<u>December 31,</u>	
<i>(Millions of bolivars)</i>	2007	2006	2007	2006
Variation of projected benefit obligation				
Benefit obligation at January 1	32,176	69,580	17,915	8,267
Service cost	207	1,202	1,091	727
Interest cost	3,330	5,362	1,916	1,564
Actuarial loss	1,849	16,772	6,276	(1,505)
Plan reduction (gain)	-	(8,919)	-	-
Payment of obligation for transfer of assets	-	(8,701)	-	-
Transfer of obligations	-	(39,780)	-	-
Plan modification	-	-	-	9,770
Paid benefits	<u>(3,918)</u>	<u>(3,340)</u>	<u>(1,525)</u>	<u>(908)</u>
Projected benefit obligation	<u>33,644</u>	<u>32,176</u>	<u>25,673</u>	<u>17,915</u>

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	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>December 31,</u>		<u>December 31,</u>	
<i>(Millions of bolivars)</i>	2007	2006	2007	2006
Variation in plan assets				
Fair value of assets at the beginning	32,235	53,077	8,700	8,267
Yield on assets	2,936	5,369	(265)	904
MERCANTIL contribution	-	9,038	-	5,529
Payment of obligation for transfer of assets	(3,021)	(7,453)	3,021	-
Transfer of obligations	-	(24,456)	-	(5,092)
Paid benefits	<u>(3,918)</u>	<u>(3,340)</u>	<u>-</u>	<u>(908)</u>
Fair value of plan assets at the end	<u>28,232</u>	<u>32,235</u>	<u>11,456</u>	<u>8,700</u>
Financial position at year end				
Present value of obligations (DBO)	(33,644)	(32,176)	(25,673)	(17,915)
Assets of external fund supporting the plan	<u>28,232</u>	<u>32,235</u>	<u>11,456</u>	<u>8,700</u>
Projected obligation (less assets)	(5,412)	59	(14,217)	(9,215)
Unrecognized past service cost	-	-	8,326	9,215
Unrecognized actuarial (gain) loss	<u>14,620</u>	<u>24,986</u>	<u>4,606</u>	<u>(1,670)</u>
	<u>9,208</u>	<u>25,045</u>	<u>(1,285)</u>	<u>(1,670)</u>
Components of net benefit cost for the year				
Service cost	207	1,202	1,091	727
Interest cost	3,330	5,362	1,916	1,564
Expected yield from plan assets	(2,936)	(4,086)	265	(621)
Effect of decrease and payment	-	(5,357)	888	-
Amortization of unrecognized past service cost	-	-	-	555
Amortization of actuarial loss	<u>12,215</u>	<u>3,962</u>	<u>-</u>	<u>-</u>
Net benefit cost for the year	<u>12,816</u>	<u>1,083</u>	<u>4,160</u>	<u>2,225</u>

Assumptions used to determine benefit obligations for the year ended:

	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	2007	2006	2007	2006
Discount rate	12.50	11.00	12.50	11.00
Salary increase	13.50	12.00	13.50	12.00
Yield on assets				
Bolivars	13.00	15.00	13.00	15.00
U.S. dollars	6.50	6.50	6.50	6.50
Increase of medical expense for the year	15.50	13.50	15.50	13.50

Plan costs for 2008 are estimated at Bs 11,093 million.

d) Long-term stock option plan

MERCANTIL and certain subsidiaries offer a long-term stock option plan to eligible officers approved by the Board of Directors' Compensation Committee. These shares are allotted over three-year periods and awarded annually. Fundación BMA manages the plan and sets up trust funds with the shares on behalf of members once these shares have been assigned and subsequently awarded to eligible officers based on individual allotments approved in accordance with plan regulations. During each administrative phase and until the shares are actually acquired by officers, cash dividends declared in respect of these shares are received by Fundación BMA and stock dividends by the participants.

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According to the long-term incentive nature of the plan, officers must be active employees of MERCANTIL in order to exercise their purchase options within the time periods established. If they are not, or if the allotted shares are not purchased within the established time periods, the entitlements are cancelled. At December 31, 2007, 207 employees are participating in this plan. For the year ended December 31, 2007, Bs 3,500 million was contributed for this plan.

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

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

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

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

(3) Available shares.

(4) Includes stock dividends.

Phase IV was announced to employees in March 2007. This phase includes two groups of options for eligible employees. In the first group, 354,053 Class "A" shares and 295,147 Class "B" shares were granted to be exercisable over a nine-months vested period. In the second group 77,931 Class "A" and 64,969 Class "B" shares were granted to be exercisable over a one year and nine-months vested period. Once exercised, the sale of 50% of these options will be restricted while the employees are working at MERCANTIL.

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

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

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

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

<i>(In bolivars)</i>	Share volatility %	Risk-free rate %	Time (Years)	Option value
Phase I	78.6	28.6	7.8	77,210
Phase II	68.7	21.0	6	3,860
Phase III	35.8	26.9	7.5	14,580
Phase IV	31.4	8.3	2.4	30,950

In connection with the options awarded during the year ended December 31, 2007, MERCANTIL recognized expenses of Bs 22,114 million in the statement of income based on the market value of options at the award date.

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

19. Other Income

Other income at December 31 comprises the following:

<i>(Millions of bolivars)</i>	2007	2006
Commissions on banking services	59,350	53,032
Decrease in allowances	59,027	59,261
Interest on financing of insurance policies	51,493	40,730
Recovery of loans recorded as uncollectible (Note 6)	33,786	83,426
Commission for foreign currency administration	33,722	24,980
Commissions on administration of housing savings fund	21,805	25,433
Commissions on drafts and transfers	19,056	17,814
Commissions on advisory services	13,588	17,470
Income from other accounts receivable	7,424	8,900
Gain on sale of available-for-sale assets (Note 9)	6,665	13,375
Cross Currency Swap valuation (Note 24)	6,468	23
Decrease in allowance for losses on loan portfolio (Note 6)	5,231	12,162
Gain on sale of land (Note 11)	-	20,328
Dividends received	-	5,653
Income (loss) from transactions with derivative instruments (Note 24)	(8,112)	1,988
Other	<u>71,261</u>	<u>62,921</u>
	<u>380,764</u>	<u>447,496</u>

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20. Other Operating Expenses

Other operating expenses at December 31 comprise the following:

<i>(Millions of bolivars)</i>	2007	2006
Professional fees and other external services	140,041	123,579
Advertising and marketing	108,761	88,982
Communications	99,306	81,005
Taxes and contributions (Note 17)	96,588	46,890
Service commissions	83,337	63,100
Provision for operating risks and other contingencies	32,798	63,352
Provisions for other assets	14,951	5,041
Robbery, assault and fraud	28,744	12,449
Office supplies	26,115	20,960
Transportation and security	17,142	16,284
Donations	13,680	10,217
Public relations and representation expenses	13,347	10,077
Insurance expenses	6,337	5,014
Provision for Law on Science, Technology and Innovation (Note 15)	6,330	11,020
Cross Currency Swap valuation (Note 24)	5,920	-
Other	<u>83,401</u>	<u>86,020</u>
	<u>776,798</u>	<u>643,990</u>

