

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

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Index to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

	<b>Pages</b>
I - Report of Independent Accountants	1
II - Consolidated Financial Statements	1-5
III - Notes to the Consolidated Financial Statements	
1 - Reporting Entity and Regulatory Environment	6-7
2 - Accounting Principles in Use	7-15
3 - Cash and Due from Banks	15
4 - Investment Portfolio	16-19
5 - Direct Financial Assets	20
6 - Loan Portfolio	20-21
7 - Interest and Commissions Receivable	21
8 - Long-term Investments	22
9 - Available-for-sale Assets	22
10 - Property and Equipment	23
11 - Other Assets	24-25
12 - Deposits	25-26
13 - Debt Authorized by the Venezuelan Securities and Exchange Commission	26-27
14 - Financial Liabilities	27-29
15 - Other Liabilities	29
16 - Subordinated Debt	30
17 - Taxes	30-32
18 - Employee Benefit Plans	32-35
19 - Other Income	36
20 - Other Operating Expenses	36
21 - Shareholders' Equity	36-40
22 - Income per Share	40
23 - Financial Assets and Liabilities in Foreign Currency	40-41
24 - Memorandum Accounts	41-44
25 - Credit-related Commitments	44-45
26 - Maturity of Financial Assets and Liabilities	45
27 - Fair Value of Financial Instruments	46-47
28 - Geographic Segment Information	47-48
29 - Financial Information by Subsidiary	48
30 - Risk Management	48-49
31 - Regulatory Capital Requirements	49-50
32 - Commitments and Contingencies	50-51
33 - Financial Statements of Mercantil Servicios Financieros, C.A. (Holding)	52
34 - Supplementary Information - Consolidated Financial Statements Adjusted for the Effects of Inflation	52-61

**Espiñeira, Sheldon y Asociados**  
Avenida Principal de Chuao  
Edificio Del Río  
Apartado 1789  
Caracas 1010-A Venezuela  
Teléfono: (0212) 700 6666  
Fax: (0212) 991 5210  
www.pwc.com

## **Report of Independent Accountants**

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

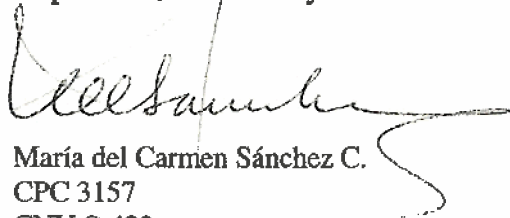
We have audited the consolidated balance sheets of Mercantil Servicios Financieros, C.A. (MERCANTIL) and its subsidiaries at December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. The preparation of these financial statements and their notes is the responsibility of Mercantil management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Venezuela. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2008 and 2007, 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**



María del Carmen Sánchez C.  
CPC 3157  
CNV S-422

Caracas, Venezuela  
February 17, 2009

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated Balance Sheet**  
**December 31, 2008 and 2007**

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007 (•)</b>
<b>Assets</b>		
<b>Cash and due from banks</b> (Note 3)		
Cash	692,405	422,006
Central Bank of Venezuela (BCV)	6,112,488	5,213,551
Venezuelan banks and other financial institutions	31,819	4,238
Foreign banks and other financial institutions	559,096	110,590
Pending cash items	343,301	378,624
Provision for cash and due from banks	<u>(8)</u>	<u>(315)</u>
	<u>7,739,101</u>	<u>6,128,694</u>
<b>Investment portfolio</b> (Note 4)		
Investments in trading securities	56,581	260,393
Investments in available-for-sale securities	5,587,336	5,910,348
Investments in held-to-maturity securities	641,453	1,096,678
Share trading portfolio	45,088	33,520
Investments in time deposits and placements	8,113,010	3,995,194
Restricted investments and repurchase agreements	<u>128,188</u>	<u>176,074</u>
	<u>14,571,656</u>	<u>11,472,207</u>
<b>Direct financial assets</b> (Note 5)	<u>312,012</u>	<u>324,579</u>
<b>Loan portfolio</b> (Note 6)		
Current	22,229,944	19,545,543
Rescheduled	49,413	24,644
Overdue	541,868	116,978
In litigation	<u>24,219</u>	<u>7,779</u>
	22,845,444	19,694,944
Allowance for losses on loan portfolio	<u>(626,329)</u>	<u>(356,452)</u>
	<u>22,219,115</u>	<u>19,338,492</u>
<b>Interest and commissions receivable</b> (Note 7)	<u>322,388</u>	<u>245,939</u>
<b>Long-term investments</b> (Note 8)	<u>92,556</u>	<u>57,318</u>
<b>Available-for-sale assets</b> (Note 9)	<u>25,243</u>	<u>22,462</u>
<b>Property and equipment</b> (Note 10)	<u>514,814</u>	<u>426,255</u>
<b>Other assets</b> (Note 11)	<u>1,032,992</u>	<u>1,033,606</u>
<b>Total assets</b>	<u>46,829,877</u>	<u>39,049,552</u>
<b>Memorandum accounts</b> (Note 24)	<u>55,674,051</u>	<u>48,732,490</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated Balance Sheet**  
**December 31, 2008 and 2007**

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007 (•)</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits (Note 12)		
Non-interest bearing checking accounts	7,789,967	6,644,492
Interest-bearing checking accounts	9,642,957	8,188,269
Savings deposits	11,427,879	8,777,472
Time deposits	<u>7,350,564</u>	<u>7,677,380</u>
	<u>36,211,367</u>	<u>31,287,613</u>
<b>Debt authorized by the Venezuelan Securities and Exchange Commission</b> (Note 13)		
Publicly traded debt securities issued by MERCANTIL	<u>173,922</u>	<u>356,144</u>
<b>Financial liabilities</b> (Note 14)		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	112,502	161,279
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	-	72,000
Liabilities to foreign banks and savings and loan institutions, up to one year	2,649	64,597
Liabilities to foreign banks and savings and loan institutions, more than one year	325,443	80,081
Direct financial liabilities	1,870,860	588,320
Liabilities under repurchase agreements	776,345	681,983
Other liabilities, up to one year	61,256	115,049
Other liabilities, more than one year	<u>2,904</u>	<u>3,488</u>
	<u>3,151,959</u>	<u>1,766,797</u>
<b>Interest and commissions payable</b>	<u>37,751</u>	<u>47,771</u>
<b>Other liabilities</b> (Note 15)	<u>2,918,561</u>	<u>1,936,796</u>
<b>Subordinated debt</b> (Note 16)	<u>244,656</u>	<u>244,656</u>
<b>Total liabilities</b>	<u>42,738,216</u>	<u>35,639,777</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>2,621</u>	<u>2,161</u>
<b>Shareholders' Equity</b> (Note 21)		
Capital stock	155,976	156,479
Capital inflation adjustment	191,709	191,709
Share premium	201,279	201,668
Capital reserves	166,715	166,715
Translation adjustment of net assets of subsidiaries abroad	279,497	273,672
Retained earnings	3,273,354	2,447,230
Repurchased shares held by subsidiaries	(16,515)	(12,900)
Repurchased shares reserved for employee stock option plan	(32,472)	(29,127)
Unrealized gain (loss) from adjustment of investments to market value	<u>(130,503)</u>	<u>12,168</u>
<b>Total shareholders' equity</b>	<u>4,089,040</u>	<u>3,407,614</u>
<b>Total liabilities and shareholders' equity</b>	<u>46,829,877</u>	<u>39,049,552</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated Statement of Income**  
**Years ended December 31, 2008 and 2007**