21. Shareholders' Equity

a) Capital stock and authorized capital

At December 31, 2007, the subscribed and paid-in capital of MERCANTIL amounts to Bs 156,479 million, represented by 104,319,358 shares divided into 60,519,455 Class "A" common shares and 43,799,903 Class "B" common shares, with limited voting rights regarding approval of financial statements and appointment of statutory auditors, with a par value of Bs 1,500 each. Of these shares, 183,428 Class "A" and 153,838 Class "B" common shares constitute treasury stock in connection with the current repurchase program of MERCANTIL shares. Outstanding shares amount to 103,982,092 shares; 60,336,027 Class "A" and 43,646,065 Class "B" shares (718,112,169 shares divided into 417,003,636 Class "A" and 301,108,533 Class "B" common shares with limited voting rights. Of these shares, 2,243,014 Class "A" and 675,714 Class "B" common shares constituted treasury stock in connection with the current repurchase program of MERCANTIL. Outstanding shares amounted to 414,760,622 Class "A" and 300,432,819 Class "B" shares, with a par value of Bs 150 each at December 31, 2006).

At a Special Shareholders' Meeting held on December 10, 2007, it was resolved to increase the par value of MERCANTIL's shares to Bs 1,500 through conversion of 10 common shares into a new common share. From January 1, 2008, when currency redenomination became effective, the par value of shares is Bs 1.50 (Note 1).

Authorized capital stock of MERCANTIL at December 31, 2007 is Bs 314,493 million (Note 24).

b) Public offer of MERCANTIL shares

At a Shareholders' Meeting held in March 2007, it was resolved to increase subscribed and paid-in capital stock to Bs 215,434 million through the issue of a maximum of 718 million Classes "A" or "B" common shares with a par value of Bs 150 each. During 2007 MERCANTIL made a public offer of up to 45 million shares (4.5% of capital stock) at Bs 3,350 each, which were fully placed. Funds obtained were used to expand the banking, insurance and investment banking businesses.

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c) Stock repurchase program

In May 2000, a repurchase program of MERCANTIL shares was approved within the limits set out by the Capital Markets Law (up to 15% of the subscribed capital and a maximum term of two years after acquisition to dispose of these shares). This Law sets out that repurchased shares have no voting rights.

The repurchase program has been implemented in 16 six-month phases. Below is a summary of the applicable conditions for the current phases:

<i>(In bolivars)</i>	Date of approval at Shareholders' Meetings	Maximum authorized purchase price per share	Average purchase price	Repurchased and unredeemed shares
Phases				
Fifteenth	March 2007	100,000	34,394.20	211,715
Sixteenth	September 2007	75,000	33,075.56	<u>125,551</u>
Repurchased and unredeemed shares (0.32% of capital stock)				<u>337,266</u>

In October 2001, January 2003, February 2004, October 2005 and September 2007, approval was given to redeem 80,385,062 shares for Bs 186,867 million; these were acquired up to the fourteenth phase of the aforementioned repurchase program and were held in treasury stock in conformity with the Capital Markets Law. These shares were redeemed in December 2001, February 2003, June 2004, February 2006 and December 2007. The redemption performed in December 2007 resulted in a reduction of Bs 768 million in MERCANTIL's paid-in capital. As a result, all of the treasury stock acquired during the eighth, ninth, tenth, eleventh, twelfth, thirteenth, and fourteenth phases of this program was redeemed.

d) Dividends declared

In cash

Type of dividend	Date of approval at Shareholders' Meeting	Amount per share Bs	Frequency or payment date
Ordinary	September 2005	12	February 2006
Special	March 2006	71	April 2006
Ordinary	March 2006	12	May 2006
Ordinary	March 2006	12	August 2006
Special	March 2006	71	September 2006
Ordinary	March 2006	12	November 2006
Ordinary	September 2006	12	February 2007
Ordinary	March 2007	12	May 2007
Special	March 2007	30	May 2007
Ordinary	March 2007	12	August 2007
Ordinary	March 2007	12	November 2007
Ordinary	September 2007	13	February 2008

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In shares

Date of approval at Shareholders' Meeting	Dividend date	Number of shares issued	Amount in millions Bs	Dividend proportion
March 2007	May 2007	285,198.170	42,780	2 shares for every 5 held

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

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

	Year ended December 31, 2007
<i>(Millions of bolivars)</i>	
Consolidated net income	783,333
Less	
Equity in the results of subsidiaries	(733,865)
Add	
Dividends collected	<u>143,453</u>
Base income for dividend distribution	<u>192,921</u>

Retained earnings at December 31, 2007 include Bs 504,806 million available for dividend distribution; the remaining balance derives from retained earnings of subsidiaries and will be available for distribution once these subsidiaries declare and pay dividends.

e) Other

The statutes include a shareholders' rights plan, which stipulates that, under certain circumstances, shareholders holding shares for more than 180 days are entitled to subscribe shares at par value (Bs 1,500 per share). This measure follows the defensive corporate best practices in use by companies in industrialized nations to maximize the value available to shareholders in case of a non-negotiated purchase offer and thus, strengthen their negotiating position in an event of this nature.

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

A Foundation was incorporated abroad in 1986 with MERCANTIL and its shareholders as beneficiaries. The Foundation's Board of Directors decides, at its convenience, whether to transfer all or part of the Foundation's equity to MERCANTIL or its shareholders. At December 31, 2007, the Foundation has net equity of US\$745,474 (US\$754,259 at December 31, 2006), represented by securities at market value (Note 4).

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22. Income per Share

Calculation of net income per common share and net income per diluted common share for the years ended December 31 is shown below:

<i>(Millions of bolivars, except for number of shares)</i>	2007	2006
Net income per common share		
Net income	783,333	555,734
Common shares issued	104,319,358	71,811,217
Weighted average of outstanding common shares	98,438,449	96,551,614
Basic net income per share	7,957.59	5,755.82
Net income per diluted common share		
Net income	783,333	555,734
Weighted average of outstanding common shares	98,438,449	96,551,614
Potentially diluted common shares	129,952	720,460
Total weighted average of outstanding diluted common shares	98,568,401	97,272,074
Diluted net income per share	7,947.10	5,713.19

23. Financial Assets and Liabilities in Foreign Currency

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

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

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

MERCANTIL is currently applying to CADIVI to obtain currency at the official exchange rate for conversion into U.S. dollars of dividends payable to ADR holders. At December 31, 2007, Bs 16,852 million (Bs 29,108 at December 31, 2006) has been received in respect of 2007, shown under other liabilities (Note 15).