<i>(Thousands of bolivars, except net income per share)</i>	<b>2008</b>	<b>2007 (•)</b>
<b>Interest income</b> (Note 2)		
Income from cash and due from banks	33,787	11,525
Income from investment portfolio (Note 4)	957,586	796,618
Income from loan portfolio (Note 6)	3,450,762	2,218,304
Income from financial assets	<u>31,951</u>	<u>29,838</u>
Total interest income	<u>4,474,086</u>	<u>3,056,285</u>
<b>Interest expense</b> (Note 2)		
Interest on demand and savings deposits	(1,059,657)	(532,103)
Interest on time deposits	(428,639)	(392,150)
Interest on securities issued by MERCANTIL (Note 13)	(153,584)	(88,407)
Interest on financial liabilities	<u>(156,442)</u>	<u>(130,703)</u>
Total interest expense	<u>(1,798,322)</u>	<u>(1,143,363)</u>
<b>Gross financial margin</b>	2,675,764	1,912,922
Allowance for losses on loan portfolio (Notes 2 and 6)	<u>(473,188)</u>	<u>(126,897)</u>
<b>Net financial margin</b>	<u>2,202,576</u>	<u>1,786,025</u>
<b>Commissions and other income</b>		
Trust fund operations	42,673	40,682
Foreign currency operations (Note 23)	3,067	3,765
Commissions on customer account transactions	183,740	181,808
Commissions on letters of credit and guarantees granted	31,113	32,576
Equity in long-term investments (Note 8)	66,478	41,333
Exchange loss (Note 23)	(8,890)	(1,537)
Gain on sale of investment securities (Note 4)	258,919	184,632
Other income (Note 19)	<u>634,718</u>	<u>537,839</u>
Total commissions and other income	<u>1,211,818</u>	<u>1,021,098</u>
<b>Insurance premiums, net of claims</b> (Note 2-1)		
Premiums	1,666,930	1,061,618
Claims	<u>(1,391,018)</u>	<u>(885,954)</u>
Total insurance premiums, net of claims	<u>275,912</u>	<u>175,664</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(1,155,761)	(904,364)
Depreciation, property and equipment expenses, amortization of intangibles and other (Notes 10 and 11)	(293,118)	(225,053)
Fees paid to regulatory agencies	(144,533)	(113,320)
Other operating expenses (Note 20)	<u>(952,166)</u>	<u>(776,798)</u>
Total operating expenses	<u>(2,545,578)</u>	<u>(2,019,535)</u>
Operating income before tax and minority interests	<u>1,144,728</u>	<u>963,252</u>
<b>Income tax</b> (Note 17)		
Current	(192,181)	(188,552)
Deferred	<u>7,068</u>	<u>9,183</u>
Total tax	<u>(185,113)</u>	<u>(179,369)</u>
Net income before minority interests	959,615	783,883
<b>Minority interests</b>	<u>(628)</u>	<u>(550)</u>
Net income	<u>958,987</u>	<u>783,333</u>
<b>Net income per share</b> (Note 22)		
Basic	9.53	7.96
Diluted	9.53	7.95
Weighted average of outstanding common shares	100,607,594	98,438,449
Weighted average of outstanding diluted common shares	100,633,278	98,568,401

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

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

<i>(Thousands of bolivars)</i>	Capital stock	Capital inflation adjustment (Note 2)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad (Note 2)	Retained earnings	Repurchased shares held by subsidiaries (Note 21)	Repurchased shares reserved for employee stock option plan	Unrealized gain (loss) from adjustment of investments to market value (Note 2)	Total shareholders' equity
<b>Balances at December 31, 2006 (*)</b>	107,717	191,709	52,304	166,715	267,820	1,823,396	(13,950)	(25,170)	18,882	2,589,423
Net income	-	-	-	-	-	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 available-for-sale securities	-	-	-	-	-	-	-	-	(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)	-	-	-	-	-	(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)	-	-	-	-	-	236	6,123	-	-	6,359
<b>Balances at December 31, 2007 (*)</b>	156,479	191,709	201,668	166,715	273,672	2,447,230	(12,900)	(29,127)	12,168	3,407,614
Net income	-	-	-	-	-	958,987	-	-	-	958,987
Repurchased shares	-	-	-	-	-	-	(14,997)	-	-	(14,997)
Repurchased shares reserved for employee stock option plan	-	-	(389)	-	-	-	-	(3,345)	-	(3,734)
Cash dividends (Note 21)	-	-	-	-	-	(93,108)	-	-	-	(93,108)
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	-	-	(142,671)	(142,671)
Translation adjustment of net assets of subsidiaries abroad (Note 21)	-	-	-	-	5,825	-	-	-	-	5,825
Redemption of repurchased shares	(503)	-	-	-	-	(10,879)	11,382	-	-	-
Minimum dividend payable (Note 2)	-	-	-	-	-	(28,876)	-	-	-	(28,876)
<b>Balances at December 31, 2008</b>	<u>155,976</u>	<u>191,709</u>	<u>201,279</u>	<u>166,715</u>	<u>279,497</u>	<u>3,273,354</u>	<u>(16,515)</u>	<u>(32,472)</u>	<u>(130,503)</u>	<u>4,089,040</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated Statement of Cash Flows**  
**Years ended December 31, 2008 and 2007**

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007 (•)</b>
<b>Cash flows from operating activities</b>		
Net income	958,987	783,333
Adjustments to reconcile net income to net cash provided by operating activities		
Allowance for losses on loan portfolio	473,188	126,897
Depreciation and amortization	129,924	93,426
Decrease in allowance for losses on loan portfolio	(2,123)	(5,231)
Provision for interest receivable and other assets	16,726	14,951
Gain on equity in long-term investments	(66,478)	(41,333)
Minority interests	628	550
Deferred income tax	(7,068)	(9,183)
Amortization of available-for-sale assets	25,510	148
Accrual for employee termination benefits	109,958	79,777
Payment of employee termination benefits	(106,905)	(78,812)
Net change in operating assets and liabilities		
Interest and commissions receivable	(76,449)	(59,765)
Interest and commissions payable	(10,020)	10,641
Available-for-sale and other assets	(74,671)	(600,004)
Other liabilities	<u>936,111</u>	<u>330,828</u>
Net cash provided by operating activities	<u>2,307,318</u>	<u>646,223</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	(656,858)	86,495
Loans granted	(91,889,146)	(63,707,182)
Loans collected	88,537,459	58,819,290
Additions to property and equipment	<u>(168,581)</u>	<u>(163,331)</u>
Net cash used in investing activities	<u>(4,177,126)</u>	<u>(4,964,728)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	4,923,754	6,040,741
Short-term financial liabilities	1,283,317	78,509
Debt securities issued by MERCANTIL	(182,222)	97,057
Subordinated debt	-	(23,591)
New long-term financial liabilities	654,951	122,410
Long-term financial liabilities repaid	(553,106)	(155,719)
Cash dividends	(79,551)	(83,642)
Capital increase	-	6,750
Share premium	(389)	149,364
Repurchased shares	(14,997)	(27,151)
Repurchased shares reserved for employee stock option plan	(3,345)	(3,957)
Sale of shares held by subsidiaries	<u>-</u>	<u>6,359</u>
Net cash provided by financing activities	<u>6,028,412</u>	<u>6,207,130</u>
<b>Cash and cash equivalents</b>		
Net increase for the year	4,158,604	1,888,625
At the beginning of the year	<u>10,012,775</u>	<u>8,124,150</u>
At the end of the year	<u>14,171,379</u>	<u>10,012,775</u>
<b>Supplementary information</b>		
Taxes paid	<u>131,712</u>	<u>80,077</u>
Interest paid	<u>1,651,900</u>	<u>1,002,022</u>
Translation adjustment of net assets of subsidiaries abroad	<u>5,825</u>	<u>5,852</u>
Unrealized loss from adjustment of investments to market value	<u>(142,671)</u>	<u>(6,714)</u>

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

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

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

### **December 31, 2008 and 2007**

---

#### **1. Reporting Entity and Regulatory Environment**

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

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

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 are Mercantil, C.A. Banco Universal in Venezuela (99.93% owned); Mercantil Commercebank Holding Corporation (wholly owned), which is the final beneficial owner of Mercantil Commercebank, N.A., a U.S.-based commercial bank; the Venezuela-based insurance company Mercantil Seguros, C.A. (wholly owned); and Mercantil Merinvest, C.A. and its subsidiaries, all wholly owned.

Other wholly owned consolidated subsidiaries of MERCANTIL include Holding Mercantil Internacional, C.A. and its subsidiaries Mercantil Bank Curacao, N.V. (an off-shore bank domiciled in the Netherland Antilles); Mercantil Bank (Panamá), S.A.; Mercantil Bank (Schweiz) AG (domiciled in Switzerland) and its subsidiary Mercantil Bank & Trust Limited (Cayman) (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 Mercantil Bank (Panamá), S.A. a general license to conduct local financial activities in addition to its international activities.

The financial statements of MERCANTIL at December 31, 2008 and 2007 were approved by the Board of Directors on January 12, 2009 and January 14, 2008, respectively.

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

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

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

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

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

### **December 31, 2008 and 2007**

---

Regulations require the Bank to earmark a minimum nominal percentage of 47% of its gross loan portfolio at December 31, 2008 to finance loans for agriculture, manufacturing, small businesses and tourism (37% at December 31, 2007, including mortgage loans) (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 and credit card operations may not exceed 28% and 33%, respectively. Financial institutions may only charge an additional 3% per annum on amounts overdue from clients. The maximum interest rates for directed loan portfolios at December 31, 2008 and 2007 are as follows: Agriculture 13%, microcredits 28%, tourism between 16% and 17%, mortgage 10.11% and manufacturing 19%. As from October 2008, annual interest rates for savings deposits may not fall below 15% calculated on daily balances (10% at December 31, 2007 on minimum monthly balances). Annual interest rates on time deposits for 28 or more days may not fall below 17% (11% at December 31, 2007).

#### **b) Mercantil Commercebank, N.A.**

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

#### **c) Mercantil Bank (Schweiz) AG**

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

#### **d) Mercantil Seguros, C.A.**

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

#### **e) Mercantil Merinvest, C.A.**

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

#### **Currency redenomination**

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

## **2. Accounting Principles in Use**

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

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

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

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

### **December 31, 2008 and 2007**

---

in conformity with the CNV's Accounting Manual and Plan of Accounts until the CNV determines otherwise.

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

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

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

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

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

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

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

#### **4) Assets received as payment and idle assets**

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**5) Commissions**

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

**6) Deferred income tax**

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 addition, the amount by which the deferred income tax asset exceeds tax expense for the year is not recognized. In accordance with VEN-NIF, 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, provided that there is reasonable expectation of recovery.

**7) Currency redenomination**

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

**8) Goodwill**

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

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

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

**10) Permanent losses in investment securities**

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

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

Assets and liabilities are translated at the year-end exchange rate, equity accounts at the historic exchange rate, and income accounts at the average exchange rate for the year. The effect from translation is recorded in shareholders' equity. In accordance with VEN-NIF, all asset and liability balances must be translated at the value of the future cash flows in bolivars at which the investment is expected to be realized and the income statement accounts at the annual average value of these cash flows.

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

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

### **December 31, 2008 and 2007**

---

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

#### **a) Consolidation**

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

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

#### **b) Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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.

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

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

#### **c) Investment portfolio**

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

##### ***Trading securities***

These investments are recorded at fair value and comprise investments in debt securities acquired for short-term trading. 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 consolidated 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.

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

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

### **December 31, 2008 and 2007**

---

#### ***Held-to-maturity securities***

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

#### ***Share trading portfolio***

This portfolio includes investments in shares to be publicly traded.

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

#### ***Impairment testing***

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

#### ***Time deposits and placements***

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

#### ***Restricted investments and repurchase agreements***

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

#### ***Long-term investments***

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

#### **d) Investments in securities acquired under resale agreements**

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

#### **e) Direct financial assets and liabilities**

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**f) Loan portfolio**

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

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

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

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

**g) Property and equipment**

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.

**h) Available-for-sale and other assets**

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

**i) 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.

**j) Deferred income tax**

The tax provision is based on management's projection of tax results. MERCANTIL and its subsidiaries record 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).

**k) 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.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**l) Reserves for insurance operations**

The reserve for unearned premiums represents the unmaturing 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.

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.

**m) Employee 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.

**n) Employee benefit plans**

***Retirement pension plan***

MERCANTIL has a long-term defined benefit plan covering all eligible employees which is managed by Fundación BMA. Related costs and liabilities are calculated using actuarial methods and are recorded in the results for the 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 in which they are made. This Plan is a voluntary programmed savings scheme in the form of individual capitalization accounts that is administered by the savings funds of certain subsidiaries. Under the Supplementary Savings Plan, employees contribute between 1% and 5% of their basic monthly salary and MERCANTIL doubles the employee's contribution up to a maximum of 10% of said salary.

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

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

### **December 31, 2008 and 2007**

---

#### ***Post-retirement benefits***

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

#### **o) Recognition of revenue and expenses**

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

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

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

#### **p) Fair value of financial instruments**

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

#### **q) Foreign currency**

Foreign currency balances at December 31, 2008 are shown at the official exchange rates of Bs 2.145/US\$1, Bs 0.001/Ps1 and Bs 2.003/CHF1 (Bs 2.145/US\$1, Bs 0.001/Ps1 and Bs 1.90/CHF1 at December 31, 2007), as established in the Exchange Agreements described in Note 23. Exchange gains and losses are included in the consolidated statement of income, except for those resulting from investments in available-for-sale debt securities and investments in publicly traded shares denominated in foreign currency, which are recorded in shareholders' equity.

#### **r) 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. Diluted net income per share is determined by applying the Treasury Stock Method, by which the net income per share is determined as if employee stock options had been exercised and funds from exercised options had been used to acquire MERCANTIL shares.

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**s) 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.

**t) Cash equivalents**

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

**u) Dividends**

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

**v) Memorandum accounts**

MERCANTIL records under memorandum accounts commercial paper and debenture bonds that have been authorized for issue by the CNV (Note 24).