The consolidated balance sheet of MERCANTIL 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-u :

<i>(Thousands of U.S. dollars)</i>	2007	2006
Assets		
Cash and due from banks	147,280	57,753
Investment portfolio	2,827,633	2,868,822
Loan portfolio	3,484,333	3,002,974
Other assets	<u>169,756</u>	<u>105,395</u>
	<u>6,629,002</u>	<u>6,034,944</u>

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<i>(Thousands of U.S. dollars)</i>	2007	2006
Liabilities		
Deposits	4,796,639	4,123,289
Financial liabilities	527,072	587,721
Other liabilities	31,422	90,598
Subordinated debt	<u>114,080</u>	<u>125,080</u>
	<u>5,469,213</u>	<u>4,926,688</u>

At December 31, 2007, net exchange losses resulting from foreign currency positions amounted to Bs 1,537 million (a net gain of Bs 9,494 million during the year ended December 31, 2006, mainly from the effect of translation of net assets of the Colombian subsidiaries under liquidation). Furthermore, during the year ended December 31, 2007, gains from intermediation in foreign currency trading amounted to Bs 3,765 million (Bs 2,020 million during the year ended December 31, 2006).

The estimated effect of the increase of every Bs 100/US\$1 in the exchange rate of Bs 2,144.60/US\$1 at December 31, 2007 would be an increase of Bs 662,900 million in assets and Bs 115,979 million in shareholders' equity.

24. Memorandum Accounts

Memorandum accounts at December 31 comprise the following:

<i>(Millions of bolivars)</i>	2007	2006
Contingent debtor accounts		
Guarantees granted	476,342	540,802
Lines of credit (Note 25)	1,575,616	1,685,870
Letters of credit	498,747	707,720
Transactions with derivative instruments	879,322	698,393
Cross Currency Swap Contract (Notes 11 and 15)	58,377	21,369
Tourist industry sector loan commitments	111,945	122,428
Other contingencies	<u>570,192</u>	<u>355,240</u>
	<u>4,170,541</u>	<u>4,131,822</u>
Assets received in trust	<u>8,006,657</u>	<u>7,897,496</u>
Special trust services	<u>1,031,101</u>	<u>529,154</u>
Debtor accounts for other special trust services (Housing Mutual Fund)	<u>1,324,034</u>	<u>995,226</u>
Other debtor memorandum accounts		
Custody of values received	4,136,179	6,672,978
Collections	156,661	55,282
Guarantees received	18,810,952	13,585,917
Unused lines of credit	3,753,313	3,717,412
Publicly traded shares (Note 21)	158,014	118,988
Commercial paper pending issue (Note 13-b)	19,408	20,000
Debenture bonds pending issue (Note 13-a)	135,624	-
Other control accounts	<u>7,030,006</u>	<u>5,999,279</u>
	<u>34,200,157</u>	<u>30,169,856</u>
	<u>48,732,490</u>	<u>43,723,554</u>

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Assets received in trust

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

<i>(Millions of bolivars)</i>	2007	2006
Assets		
Cash and due from banks	149,363	185,695
Investment portfolio	5,009,524	5,200,836
Loan portfolio	2,380,947	2,035,246
Interest and commissions receivable	35,479	28,582
Available-for-sale assets	1,554	-
Assets received for administration	9,272	11,006
Other assets	<u>420,518</u>	<u>436,131</u>
Total assets	<u>8,006,657</u>	<u>7,897,496</u>
Liabilities		
Other accounts payable	4,613	16,303
Other liabilities	<u>7,092</u>	<u>68,224</u>
Total liabilities	11,705	84,527
Shareholders' equity	<u>7,994,952</u>	<u>7,812,969</u>
Total liabilities and shareholders' equity	<u>8,006,657</u>	<u>7,897,496</u>

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

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

Securities under spot agreements

MERCANTIL purchases and sells securities under spot agreements at an established price. For the year ended December 31, 2007, MERCANTIL recorded net losses from adjustment to market value of Bs 5,075 million (Bs 23 million at December 31, 2006). Spot transactions were settled within seven business days of the date of origin (Note 11). Securities under spot agreements comprise the following:

<i>(Millions of bolivars)</i>	December 31, 2007	December 31, 2006
Securities		
Purchase rights	265,092	112,597
Sale rights	<u>267,254</u>	<u>98,842</u>
	<u>532,346</u>	<u>211,439</u>

Derivative financial instruments

MERCANTIL enters into non-hedging futures contracts for the purchase and sale of securities at a fixed price. Net losses resulting from these contracts for the year ended December 31, 2007 amounted to Bs 1,644 million (net gains of Bs 2,011 million during the year ended December 31, 2006), shown under other income (Note 19).

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

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

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Millions of bolivars	Maturity	Millions of bolivars	Maturity
Futures contracts				
Exchange rates (foreign currency)				
Purchases	49,539	January and October 2008	11,661	January and November 2007
Securities				
Purchases	162,911	January and July 2008	162,076	January and February 2007
Sales	<u>87,344</u>	January 2008	<u>12,973</u>	January 2007
	<u>299,794</u>		<u>186,710</u>	

In December 2006, MERCANTIL exchanged available-for-sale securities worth US\$10 million denominated in U.S. dollars with a third party for securities denominated in bolivars for Bs 21,446 million. Simultaneously, MERCANTIL entered into a Cross Currency Swap Contract with the same institution that allowed MERCANTIL to acquire US\$10 million at Bs 21,446 million in December 2007. At December 31, 2007, the contract resulted in a gain of Bs 457 million and a loss of Bs 319 million (a gain of Bs 23 million at December 31, 2006), shown under other income and other operating expenses, respectively (Notes 19 and 20).

During the year ended December 31, 2007, MERCANTIL exchanged securities worth US\$29.7 million denominated in U.S. dollars with a third party for securities denominated in bolivars for Bs 63,750 million. Simultaneously, MERCANTIL entered into a Cross Currency Swap Contract with the same institution that allows MERCANTIL to acquire US\$29.7 million at Bs 63,750 million in March 2012. At December 31, 2007, the contract's fair market value was US\$27.2 million and resulted in a loss of Bs 5,601 million and a gain of Bs 6,011 million for the year, shown under other operating expenses and other income, respectively (Notes 19 and 20).

In 1998 Mercantil Commercebank, N.A. entered into a cap contract for a nominal amount of US\$18 million. This contract is for 10 years and requires the counterparty to pay Commercebank, N.A. interest on the basis of the nominal amount of the contract and the difference between the London Interbank Offering Rate (LIBOR) for one month and 6.50% when LIBOR exceeds 6.50% in exchange for a single payment from the bank. At December 31, 2007, the current amount of the contract is US\$7 million (US\$8 million at December 31, 2006), the fair value is US\$0 (US\$0 at December 31, 2006), resulting in a loss of US\$0 (a loss of US\$3,000 at December 31, 2006).

During 2006 Mercantil Commercebank, N.A. entered into certain interest rate swap agreements to cover changes in the fair value of certain financial instruments subject to interest rate risk. At December 31, 2007, the agreements' current nominal value was US\$31 million and the market value was approximately US\$475,000, resulting in a gain of US\$11,000 for the year ended December 31, 2007.