**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 the balances with the Central Bank of Venezuela (BCV) included in cash and due from banks:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Demand deposits	89,738	287,526
Legal reserve in local currency	6,012,934	4,895,556
Legal reserve in U.S. dollars	<u>9,816</u>	<u>30,469</u>
	<u><b>6,112,488</b></u>	<u><b>5,213,551</b></u>

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

The legal reserve in Venezuela amounts to 17% of all deposits and other liabilities, including deposits classified as investments assigned but excluding liabilities with BCV, FOGADE and other financial institutions. The legal reserve for deposits and borrowings in local and foreign currency should be made in bolivars. The legal reserve for deposits or borrowings in foreign currency should be made in U.S. dollars until January 2008. The marginal increase of deposits and investments assigned as from July 2006 was subject to a legal reserve of 30% until January 5, 2009 and of 27% as from that date. Legal reserve funds do not earn interest for MERCANTIL.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**4. Investment Portfolio**

The investment portfolio comprises the following:

	December 31, 2008		December 31, 2007	
	Cost	Book value (equivalent to market value)	Cost	Book value (equivalent to market value)
<i>(Thousands of bolivars)</i>				
<b>Investments in trading securities</b>				
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	-	-	6,496	6,514
	-	-	30,043	30,061
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				
	35,935	35,935	59,672	59,672
Securities issued by the National Treasury of the United States of America	-	-	4,172	4,172
Other investments	20,624	20,624	166,119	166,108
	56,559	56,559	229,963	229,952
Investments in securities issued by foreign entities				
Other investments	22	22	380	380
	56,581	56,581	260,386	260,393

	December 31, 2008				December 31, 2007			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
<i>(Thousands of bolivars)</i>								
<b>Investments in available-for-sale securities</b>								
Investments in securities issued by Venezuelan entities								
Securities issued or guaranteed by the Bolivarian Republic of Venezuela								
In local currency (1)	1,052,190	11,959	(18,342)	1,045,807	1,142,982	25,226	(17,849)	1,150,359
In foreign currency	420,895	943	(156,807)	265,031	247,833	4,987	(31,369)	221,451
	1,473,085	12,902	(175,149)	1,310,838	1,390,815	30,213	(49,218)	1,371,810
Other investments								
In local currency	150,321	2,788	(5,697)	147,412	67,751	3,011	(3,663)	67,099
In foreign currency	1,692	251	(138)	1,805	5,016	320	(133)	5,203
	152,013	3,039	(5,835)	149,217	72,767	3,331	(3,796)	72,302
	1,625,098	15,941	(180,984)	1,460,055	1,463,582	33,544	(53,014)	1,444,112
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)								
	2,723,286	33,025	(18,057)	2,738,254	2,447,790	25,185	(5,220)	2,467,755
Debt in companies sponsored and supervised by the government of the United States of America (3)								
	906,900	7,168	(5,372)	908,696	962,080	7,296	(2,739)	966,637
Securities issued by the National Treasury of the United States of America								
	152,224	1,115	(35)	153,304	80,426	580	(5)	81,001
Other investments	269,508	1,589	(12,533)	258,564	673,949	3,037	(10,310)	666,676
Investments in other countries	4,051,918	42,897	(35,997)	4,058,818	4,164,245	36,098	(18,274)	4,182,069
	71,927	104	(3,568)	68,463	290,295	21	(6,149)	284,167
	5,748,943	58,942	(220,549)	5,587,336	5,918,122	69,663	(77,437)	5,910,348

(1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$91,581 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.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

At December 31, 2008, investments in available-for-sale securities with a market value of US\$1,141 million were pledged to guarantee deposits and investments sold under repurchase agreements. In addition, at December 31, 2008, investments in available-for-sale securities include US\$0.1 million and the loan portfolio includes US\$243 million as collateral for advances received from the Federal Home Loan Bank.

At December 31, 2008, restricted investments include securities of the Coral Gables agency with a market value of US\$3,331,697 (US\$19,377,610 at December 31, 2007), pledged to regulatory entities in compliance with state requirements in the United States of America.

The unrealized gain (loss) at December 31 comprises the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
<b>Type of portfolio</b>		
Investments in available-for-sale securities	(161,607)	(7,774)
Investments in held-to maturity securities reclassified to investments in available-for-sale securities	(9,514)	(5,518)
Share-trading portfolio	14,550	23,747
Restricted investments	26,023	1,698
Affiliates shown under the equity method	(138)	-
Net increase from adjustment of spot contracts to market value	<u>183</u>	<u>15</u>
	<u>(130,503)</u>	<u>12,168</u>

At December 31, 2008, the market value of securities of the Bolivarian Republic of Venezuela issued and payable in U.S. dollars is lower than cost by Bs 156 million. This loss is included in shareholders' equity as an unrealized loss on available-for-sale securities. MERCANTIL considers that this difference is temporary since it is related to, among other things, the current state of world financial markets and the recent high volatility of international oil prices which, in the opinion of management, do not significantly affect payment capabilities of the issuer. Therefore, this difference has not been recognized in the consolidated statement of income. In addition, MERCANTIL has the ability to hold these securities for a sufficient period of time to recover unrealized losses. At February 17, 2009, the cost of these securities exceeds its market value by Bs 130 million.

<i>(Thousands of bolivars)</i>	<u>December 31, 2008</u>			<u>December 31, 2007</u>		
	Amortized cost	Unrealized loss	Market value	Amortized cost	Unrealized loss	Market value
<b>Investments in held-to-maturity securities</b>						
Investments in securities issued by Venezuelan entities						
Securities issued or guaranteed by the Bolivarian Republic of Venezuela						
In local currency (1)	385,318	(12,527)	372,791	685,083	(20,532)	664,551
In foreign currency	-	-	-	222,610	(2,559)	220,051
Other investments	<u>158,755</u>	<u>(193)</u>	<u>158,562</u>	<u>67,099</u>	<u>(7,040)</u>	<u>60,059</u>
	<u>544,073</u>	<u>(12,720)</u>	<u>531,353</u>	<u>974,792</u>	<u>(30,131)</u>	<u>944,661</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	19,967	-	19,967	23,819	-	23,819
Other investments	<u>71,349</u>	<u>-</u>	<u>71,349</u>	<u>82,887</u>	<u>-</u>	<u>82,887</u>
	<u>91,316</u>	<u>-</u>	<u>91,316</u>	<u>106,706</u>	<u>-</u>	<u>106,706</u>
Investments in other countries	<u>6,064</u>	<u>-</u>	<u>6,064</u>	<u>15,180</u>	<u>-</u>	<u>15,180</u>
	<u>641,453</u>	<u>(12,720)</u>	<u>628,733</u>	<u>1,096,678</u>	<u>(30,131)</u>	<u>1,066,547</u>

(1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$76,471 payable in bolivars at the official exchange rate.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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

(Thousands of bolivars)	December 31, 2008				December 31, 2007			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
<b>Share trading portfolio</b>								
Shares issued by Venezuelan companies	8,169	13,323	(505)	20,987	8,166	19,257	(3,746)	23,677
Shares issued by foreign companies	<u>22,369</u>	<u>1,732</u>	<u>-</u>	<u>24,101</u>	<u>1,607</u>	<u>8,236</u>	<u>-</u>	<u>9,843</u>
	<u>30,538</u>	<u>15,055</u>	<u>(505)</u>	<u>45,088</u>	<u>9,773</u>	<u>27,493</u>	<u>(3,746)</u>	<u>33,520</u>

During the year ended December 31, 2008, MERCANTIL recorded a gain of US\$6,456,674, equivalent to Bs 13,847,000, on the sale of 23,301 Class "B" MasterCard shares (22,000 shares for US\$3,763,901, equivalent to Bs 8,072,000, during the year ended December 31, 2007), shown under gain on sale of investment securities.

In March 2008, Visa Inc. made a public offer of shares, assigning the subsidiary Mercantil, C.A. Banco Universal 623,163 Class "C" Series I shares. During the year ended December 31, 2008, the Bank recorded a gain of US\$14,974,239, equivalent to Bs 32,114,000, on the sale of 350,128 of these shares, shown under gain on sale of investment securities. The remaining 273,025 shares were accounted for as investment securities, resulting in an unrealized gain of Bs 25 million.

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 236,000 was recorded under retained earnings.

(Thousands of bolivars)	December 31, 2008		December 31, 2007	
	Cost	Market value	Cost	Market value
<b>Investments in time deposits and placements</b>				
Investments in securities issued by Venezuelan entities				
Time deposits				
Central Bank of Venezuela	6,030,000	6,030,000	3,275,000	3,275,000
Financial institutions	262,458	262,458	22,500	22,500
Overnight deposits	<u>7,000</u>	<u>7,000</u>	<u>133,330</u>	<u>133,330</u>
	<u>6,299,458</u>	<u>6,299,458</u>	<u>3,430,830</u>	<u>3,430,830</u>
Investments in securities issued by financial institutions in the United States of America				
Time deposits	7,399	7,399	88,075	88,075
Overnight deposits	<u>1,612,634</u>	<u>1,612,634</u>	<u>288,242</u>	<u>288,242</u>
	<u>1,620,033</u>	<u>1,620,033</u>	<u>376,317</u>	<u>376,317</u>
Investments in securities issued by foreign entities	<u>193,519</u>	<u>193,519</u>	<u>188,047</u>	<u>188,047</u>
	<u>8,113,010</u>	<u>8,113,010</u>	<u>3,995,194</u>	<u>3,995,194</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

Time deposits and placements include investments for Bs 6,432,278,000, maturing within 90 days (Bs 3,884,081,000 at December 31, 2007).

<i>(Thousands of bolivars)</i>	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Cost	Market value	Cost	Market value
<b>Restricted investments and repurchase agreements</b>				
Securities issued by the Bolivarian Republic of Venezuela				
In local currency	<u>52,748</u>	<u>52,666</u>	<u>41,053</u>	<u>41,102</u>
Securities issued or guaranteed by the government of the United States of America	<u>46,063</u>	<u>72,168</u>	<u>129,692</u>	<u>131,341</u>
Investments in other countries	<u>3,354</u>	<u>3,354</u>	<u>3,631</u>	<u>3,631</u>
	<u>102,165</u>	<u>128,188</u>	<u>174,376</u>	<u>176,074</u>

Below is a classification of investments by maturity at December 31, 2008:

<i>(Thousands 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) %
<b>In bolivars</b>						
Less than 1 year	324,219	320,879	13.63	229,571	223,156	10.92
From 1 to 5 years	666,154	659,330	14.01	165,793	162,163	12.03
Over 5 years	238,238	237,031	10.12	158,755	158,755	6.13
<b>In U.S. dollars</b>						
Less than 1 year	172,449	172,237	27.32	-	-	
From 1 to 5 years	478,551	434,836	5.8	11,032	11,370	5.94
Over 5 years	<u>3,869,332</u>	<u>3,763,023</u>	5.1	<u>84,691</u>	<u>86,009</u>	6.21
	<u>5,748,943</u>	<u>5,587,336</u>		<u>649,842</u>	<u>641,453</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.

During the year ended December 31, 2008, a net gain of Bs 123,952,000 (net loss of Bs 77,742,000 during the year ended December 31, 2007) was recorded on the sale of securities, included under gain on sale of investment securities.

During the year ended December 31, 2008, MERCANTIL swapped debt securities issued by the Bolivarian Republic of Venezuela denominated in foreign currency for debt securities issued by the Bolivarian Republic of Venezuela denominated in bolivars, which were subsequently sold at a gain of approximately Bs 134,967,000 (Bs 262,374,000 during the year ended December 31, 2007), included under gain on sale of investment securities.

The control environment of MERCANTIL includes policies and procedures to determine investment risks by entity and economic sector. At December 31, 2008, MERCANTIL has investment securities issued or guaranteed by the Venezuelan government and investment securities with the Central Bank of Venezuela (BCV), which represent 13.06% and 41.41%, respectively, of its investment securities portfolio (18.95% and 28.46%, respectively, at December 31, 2007). Furthermore, MERCANTIL has investments in bonds issued by the government and other government agencies of the United States of America representing 26.60% of its investment portfolio (34.06% at December 31, 2007).

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**5. Direct Financial Assets**

At December 31, 2008, MERCANTIL has securities loan agreements with third parties, represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela for Bs 312,012,000, with a par value of Bs 316,044,000 and yields between 10.46% and 14.72% (with a par value of Bs 327,449,000 and yields between 7.82% and 10.27% at December 31, 2007) and maturities as follows:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Up to 30 days	236,582	123,064
31 to 60 days	60,546	186,255
61 and 90 days	<u>14,884</u>	<u>15,260</u>
Total	<u>312,012</u>	<u>324,579</u>

**6. Loan Portfolio**

The loan portfolio is classified as follows:

<i>(Thousands of bolivars)</i>	<b>December 31, 2008</b>						<b>December 31, 2007</b>	
	<b>Current</b>	<b>Rescheduled</b>	<b>Overdue</b>	<b>In litigation</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>
<b>Economic activity</b>								
Commercial	7,180,625	9,183	108,535	7,623	7,305,966	32	6,171,417	31
Construction	2,648,152	-	325,768	51	2,973,971	13	2,675,750	14
Agriculture	2,325,376	29,746	10,925	564	2,366,611	10	1,855,008	9
Car loans	1,933,943	-	1,545	-	1,935,488	8	1,554,979	8
Credit cards	1,755,931	-	17,048	-	1,772,979	8	1,510,265	8
Foreign trade	1,529,178	5,187	36,779	-	1,571,144	7	1,757,795	9
Industrial	1,395,265	689	2,747	585	1,399,286	6	1,657,448	8
Home purchase	1,383,725	2,540	9,182	2,682	1,398,129	6	1,024,464	5
Services	600,680	-	4,525	330	605,535	3	549,010	3
Other	<u>1,477,069</u>	<u>2,068</u>	<u>24,814</u>	<u>12,384</u>	<u>1,516,335</u>	<u>7</u>	<u>938,808</u>	<u>5</u>
	<u>22,229,944</u>	<u>49,413</u>	<u>541,868</u>	<u>24,219</u>	<u>22,845,444</u>	<u>100</u>	<u>19,694,944</u>	<u>100</u>

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

<i>(Thousands of bolivars)</i>	<b>December 31, 2008</b>		<b>December 31, 2007</b>	
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Geographic location</b>				
Venezuela	15,765,191	69	12,845,937	64
United States of America	4,867,925	21	4,611,720	23
Mexico	402,287	2	336,359	2
Switzerland	393,712	2	391,500	2
Brazil	370,025	2	366,651	2
Peru	332,991	1	340,052	2
Colombia	166,234	1	137,818	1
Panama	84,050	0	146,259	1
Other countries	<u>463,029</u>	<u>2</u>	<u>518,648</u>	<u>3</u>
	<u>22,845,444</u>	<u>100</u>	<u>19,694,944</u>	<u>100</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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

<i>(Thousands of bolivars)</i>	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Balance at the beginning of the year	356,452	293,500
Provided in the year	473,188	126,897
Effect translating allowances in foreign currency	(306)	191
Decrease in allowance (Note 19)	(2,123)	(5,231)
Write-off of uncollectible loans	(200,073)	(63,023)
Transfers from (to) other reserves	<u>(809)</u>	<u>4,118</u>
Balance at the end of the year	<u>626,329</u>	<u>356,452</u>

At December 31, 2008, the loan portfolio no longer earning interest amounts to Bs 566,087,000 and includes US\$224,400,000 (Bs 142,849,000 which includes US\$34,200,000 at December 31, 2007).