Additionally, the subsidiary Mercantil, C.A. Banco Universal has embedded derivatives.

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25. Credit-related Commitments

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

Guarantees granted

After conducting a credit risk analysis, MERCANTIL provides guarantees to certain customers within their line of credit. These guarantees are issued to a beneficiary and may be executed if the customer fails to comply with the terms of the agreement. These guarantees earn annual commissions between 0.125% and 3% of their value. Commissions are recorded monthly while the guarantees remain in force.

Letters of credit

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

Lines of credit

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

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

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

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

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26. Maturity of Financial Assets and Liabilities

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

<i>(Millions of bolivars)</i>	30 days	60 days	90 days	180 days	360 days	Over 360 days	Total
Assets							
Cash and due from banks	6,128,694	-	-	-	-	-	6,128,694
Investment portfolio	3,650,768	960,346	141,808	168,405	487,361	6,063,519	11,472,207
Loan portfolio	5,223,665	1,644,830	1,540,635	1,559,652	1,822,311	7,903,851	19,694,944
Interest and commissions receivable	<u>245,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>245,939</u>
Total financial assets	<u>15,249,066</u>	<u>2,605,176</u>	<u>1,682,443</u>	<u>1,728,057</u>	<u>2,309,672</u>	<u>13,967,370</u>	<u>37,541,784</u>
Liabilities							
Deposits	26,815,180	839,323	674,802	793,748	435,421	1,729,139	31,287,613
Debt authorized by the Venezuelan Securities and Exchange Commission	356,144	-	-	-	-	-	356,144
Financial liabilities	621,219	58,127	8,785	2,085	73,735	1,002,846	1,766,797
Interest and commissions payable	47,771	-	-	-	-	-	47,771
Subordinated debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,656</u>	<u>244,656</u>
Total financial liabilities	<u>27,840,314</u>	<u>897,450</u>	<u>683,587</u>	<u>795,833</u>	<u>509,156</u>	<u>2,976,641</u>	<u>33,702,981</u>

27. Fair Value of Financial Instruments

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

<i>(Millions of bolivars)</i>	December 31, 2007		December 31, 2006	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and due from banks	6,128,694	6,128,694	3,819,614	3,819,614
Investment portfolio	11,472,207	11,442,076	11,959,221	11,960,118
Loan portfolio, net of provision	19,338,492	19,338,492	14,572,267	14,572,267
Interest and commissions receivable, net of provision	<u>245,939</u>	<u>245,939</u>	<u>186,174</u>	<u>186,174</u>
	<u>37,185,332</u>	<u>37,155,201</u>	<u>30,537,276</u>	<u>30,538,173</u>
Liabilities				
Deposits	31,287,613	31,287,613	25,246,872	25,246,872
Debt authorized by the Venezuelan Securities and Exchange Commission	356,144	356,144	259,087	259,087
Financial liabilities	1,766,797	1,766,797	1,736,617	1,736,617
Subordinated debt	244,656	244,656	268,247	268,247
Interest and commissions payable	<u>47,771</u>	<u>47,771</u>	<u>37,130</u>	<u>37,130</u>
	<u>33,702,981</u>	<u>33,702,981</u>	<u>27,547,953</u>	<u>27,547,953</u>
Memorandum accounts				
Contingent debtor accounts	<u>2,594,925</u>	<u>2,594,925</u>	<u>2,445,952</u>	<u>2,445,952</u>

The fair value of a financial instrument is defined as the amount for which a financial instrument could be exchanged between two knowledgeable, willing parties, other than in a forced transaction, involuntary liquidation or distress sale. Fair values for financial instruments with no available quoted market prices have been estimated using the present value of future cash flows of these financial instruments or other valuation techniques and assumptions. These techniques are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows, and the expectation of payments in advance.

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In addition, fair values presented do not purport to reflect the value of other income-generating activities or future business activities; that is, they do not represent the value of MERCANTIL as a going concern.

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

Short-term financial instruments

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

Investment portfolio

The fair value of these financial instruments was determined using either quoted market prices, reference prices determined from trading operations on the secondary market, quoted market prices of financial instruments with similar characteristics or the estimated future cash flows from these securities. Investments in affiliates are shown at equity value (Note 8).

Loan portfolio

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

Deposits

The fair value of customer deposits with no fixed maturity, such as interest-bearing deposits and savings accounts, is represented by the amount payable or due at the reporting date. Certain time deposits and interest-bearing accounts, particularly variable-rate deposits, have also been valued at their carrying amounts due to their short-term maturity. Other fixed-rate deposits were not considered significant. The value of long-term relationships with depositors is not taken into account when estimating the fair values disclosed.

Financial liabilities

Short-term financial liabilities are shown at book value since they relate to funds obtained from other banks to increase liquidity; they are unsecured, generally mature between 90 and 180 days and bear interest at variable rates. Long-term financial liabilities are also shown at book value since most of them bear interest at variable rates.

Risk-based financial instruments recorded in memorandum accounts

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

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28. Geographic Segment Information

MERCANTIL mainly operates in the financial sector and its operations are distributed geographically as follows:

<i>(Millions of bolivars)</i>	Years ended	
	December 31,	
	2007	2006
Gross financial margin		
Venezuela	1,636,532	1,050,430
United States of America	417,377	366,135
Other	<u>24,160</u>	<u>22,220</u>
Total	<u>2,078,069</u>	<u>1,438,785</u>
Net financial margin, commissions and other income		
Venezuela	2,328,275	1,717,677
United States of America	440,865	405,120
Other	<u>37,983</u>	<u>65,461</u>
Total	<u>2,807,123</u>	<u>2,188,258</u>

<i>(Millions of bolivars)</i>	Years ended	
	December 31,	
	2007	2006
Income before taxes and minority interests		
Venezuela	812,224	482,589
United States of America	142,444	163,457
Other	<u>8,584</u>	<u>30,329</u>
Total	<u>963,252</u>	<u>676,375</u>

	December 31, 2007		December 31, 2006	
	Millions of bolivars	%	Millions of bolivars	%
Assets				
Venezuela	25,940,104	66	19,755,589	62
United States of America	12,057,236	31	10,908,283	34
Other	<u>1,052,212</u>	<u>3</u>	<u>1,053,095</u>	<u>4</u>
Total	<u>39,049,552</u>	<u>100</u>	<u>31,716,967</u>	<u>100</u>
Liabilities				
Venezuela	23,994,518	67	18,587,239	64
United States of America	10,796,926	30	9,741,702	33
Other	<u>850,494</u>	<u>3</u>	<u>798,603</u>	<u>3</u>
Total	<u>35,641,938</u>	<u>100</u>	<u>29,127,544</u>	<u>100</u>

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29. Financial Information by Subsidiary

Below is a summary of the financial information by subsidiary at December 31, 2007. This information includes the effect of eliminations normally made during consolidation:

<i>(Millions of bolivars)</i>	Mercantil, C.A. Banco Universal	Mercantil Commercebanc Holding Corporation	Holding Mercantil Internacional (1)	Mercantil Seguros	Mercantil Merinvest	Mercantil Inversiones y Valores and others	Consolidated total
Total assets	24,576,131	11,930,922	888,243	995,612	308,664	349,980	39,049,552
Investment portfolio	5,312,265	4,912,790	308,819	667,006	72,356	198,971	11,472,207
Loan portfolio, net	12,336,125	6,462,820	539,547	-	-	-	19,338,492
Deposits	21,108,057	9,398,648	780,908	-	-	-	31,287,613
Gross income (loss) before taxes	621,785	135,790	(5,420)	82,555	3,030	124,962	962,702
Net income for the year	472,887	65,843	73	70,121	8,395	166,014	783,333
Number of employees	7,741	947	52	1,268	42	82	10,132

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

30. Risk Management

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

Credit risk

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

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

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

Market risk

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

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

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

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

MERCANTIL's investment strategy is aimed at guaranteeing adequate liquidity levels. A significant portion of cash is invested in short-term instruments such as certificates of deposit with Banco Central de Venezuela (BCV). In addition, a large portion of the investment portfolio includes securities issued by the Bolivarian Republic of Venezuela and other highly liquid financial obligations.

Operational risk

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

Fiduciary activities

MERCANTIL acts as custodian, administrator and manager of third-party investments. Trust fund assets are not included in MERCANTIL's assets. At December 31, 2007 and 2006, trust fund assets amount to Bs 8,006,657 million and Bs 7,897,496 million, respectively, and are shown under memorandum accounts (Note 24).

31. Regulatory Capital Requirements

MERCANTIL and some subsidiaries are subject to various regulatory minimum capital requirements imposed by their supervisors (Note 1). Failure to meet capital requirements can initiate certain actions by regulators that, if undertaken, could have a material effect on MERCANTIL's financial statements. Under capital adequacy guidelines, MERCANTIL must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

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

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Current</u> %	<u>Minimum</u> <u>required</u> %	<u>Current</u> %	<u>Minimum</u> <u>required</u> %
Equity to risk-weighted assets and contingent operations				
Mercantil Servicios Financieros, C.A.	16.71	8	16.34	8
Mercantil, C.A. Banco Universal	14.01	12	13.91	12
Mercantil Commercebank, N.A.	13.59	8	12.53	8
Tier I equity to risk-weighted assets and contingent operations				
Mercantil Servicios Financieros, C.A.	14.39	4	13.59	4
Mercantil Commercebank, N.A.	12.52	4	11.73	4
Equity to total assets				
Mercantil, C.A. Banco Universal	9.63	8	9.81	10
Mercantil Commercebank, N.A.	7.67	4	8.08	4

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32. Commitments and Contingencies

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

Various subsidiaries of MERCANTIL in Venezuela and their merged institutions have received additional income tax assessments from the Tax Authorities amounting to approximately Bs 23,066 million, mainly due to disallowance of certain income considered nontaxable, expenses related to tax-exempt income, expenses for unpaid or late payment of withholdings, nondeductible expenses for uncollectible accounts and rejection of tax loss carryforwards. Additionally, the subsidiary Mercantil, C.A. Banco Universal was subject to assessments of approximately Bs 3,341 million in respect of unwithheld and/or late payments of value added tax (VAT). MERCANTIL subsidiaries appealed alleging no grounds for disallowance and rejection. To date, the tax courts have not ruled on some of these assessments; those that went in favor of MERCANTIL subsidiaries were appealed by the National Treasury and rulings are pending.

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

MERCANTIL management identified a maximum risk of Bs 22,613 million in connection with the aforementioned assessments based on inadmissibility of monetary restatement and compensatory interest; hence, a provision has been set aside to cover this amount (Note 15).

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

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

At a Special Shareholders' Meeting of Trillansa, S.A. held in October 2007, approval was granted to liquidate this subsidiary and distribute the remainder among shareholders. The amount to cover certain administrative and labor contingencies, as well as undetermined contingencies and liquidator fees, was calculated at Bs 647 million.

At a Special Shareholders' Meeting of the subsidiary Holding de Inversión Mercantil de Colombia, S.A. held in December 2006, approval was granted to liquidate this subsidiary and distribute the remainder among shareholders. The amount to cover certain administrative and labor contingencies, as well as undetermined contingencies and liquidator fees, was calculated at Bs 3,226 million to be managed under a fiduciary agreement.

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In September 2006, a subsidiary of MERCANTIL was subjected to a special requirement by the Colombian Tax and Customs Administration (DIAN) resulting from its interpretation of the treatment of certain assets for the purpose of tax payments. Although MERCANTIL legal advisors appealed this decision, in June 2007, DIAN requested official settlement of the tax review, through which the 2005 income tax return was modified involving a higher income tax payment of approximately Ps 33 billion (Bs 35 billion) and a penalty of approximately Ps 53 billion (Bs 56 billion). This decision was appealed again in August 2007. In the opinion of management and the legal advisors of MERCANTIL, the likelihood of this decision finally prevailing is remote both in connection with a higher income tax payment and the penalty, since according to Decision 578 of the Andean Community of Nations assets originating the highest tax may not be taxed in Colombia.

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

The financial statements of Mercantil Servicios Financieros, C.A. (Holding) under the equity method at December 31 are shown below:

<i>(Millions of bolivars)</i>	2007	2006
Assets		
Cash and due from banks	6,543	148
Investment portfolio		
Mercantil, C.A. Banco Universal	2,118,482	1,538,146
Mercantil Commercebank Holding Corporation	782,525	622,954
Inversiones y Valores Mercantil VI, C.A.	216,795	180,750
Holding Mercantil Internacional	176,072	124,852
Mercantil Inversiones y Valores, C.A.	33,205	66,459
Mercantil Merinvest, C.A.	74,672	47,529
Cestaticket Accor Services, C.A.	35,481	25,494
Other	444,527	523,711
Property and equipment	29,398	-
Other assets	<u>71,122</u>	<u>54,482</u>
Total assets	<u>3,988,822</u>	<u>3,184,525</u>
Liabilities		
Debenture bonds and commercial paper	394,968	283,871
Other liabilities	<u>186,240</u>	<u>311,231</u>
Total liabilities	581,208	595,102
Shareholders' equity	<u>3,407,614</u>	<u>2,589,423</u>
Total liabilities and shareholders' equity	<u>3,988,822</u>	<u>3,184,525</u>
Income		
Interest income	23,470	18,628
Equity in subsidiaries, affiliates and other entities	916,787	636,663
Expenses		
Operating	(89,988)	(56,500)
Interest	<u>(66,936)</u>	<u>(43,057)</u>
Net income	<u>783,333</u>	<u>555,734</u>