During the year ended December 31, 2008, interest accrued but not recorded as income on loans overdue and in-litigation amounts to Bs 193,732,000 and includes US\$9.4 million (Bs 32,274,000 which includes US\$1.6 million during the year ended December 31, 2007). Interest on the loan portfolio for the year ended December 31, 2008 includes Bs 128,651,000 (Bs 27,239,000 during the year ended December 31, 2007) for interest collected on loans overdue and in-litigation deferred in previous years.

During the year ended December 31, 2008, uncollectible loans written off in previous years for Bs 41,008,000 (Bs 33,786,000 during the year ended December 31, 2007) 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, 2008 and 2007, MERCANTIL does not have significant risk concentrations in its consolidated loan portfolio.

**7. Interest and Commissions Receivable**

Interest and commissions receivable at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
<b>Interest on</b>		
Loan portfolio	197,868	154,129
Investment securities	<u>113,450</u>	<u>88,592</u>
	311,318	242,721
Commissions receivable	23,257	5,695
Provision for contingent losses	<u>(12,187)</u>	<u>(2,477)</u>
	<u>322,388</u>	<u>245,939</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**8. Long-term Investments**

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

	Par value	December 31, 2008			December 31, 2007		
		Number of shares	Equity %	Thousands of bolivars	Number of shares	Equity %	Thousands of bolivars
Cestaticket Accor Services, C.A.	1.00	2,580,000	43.00	62,337	2,580,000	43.00	35,481
Todo 1 Services, Inc.	2.14 (1)	26,187	47.04	21,765	26,187	47.04	14,542
Proyectos Conexus, C.A.	0.10	343,334	33.00	2,313	343,334	33.00	2,003
Inversiones Platco, C.A.	100.00	30,000	50.00	3,510	30,000	50.00	3,000
Other				<u>2,631</u>			<u>2,292</u>
				<u>92,556</u>			<u>57,318</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 2,301,000 in cash.

During the year ended December 31, 2008, MERCANTIL recorded income from equity participation of approximately Bs 66,478,000 (Bs 41,333,000 at December 31, 2007), including Bs 59,028,000 from Cestaticket Accor Services, C.A. and Bs 7,223,000 from Todo 1 Services, Inc. (Bs 36,826,000 and Bs 5,193,000, respectively, during the year ended December 31, 2007) and received dividends of Bs 32,173,000 (Bs 29,140,000 during the year ended December 31, 2007).

**9. Available-for-sale-Assets**

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

(Thousands of bolivars)	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Balances at December 31, 2008
Real property received as payment	76	22,819	(583)	-	19,426	41,738
Idle assets	-	337	-	-	-	337
Other available-for-sale assets	22,438	20,431	(8,222)	(8,280)	(19,426)	6,941
Accumulated amortization	<u>(52)</u>	<u>(25,510)</u>	<u>2,095</u>	<u>-</u>	<u>(306)</u>	<u>(23,773)</u>
	<u>22,462</u>	<u>18,077</u>	<u>(6,710)</u>	<u>(8,280)</u>	<u>(306)</u>	<u>25,243</u>

During the year ended December 31, 2008, MERCANTIL recorded amortization expense in respect of available-for-sale assets of Bs 25,510,000 (Bs 148,000 during the year ended December 31, 2007). Fully amortized personal and real property is shown under memorandum accounts (Note 2).

MERCANTIL sold assets received as payment and idle assets at a gain of Bs 8,490,000 and a loss of Bs 311,000 (gain of Bs 6,665,000 and loss of Bs 229,000 during the year ended December 31, 2007), shown in the consolidated statement of income under other income and other expenses, respectively (Notes 19 and 20).

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**10. Property and Equipment**

Property and equipment comprises the following:

<i>(Thousands of bolivars)</i>	Cost						Balances at December 31, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Office furniture and equipment	322,553	86,970	(1,640)	(284)	(2,191)	110	405,518
Buildings and facilities	244,589	107,588	(2,032)	-	6,572	-	356,717
Vehicles	5,149	2,063	(277)	(166)	-	4	6,773
Land	17,125	17	-	-	-	-	17,142
Construction in progress	104,895	61,116	(8,361)	-	(122,806)	-	34,844
Other property	<u>48,509</u>	<u>42,264</u>	<u>-</u>	<u>-</u>	<u>28</u>	<u>5</u>	<u>90,806</u>
Total	<u>742,820</u>	<u>300,018</u>	<u>(12,310)</u>	<u>(450)</u>	<u>(118,397)</u>	<u>119</u>	<u>911,800</u>

<i>(Thousands of bolivars)</i>	Accumulated depreciation						Balances at December 31, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Buildings and facilities	(112,611)	(14,323)	263	-	3,862	-	(122,809)
Office furniture and equipment	(199,264)	(58,031)	1,341	284	(6,564)	(77)	(262,311)
Vehicles	(2,562)	(1,033)	183	166	148	(4)	(3,102)
Other property	<u>(2,128)</u>	<u>(6,636)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,764)</u>
Total	<u>(316,565)</u>	<u>(80,023)</u>	<u>1,787</u>	<u>450</u>	<u>(2,554)</u>	<u>(81)</u>	<u>(396,986)</u>

At December 31, 2008, property and equipment includes Bs 72,953,000 (Bs 31,525,000 at December 31, 2007) related to two corporate airplanes, one of which is being sold. The useful life assigned to these assets is 10 years. During the year ended December 31, 2008, MERCANTIL recorded depreciation expense of Bs 6,635 in this connection (Bs 2,128 during the year ended December 31, 2007).

During the year ended December 31, 2008, MERCANTIL recorded depreciation expense of Bs 80,023,000 (Bs 56,444,000 during the year ended December 31, 2007), shown in the consolidated statement of income under operating expenses.

At December 31, 2007, buildings, facilities and land for Bs 251,050,000 have an estimated market value of Bs 669,877,000 based on valuations performed by independent appraisers in December 2005.

At December 31, 2008, 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	25
Office furniture and equipment	4-10	3
Other property	10	9

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**11. Other Assets**

Other assets at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Insurance premiums receivable	240,625	194,812
Deferred expenses, net of accumulated amortization of Bs 102,618,000 (Bs 80,121,000 at December 31, 2007)	138,669	105,165
Goodwill	129,048	138,927
Prepaid taxes, insurance and other prepaid expenses	96,946	51,630
Pending items	87,664	75,592
Deferred income tax (Note 17)	57,827	32,233
Prepaid expenses	46,022	52,658
Sambil La Candelaria shopping mall rights	39,191	39,191
Systems development, net of accumulated amortization of Bs 101,085,000 (Bs 88,821,000 at December 31, 2007)	27,935	26,274
Sale of securities in process of collection	16,869	209,680
Prepaid advertising	14,979	8,886
Advances for acquisition of personal and real property (Note 10)	13,182	36,293
Currency redenomination expenses (Notes 1 and 2)	7,970	9,222
Accounts receivable from other credit card institutions	7,949	7,404
Cross Currency Swap valuation (Notes 15 and 24)	75	905
Adjustment of spot and forward contracts to market value (Note 24)	(14,052)	3,215
Other	<u>143,273</u>	<u>58,920</u>
	1,054,172	1,051,007
Provision for estimated losses and other assets	<u>(21,180)</u>	<u>(17,401)</u>
	<u>1,032,992</u>	<u>1,033,606</u>

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

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 131,223,000, Bs 19,600,000 and Bs 40,170,000, 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. At December 31, 2008, MERCANTIL has recorded Bs 932,167, including US\$273,541, in connection with this settlement.