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

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

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

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

Supplementary Consolidated Balance Sheet
December 31, 2007 and 2006

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

	2007	2006
Assets		
Cash and due from banks		
Cash	422,006	423,741
Banco Central de Venezuela	5,213,551	3,564,989
Venezuelan banks and other financial institutions	4,238	3,511
Foreign banks and other financial institutions	110,590	73,815
Pending cash items	378,624	611,724
Provision for cash and due from banks	<u>(315)</u>	<u>(282)</u>
	<u>6,128,694</u>	<u>4,677,498</u>
Investment portfolio		
Investments in trading securities	258,883	93,994
Investments in available-for-sale securities	5,887,425	8,078,189
Investments in held-to-maturity securities	1,096,678	804,715
Share trading portfolio	50,235	33,968
Investments in time deposits and placements	3,995,194	5,271,968
Restricted investments and repurchase agreements	<u>594,489</u>	<u>591,580</u>
	<u>11,882,904</u>	<u>14,874,414</u>
Direct financial assets	<u>324,579</u>	<u>103,847</u>
Loan portfolio		
Current	19,545,543	18,043,636
Rescheduled	24,644	34,796
Overdue	116,978	127,073
In litigation	<u>7,779</u>	<u>8,919</u>
	19,694,944	18,214,424
Allowance for losses on loan portfolio	<u>(356,452)</u>	<u>(359,420)</u>
	<u>19,338,492</u>	<u>17,855,004</u>
Interest and commissions receivable	<u>245,939</u>	<u>227,989</u>
Long-term investments	<u>63,172</u>	<u>56,562</u>
Available-for-sale assets	<u>22,462</u>	<u>6,206</u>
Property and equipment	<u>802,095</u>	<u>739,440</u>
Other assets	<u>1,388,400</u>	<u>1,296,696</u>
Total assets	<u>40,196,737</u>	<u>39,837,656</u>

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Supplementary Consolidated Balance Sheet
December 31, 2007 and 2006

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

	2007	2006
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Non-interest-bearing checking accounts	6,644,492	6,280,661
Interest-bearing checking accounts	8,188,269	7,618,757
Savings deposits	8,777,472	8,768,737
Time deposits	<u>7,677,380</u>	<u>8,249,164</u>
	<u>31,287,613</u>	<u>30,917,319</u>
Debt authorized by the Venezuelan Securities and Exchange Commission		
Publicly traded debt securities issued by MERCANTIL	<u>356,144</u>	<u>317,278</u>
Financial liabilities		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	161,279	327,857
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	72,000	122,460
Liabilities with foreign banks and savings and loan institutions, up to one year	64,597	200,059
Liabilities with foreign banks and savings and loan institutions, more than one year	80,081	102,512
Direct financial liabilities	588,320	465,674
Liabilities under repurchase agreements	681,983	711,876
Other liabilities, up to one year	330,738	467,573
Other liabilities, more than one year	<u>3,488</u>	<u>6,329</u>
	<u>1,982,486</u>	<u>2,404,340</u>
Interest and commissions payable	<u>47,771</u>	<u>45,469</u>
Other liabilities	<u>2,176,615</u>	<u>2,023,222</u>
Subordinated debt	<u>244,656</u>	<u>328,495</u>
Total liabilities	<u>36,095,285</u>	<u>36,036,123</u>
Minority interests in consolidated subsidiaries	<u>4,519</u>	<u>5,036</u>
Shareholders' Equity		
Capital stock	156,479	107,717
Capital inflation adjustment	1,025,004	1,017,501
Share premium	430,202	249,566
Capital reserves	677,494	677,494
Translation adjustment of net assets of subsidiaries abroad	(273,037)	(84,567)
Retained earnings	2,173,482	1,920,433
Repurchased shares held by subsidiaries	(22,804)	(27,996)
Repurchased shares reserved for employee stock option plan	(28,744)	(49,016)
Unrealized loss from adjustment of investments in available-for-sale securities to market value	<u>(41,143)</u>	<u>(14,635)</u>
	<u>4,096,933</u>	<u>3,796,497</u>
Total shareholders' equity	<u>4,096,933</u>	<u>3,796,497</u>
Total liabilities and shareholders' equity	<u>40,196,737</u>	<u>39,837,656</u>

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Supplementary Consolidated Statement of Income
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	2007	2006
Interest income		
Income from cash and due from banks	13,920	28,316
Income from investment portfolio	884,992	888,729
Income from loan portfolio	2,631,889	2,087,703
Income from financial assets	<u>33,241</u>	<u>1,472</u>
Total interest income	<u>3,564,042</u>	<u>3,006,220</u>
Interest expense		
Interest on demand and savings deposits	(587,599)	(477,959)
Interest on time deposits	(430,629)	(497,448)
Interest on securities issued by MERCANTIL	(98,049)	(38,275)
Interest on financial liabilities	<u>(142,499)</u>	<u>(100,500)</u>
Total interest expense	<u>(1,258,776)</u>	<u>(1,114,182)</u>
Gross financial margin	2,305,266	1,892,038
Allowance for losses on loan portfolio	<u>(142,844)</u>	<u>(116,315)</u>
Net financial margin	<u>2,162,422</u>	<u>1,775,723</u>
Commissions and other income		
Trust fund operations	45,563	51,649
Foreign currency operations	3,977	2,588
Commissions on customer account transactions	203,904	202,397
Commissions on letters of credit and guarantees granted	36,187	32,372
Equity in long-term investments	35,176	42,821
Exchange loss	(2,411)	(6,844)
Gain on sale of investment securities	190,300	275,344
Other income	<u>406,828</u>	<u>532,111</u>
Total commissions and other income	<u>919,524</u>	<u>1,132,438</u>
Insurance premiums, net of claims		
Premiums	1,165,866	896,243
Claims	<u>(971,601)</u>	<u>(753,166)</u>
Total insurance premiums, net of claims	<u>194,265</u>	<u>143,077</u>
Operating expenses		
Salaries and employee benefits	(1,007,502)	(973,702)
Depreciation, property and equipment expenses, amortization of intangibles and other	(323,349)	(285,142)
Fees paid to regulatory agencies	(126,678)	(102,804)
Other operating expenses	<u>(873,339)</u>	<u>(910,332)</u>
Total operating expenses	<u>(2,330,868)</u>	<u>(2,271,980)</u>
Loss from net monetary position	<u>(332,313)</u>	<u>(206,877)</u>
Operating income before tax and minority interests	<u>613,030</u>	<u>572,381</u>
Income tax		
Current	(209,277)	(165,664)
Deferred	<u>31,039</u>	<u>595</u>
Total tax	<u>(178,238)</u>	<u>(165,069)</u>
Net income before minority interests	434,792	407,312
Minority interests	<u>(274)</u>	<u>(2,090)</u>
Net income	<u>434,518</u>	<u>405,222</u>

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Supplementary Consolidated Statement of Shareholders' Equity
Years ended December 31, 2007 and 2006