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.

Sambil La Candelaria shopping mall rights were mainly acquired to set up the main office of Mercantil, C.A. Banco Universal and for other purposes. At December 31, 2008, MERCANTIL's consolidated financial statements include Bs 52 million for the aforementioned rights, as well as construction in progress. The fair value of these assets exceeds their book value.



**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**Time deposits by maturity**

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Up to 30 days	2,609,120	35	3,204,948	42
31 to 60 days	839,390	11	839,323	11
61 to 90 days	704,242	10	674,802	9
91 to 180 days	760,849	10	793,748	10
181 to 360 days	540,058	7	435,421	6
Over 360 days	<u>1,896,905</u>	<u>27</u>	<u>1,729,138</u>	<u>22</u>
	<u>7,350,564</u>	<u>100</u>	<u>7,677,380</u>	<u>100</u>

Deposits bear interest at the rates shown below:

	<u>December 31, 2008</u>				<u>December 31, 2007</u>			
	<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>		<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>	
	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate
		%	%		%	%	%	%
Interest-bearing checking accounts	0.50	8.00	0.05	2.50	0.50	5.25	0.10	3.90
Savings deposits	15.00	15.00	0.10	2.90	9.87	10.00	0.10	4.10
Time deposits	11.00	17.00	0.10	6.10	10.00	11.25	0.50	6.57

At December 31, 2008, deposits include Bs 969,436,000 (Bs 1,091,002,000 at December 31, 2007) from the Venezuelan government and other government entities, equivalent to 2.7% of total deposits (3.5% at December 31, 2007).

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

At December 31, 2008, MERCANTIL has issued by public offering debenture bonds and commercial paper with the following characteristics:

**a) Debenture bonds**

(Thousands of bolivars)	Amount of issue	Pending issue (Note 24)	Amount placed	Date of issue	Term (Years)	Percentage of return compared to TAM (•) %
Issue 2007-I	20,000	-	20,000	May 2007	4	72.50
Issue 2007-II	171,374	-	171,374	October 2007 and March 2008	1-2-3	74-75-76-80-85-87
Issue 2008-II	<u>80,000</u>	<u>80,000</u>	-			
	<u>271,374</u>	<u>80,000</u>	191,374			
Bonds acquired by subsidiaries			<u>(17,452)</u>			
			<u>173,922</u>			

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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

**14. Financial Liabilities**

Financial liabilities are classified by type and maturity as follows:

	December 31, 2008			December 31, 2007		
	Up to one year	More than one year	Total	Up to one year	More than one year	Total
<i>(Thousands of bolivars)</i>						
<b>Liabilities with Venezuelan banks and savings and loan institutions</b>						
Credit balances with correspondent banks	87,502	-	87,502	102,180	-	102,180
Loans granted by Venezuelan financial institutions, with 26% annual interest (10.5% and 26% at December 31, 2007)	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>59,099</u>	<u>72,000</u>	<u>131,099</u>
	<u>112,502</u>	<u>-</u>	<u>112,502</u>	<u>161,279</u>	<u>72,000</u>	<u>233,279</u>
<b>Liabilities with foreign banks and savings and loan institutions</b>						
New York office mortgage loan of US\$5,487,075, with 9.63% fixed annual interest (US\$5,590,697, with 9.63% fixed annual interest at December 31, 2007)	-	-	-	-	11,990	11,990
Federal Home Loan Bank, with a par value of US\$151,767,436, with annual interest at between 2.6% and 5.9% (US\$33,280,513, with annual interest at between 3.10% and 5.90% at December 31, 2007)	37	325,443	325,480	3,282	68,091	71,373
Loans granted by foreign financial institutions with annual interest at between 0.4% and 7.13%	-	-	-	60,063	-	60,063
Credit balances with foreign correspondent banks	<u>2,612</u>	<u>-</u>	<u>2,612</u>	<u>1,252</u>	<u>-</u>	<u>1,252</u>
	<u>2,649</u>	<u>325,443</u>	<u>328,092</u>	<u>64,597</u>	<u>80,081</u>	<u>144,678</u>
<b>Direct financial liabilities</b>						
Short sale of securities at par value of US\$245,388,500, with annual interest at between 3.5% and 6.0% (par value of US\$88,075,340, with annual interest at between 3.52% and 6.27% at December 31, 2007)	-	-	-	-	188,886	188,886
Securities loan agreements	<u>1,870,860</u>	<u>-</u>	<u>1,870,860</u>	<u>399,434</u>	<u>-</u>	<u>399,434</u>
	<u>1,870,860</u>	<u>-</u>	<u>1,870,860</u>	<u>399,434</u>	<u>188,886</u>	<u>588,320</u>
<b>Liabilities under repurchase agreements</b>						
Liabilities under repurchase agreements with a par value of US\$362,000,000, with annual interest at between 3.66% and 5.51% (US\$318,000,000, with annual interest at between 3.51% and 5.51% at December 31, 2007)	-	776,345	776,345	23,591	658,392	681,983
<b>Other liabilities</b>						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	2,851	2,851	-	3,358	3,358
Liabilities in respect of letters of credit	60,513	-	60,513	114,808	-	114,808
Other	<u>743</u>	<u>53</u>	<u>796</u>	<u>241</u>	<u>130</u>	<u>371</u>
	<u>61,256</u>	<u>2,904</u>	<u>64,160</u>	<u>115,049</u>	<u>3,488</u>	<u>118,537</u>
	<u>2,047,267</u>	<u>1,104,692</u>	<u>3,151,959</u>	<u>763,950</u>	<u>1,002,847</u>	<u>1,766,797</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

Maturities of financial liabilities are as follows:

**Up to one year**

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Up to 30 days	1,853,547	91	621,219	81
Between 31 and 60 days	185,665	9	58,126	8
Between 61 and 90 days	6,671	-	8,785	1
Between 91 and 180 days	1,384	-	2,085	-
Between 181 and 360 days	-	-	<u>73,735</u>	<u>10</u>
Total	<u>2,047,267</u>	<u>100</u>	<u>763,950</u>	<u>100</u>

**More than one year**

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
2009	350,275	32	96,207	12
2010	91,193	8	337,374	33
2011	68,634	6	103,183	10
2012	321,690	29	466,083	45
2013 and beyond	<u>272,900</u>	<u>25</u>	-	-
Total	<u>1,104,692</u>	<u>100</u>	<u>1,002,847</u>	<u>100</u>

At December 31, 2008, 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 14.16% and 14.72% (Treasury Notes of the Bolivarian Republic of Venezuela with annual yields between 1% and 12.43% at December 31, 2007).