<i>(Millions of constant bolivars at December 31, 2007)</i>	Capital stock	Capital inflation adjustment (Note 2-a)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad	Retained earnings	Repurchased shares held by subsidiaries	Repurchased shares restricted for employee stock option plan	Unrealized gain (loss) from adjustment to market value of investments	Total shareholders' equity
Balances at December 31, 2005	113,352	1,019,903	255,565	677,494	(73,699)	1,992,952	(241,412)	(53,298)	50,402	3,741,259
Net income for the year	-	-	-	-	-	405,222	-	-	-	405,222
Repurchased shares	-	-	-	-	-	-	(18,315)	-	-	(18,315)
Realized gain on translation of subsidiary under liquidation	-	-	-	-	136,056	(136,056)	-	-	-	-
Repurchased shares reserved for employee stock option plan	-	-	(5,999)	-	-	-	-	4,282	-	(1,717)
Cash dividends	-	-	-	-	-	(181,766)	-	-	-	(181,766)
Unrealized gain on investments	-	-	-	-	-	-	-	-	(65,037)	(65,037)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(146,924)	-	-	-	-	(146,924)
Redemption of repurchased shares	(5,635)	(2,402)	-	-	-	(201,116)	209,153	-	-	-
Sale of shares held by subsidiaries	-	-	-	-	-	41,197	22,578	-	-	63,775
Balances at December 31, 2006	107,717	1,017,501	249,566	677,494	(84,567)	1,920,433	(27,996)	(49,016)	(14,635)	3,796,497
Net income for the year	-	-	-	-	-	434,518	-	-	-	434,518
Repurchased shares	-	-	-	-	-	-	(30,245)	-	-	(30,245)
Repurchased shares reserved for employee stock option plan	-	-	19,514	-	-	-	-	20,272	-	39,786
Capital increase	6,750	802	161,122	-	-	-	-	-	-	168,674
Minimum dividend payable	-	-	-	-	-	(24,116)	-	-	-	(24,116)
Stock dividends	42,780	6,701	-	-	-	(49,481)	-	-	-	-
Cash dividends	-	-	-	-	-	(80,977)	-	-	-	(80,977)
Unrealized loss on investments	-	-	-	-	-	-	-	-	(26,508)	(26,508)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(188,470)	-	-	-	-	(188,470)
Redemption of repurchased shares	(768)	-	-	-	-	(27,179)	27,947	-	-	-
Sale of shares held by subsidiaries	-	-	-	-	-	284	7,490	-	-	7,774
Balances at December 31, 2007	<u>156,479</u>	<u>1,025,004</u>	<u>430,202</u>	<u>677,494</u>	<u>(273,037)</u>	<u>2,173,482</u>	<u>(22,804)</u>	<u>(28,744)</u>	<u>(41,143)</u>	<u>4,096,933</u>

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Supplementary Consolidated Statement of Cash Flows
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	2007	2006
Cash flows from operating activities		
Net income for the year	434,518	405,221
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	175,545	154,325
Allowance for losses on loan portfolio	142,844	116,315
Decrease in allowance for losses on loan portfolio	(5,771)	(16,261)
Provision for available-for-sale assets	475	2,182
Provision for interest receivable and other assets	12,025	11,335
Gain on equity in long-term investments	(35,176)	(42,821)
Deferred income tax	(31,039)	(595)
Minority interests	(274)	2,090
Accrual for employee termination benefits	90,486	80,451
Payment of employee termination benefits	(90,284)	(81,083)
Net change in operating assets and liabilities		
Interest and commissions receivable	(17,954)	(2,261)
Interest and commissions payable	2,303	(12,190)
Available-for-sale and other assets	(371,847)	(320,294)
Other liabilities	187,607	15,169
Net cash provided by operating activities	<u>493,458</u>	<u>311,583</u>
Cash flows from investing activities		
Net change in investment portfolio	1,417,714	515,606
Loans granted	(64,452,358)	(96,836,696)
Loans collected	62,821,775	95,058,582
Additions to property and equipment, net	(166,727)	(88,933)
Net cash used in investing activities	<u>(379,596)</u>	<u>(1,351,441)</u>
Cash flows from financing activities		
Net change in		
Deposits	370,681	3,017,245
Short-term financial liabilities	(380,676)	1,157,128
Debt securities issued by MERCANTIL	38,870	72,956
Subordinated debt	(83,835)	51,799
New long-term financial liabilities	90,148	943,595
Long-term financial liabilities repaid	(165,879)	(1,246,579)
Capital increase	7,552	-
Minimum dividend payable	(24,116)	-
Cash dividends	(80,977)	(181,766)
Repurchased shares	(30,244)	(18,315)
Repurchased shares reserved for employee stock option plan	20,272	4,282
Share premium	180,636	(5,999)
Sale of shares held by subsidiaries	7,774	63,775
Net cash provided by (used in) financing activities	<u>(49,794)</u>	<u>3,858,121</u>
Cash and cash equivalents		
Net increase for the year	64,068	2,818,263
At the beginning of the year	<u>9,948,707</u>	<u>7,130,570</u>
At the end of the year	<u>10,012,775</u>	<u>9,948,833</u>
Supplementary information		
Taxes paid	<u>137,154</u>	<u>237,979</u>
Interest paid	<u>1,113,726</u>	<u>1,040,636</u>
Translation adjustment of net assets of subsidiaries abroad	<u>(188,470)</u>	<u>(146,924)</u>
Unrealized loss from adjustment to market value of investments	<u>(26,508)</u>	<u>(65,037)</u>

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In December 2004, the CNV instructed companies that publicly trade securities to present their financial statements in accordance with International Financial Reporting Standards (IFRS) as from fiscal years beginning January 1, 2006. The CNV authorized MERCANTIL to continue presenting its financial statements in conformity with current accounting rules until the entities that regulate the subsidiaries of MERCANTIL require presentation of financial information under IFRS. In December 2005, the CNV decided to postpone application of the aforementioned standards until they were adopted by the Venezuelan Federation of Public Accountants (FCCPV). In August 2006, the FCCPV set IFRS adoption for large-sized entities as from 2008 and as from 2010 for small and medium-sized entities. In March 2007, the FCCPV ratified that the IFRS adoption date for listed companies will be established by the CNV as regulating entity. However, the CNV has yet to set the adoption date. Until the FCCPV definitely approves the adoption schedule, MERCANTIL is unable to determine the impact of this matter on its financial statements prepared in conformity with accounting principles generally accepted in Venezuela.

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

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

Inflation indices and rates

CPI indices and inflation rates for the years ended December 31, 2007 and 2006, according to the information published by BCV, are as follows:

Years ended	CPI base for 1997 =100	Inflation rate
December 2007	752.90	22.46
December 2006	614.83	16.97

Monetary assets and liabilities and result from monetary position

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

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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 analysis of the monetary result for the year.

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

<i>(Millions of constant bolivars at December 31, 2007)</i>	Years ended December 31,	
	2007	2006
Net monetary asset (liability) position at the beginning of the year	<u>2,547,924</u>	<u>2,330,567</u>
Transactions that increased net monetary position		
Net change in subsidiaries and affiliates	-	8,277
Net change in securities	-	92,163
Net change in available-for-sale assets	1,770	28,627
Net change in other liabilities	5,392	3,998
Deferred income tax	31,039	595
Shares purchased by employees, net	20,272	4,282
Capital increase	7,552	-
Share premium	180,636	-
Net change in property and equipment	-	63,775
Gain on sale of shares held by subsidiaries	7,774	-
Income	<u>4,677,832</u>	<u>4,281,734</u>
Subtotal	<u>4,932,267</u>	<u>4,483,451</u>
Transactions that decreased net monetary position		
Repurchased shares	(30,245)	(18,315)
Translation adjustment of subsidiaries abroad	(188,470)	(146,924)
Unrealized loss	(26,508)	(65,037)
Net change in securities	(16,268)	-
Cash dividends	(80,977)	(181,766)
Minimum dividend payable	(24,116)	-
Net change in property and equipment	(136,500)	(84,546)
Net change in subsidiaries and affiliates	(6,610)	(19,802)
Net change in other assets	(136,695)	(19,873)
Net change in other liabilities	-	(3,330)
Share premium	-	(5,999)
Expenses	<u>(3,771,853)</u>	<u>(3,513,625)</u>
Subtotal	<u>(4,418,242)</u>	<u>(4,059,217)</u>
Estimated net monetary asset (liability) position	3,061,949	2,754,801
Historic net monetary asset (liability) position	<u>(2,729,636)</u>	<u>(2,547,924)</u>
Loss from net monetary position	<u>332,313</u>	<u>206,877</u>

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Nonmonetary assets

Property and equipment is recorded in constant currency at December 31, 2007, according to the CPI at the dates of origin, at amounts which do not exceed recoverable value based on valuations made by independent appraisers in December 2005.

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

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

Deferred income tax

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

Shareholders' equity

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

Statement of income

Operating income and expenses have been adjusted based on their dates of origin, except for costs and expenses related to nonmonetary items, which have been adjusted based on the previously restated nonmonetary items to which they relate. The adjustment in respect of expenses associated with nonmonetary items, mainly depreciation of property and equipment, of Bs 84,260 million was charged to income for the year ended December 31, 2007 (Bs 77,542 million for the year ended December 31, 2006).

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

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

a) Property and equipment

<i>(Millions of constant bolivars at December 31, 2007)</i>	Costs						Balances at December 31, 2007
	Balances at December 31, 2006	Additions	Withdrawals	Fully depreciated write-offs	Other	Translation adjustment	
Buildings and facilities	836,508	306	(5,538)	(18)	22	(8,098)	823,182
Furniture and equipment	641,864	65,596	(17,255)	(28,367)	(2,037)	(13,209)	646,592
Vehicles	7,324	1,308	(716)	-	(27)	(36)	7,853
Land	46,612	-	(408)	-	(213)	(1,818)	44,173
Construction in progress	36,642	87,801	(7,611)	-	-	(3,591)	113,241
Other assets	52,726	37,539	-	-	-	(8)	90,257
Total	<u>1,621,676</u>	<u>192,550</u>	<u>(31,528)</u>	<u>(27,385)</u>	<u>(2,255)</u>	<u>(26,760)</u>	<u>1,725,298</u>

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<i>(Millions of constant bolivars at December 31, 2007)</i>	Accumulated depreciation						Balances at December 31, 2007
	Balances at December 31, 2006	Additions	Withdrawals	Fully depreciated write-offs	Other	Translation adjustment	
Buildings and facilities	(390,415)	(40,553)	1,673	18	4,367	2,711	(422,199)
Furniture and equipment	(488,049)	(60,743)	16,654	28,367	(342)	10,437	(493,676)
Vehicles	(3,772)	(1,466)	471	-	(79)	22	(4,824)
Other assets	-	(2,504)	-	-	-	-	(2,504)
Total	<u>(882,236)</u>	<u>(105,266)</u>	<u>18,798</u>	<u>28,385</u>	<u>3,946</u>	<u>13,170</u>	<u>(923,203)</u>

At December 31, 2007, property and equipment, including buildings, facilities and land amounting to Bs 445,156 million, has an estimated market value of Bs 722,059 million, calculated by independent appraisers in December 2005.

b) Other assets

<i>(Millions of constant bolivars at December 31, 2007)</i>	December 31, 2007	December 31, 2006
Goodwill	406,983	454,326
Sale of securities in process of collection	209,680	144,255
Other transactions with derivative instruments	38,905	119,991
Insurance premiums receivable	194,812	139,351
Deferred expenses, net of accumulated amortization	131,526	90,969
Shopping mall rights	50,433	50,433
Other prepaid expenses	53,144	31,145
Deferred income tax	43,062	46,805
Pending items	78,220	44,779
Systems development, net of accumulated amortization	33,186	23,285
Prepaid taxes, insurance and other prepaid expenses	51,631	49,656
Accounts receivable from other credit card issuing institutions	7,404	22,109
Prepaid advertising	9,092	5,933
Advances for acquisition of property	36,444	3,065
Cross Currency Swap Valuation	905	37
Other	<u>60,374</u>	<u>80,315</u>
	1,405,801	1,306,454
Allowance for estimated losses on other assets	<u>(17,401)</u>	<u>(9,758)</u>
	<u>1,388,400</u>	<u>1,296,696</u>

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

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Below is the movement of goodwill for the year ended December 31, 2007:

<i>(Millions of constant bolivars at December 31, 2007)</i>	<u>Cost</u>			Balances at December 31, 2007
	Balances at December 31, 2006	Additions	Translation adjustment	
Interbank, C.A.	494,014	-	-	494,014
Florida Savings Bank	49,618	660	(9,116)	41,162
C.A. Seguros Orinoco	54,124	-	-	54,124
Mercantil Seguros, C.A.	15,206	-	-	15,206
Todo 1 Service, Inc.	<u>4,652</u>	<u>-</u>	<u>-</u>	<u>4,652</u>
	<u>617,614</u>	<u>660</u>	<u>(9,116)</u>	<u>609,158</u>

<i>(Millions of constant bolivars at December 31, 2007)</i>	<u>Accumulated amortization</u>			Balances at December 31, 2007
	Balances at December 31, 2006	Additions	Translation adjustment	
Interbank, C.A.	(148,204)	(28,383)	-	(176,587)
Florida Savings Bank	(1,447)	(2,216)	404	(3,259)
C.A. Seguros Orinoco	(8,521)	(3,453)	-	(11,974)
Mercantil Seguros, C.A.	(4,941)	(762)	-	(5,703)
Todo 1 Service, Inc.	<u>(175)</u>	<u>(4,477)</u>	<u>-</u>	<u>(4,652)</u>
	<u>(163,288)</u>	<u>(39,291)</u>	<u>404</u>	<u>(202,175)</u>