**Liabilities under repurchase agreements**

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

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Balance at year end	776,345	681,983
Fair value of financial instruments (1)	776,345	681,983
Total maximum balance outstanding at the end of any month of the year	823,526	681,983
Average balance for the year	731,103	648,027

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

	<b>%</b>
<b>Weighted average interest rate</b>	
For the year	
In foreign currency	4.63
Interest rate at year end	
In foreign currency	4.61

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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

**15. Other Liabilities**

Other liabilities at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Reserves for insurance operations (Note 2)	922,788	629,542
Cashier's checks issued to clients	444,294	222,906
Other demand liabilities	267,607	151,716
Provision for contingencies and other (Note 32)	193,784	168,880
Provisions for taxes payable (Note 17)	183,953	123,484
Accrued expenses	145,197	107,304
Pending items	131,295	67,085
Personnel profit sharing and bonuses	123,926	86,626
Deferred interest	106,938	48,395
Taxes collected and withheld	100,777	111,056
Accounts payable to suppliers	57,529	60,329
Provision for operating risks	50,287	49,852
Labor contributions	25,300	13,943
Deposits or advances received for leasing and sale of premises in Sambil La Candelaria shopping mall	10,869	-
Law on Narcotic and Psychotropic Substances	8,957	8,585
Cross Currency Swap valuation (Notes 11 and 24)	6,779	150
Supplementary Savings Plan (Note 18)	4,131	4,040
Law for the Advancement of Science, Technology and Innovation	131	4,621
Other	<u>134,019</u>	<u>78,282</u>
	<u>2,918,561</u>	<u>1,936,796</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, 2008, MERCANTIL maintains provisions for operating risks of Bs 50,287,000 (Bs 49,852,000 at December 31, 2007) 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, 2008 and 2007, the subsidiary Mercantil, C.A., Banco Universal has invested in technology and innovation projects to cover the 0.5% contribution of territorial gross income during the prior year required by the Law for the Advancement of Science, Technology and Innovation. For the year ended December 31, 2008, MERCANTIL made contributions to companies included under the aforementioned Law. At December 31, 2008, MERCANTIL has set aside a provision of Bs 131,000 in this connection.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**16. Subordinated Debt**

The subsidiary Mercantil Commercebank Holding Co. 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, 2008 in millions of US\$	December 31, 2008 and 2007 equivalent to millions of bolivars
June 1998	June 2028	8.90	40	27	57,539
September 2000	September 2030	10.60	15	15	32,169
March 2001	June 2031	10.18	10	10	21,446
December 2002	January 2033	LIBOR + 3.35	9	9	19,838
April 2003	April 2033	LIBOR + 3.25	8	8	17,157
March 2004	April 2034	LIBOR + 2.85	5	5	10,723
September 2006	December 2038	LIBOR + 1.75	25	25	53,615
December 2006	December 2036	LIBOR + 1.75	15	15	<u>32,169</u>
					<u>244,656</u>

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

**17. Taxes**

**a) Tax expense**

The tax expense comprises the following:

<i>(Thousands of bolivars)</i>	Years ended	
	December 31, 2008	December 31, 2007
<b>Taxes</b>		
Current		
In Venezuela	162,217	135,824
Abroad	<u>29,964</u>	<u>52,728</u>
	<u>192,181</u>	<u>188,552</u>
Deferred		
In Venezuela	4,022	7,510
Abroad	<u>3,046</u>	<u>1,673</u>
	<u>7,068</u>	<u>9,183</u>

**Taxes in Venezuela**

***Venezuelan Income Tax Law***

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

MERCANTIL's tax year ends on December 31. For the year ended December 31, 2008, 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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

of tax-exempt income from National Public Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela.

At December 31, 2008, MERCANTIL and its subsidiaries have tax loss carryforwards of Bs 227,012,000 with sources and maturities as shown below:

<i>(Thousands of bolivars)</i>	<b>Territorial</b>	<b>Extraterritorial</b>	<b>Total global</b>
Tax losses	224,855	2,157	227,012
<b>Maturities</b>			
2009	126,602	-	126,602
2010	25,479	1,461	26,940
2011	72,774	696	73,470

The aforementioned amount mainly comprises tax losses of Inversiones y Valores Mercantil V, C.A. (Bs 44,888,000), Mercantil Servicios Financieros, C.A. (Bs 134,200,000), Mercantil Financiadora de Primas, C.A. (formerly Inversiones Veninversa) (Bs 24,333,000) and Mercantil Merinvest Casa de Bolsa, C.A. (Bs 15,136,000).

The subsidiary Mercantil, C.A. Banco Universal computed taxable income for the year ended December 31, 2008, giving rise to an estimated tax expense of Bs 107,820,000 (Bs 106,584,000 for the year ended December 31, 2007). 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, 2008:

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

**Taxes in the United States of America**

***Federal taxes***

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

*State taxes*

Companies in the United States of America must pay taxes in the state where they operate. In 2007 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 the methodologies set out in each country's regulations. MERCANTIL and the subsidiaries subject to these regulations filed transfer-pricing returns for information purposes within the established time frames.

**b) Deferred income tax**

Deferred income tax asset at December 31 comprises the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Provision for operating and labor expenses	33,030	8,655
Allowance for losses on loan portfolio	23,535	21,655
Property and equipment, organization and facility expenses and other	<u>1,262</u>	<u>1,923</u>
	<u>57,827</u>	<u>32,233</u>

**c) Tax on financial transactions**

In October 2007, the Venezuelan government enacted by Decree-Law the tax on financial transactions for incorporated and unincorporated entities. This tax was levied upon debits or withdrawals made from current and savings accounts, custody deposits or any other type of demand deposits, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by incorporated and unincorporated entities with Venezuelan banks and other financial institutions. 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 and was repealed in June 2008. Tax expense for 2008 amounted to approximately Bs 47,748,000 and is included under other operating expenses (Note 20).

**18. Employee Benefit Plans**

**a) Supplementary Savings Plan**

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

Expenses in connection with this plan for MERCANTIL and its subsidiaries for the year ended December 31, 2008 amount to Bs 27 million (Bs 23 million for the year ended December 31, 2007).

**b) Supplementary Defined Benefit Plan**

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**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 consolidated statement of income for the year.

For the year ended December 31, 2008, MERCANTIL and its subsidiaries recorded an expense of Bs 28 million (Bs 9 million for the year ended December 31, 2007) in this connection.

At December 31, 2008 and 2007, the assets, obligations and results of the supplementary pension and post-retirement plans, as well as the long-term assumptions used, are as follows:

<i>(Thousands of bolivars)</i>	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>December 31, 2008</u>	<u>2007</u>	<u>December 31, 2008</u>	<u>2007</u>
<b>Variation of projected benefit obligation</b>				
Benefit obligation at the beginning of the Plan	33,644	32,176	25,673	17,915
Service cost	342	207	1,693	1,091
Interest cost	3,962	3,330	3,102	1,916
Actuarial loss (gain)	(4,796)	1,849	4,109	6,276
Benefits paid	<u>(4,638)</u>	<u>(3,918)</u>	<u>(1,983)</u>	<u>(1,525)</u>
Projected benefit obligation	<u>28,514</u>	<u>33,644</u>	<u>32,594</u>	<u>25,673</u>
<b>Variation in restricted Plan assets</b>				
Opening fair value of assets	28,232	32,235	11,456	8,700
Yield on assets	1,831	2,936	1,158	(265)
MERCANTIL contribution	10,200	-	4,260	-
Payment of obligation for transfer of assets	-	(3,021)	-	3,021
Benefits paid	(4,638)	(3,918)	-	-
Transfer of obligations	<u>840</u>	<u>-</u>	<u>(840)</u>	<u>-</u>
Closing fair value of assets	<u>36,465</u>	<u>28,232</u>	<u>16,034</u>	<u>11,456</u>
<b>Financial position at year end</b>				
Present value of obligations (DBO)	(28,514)	(33,644)	(32,594)	(25,673)
Assets of external fund supporting the Plan	<u>36,465</u>	<u>28,232</u>	<u>16,034</u>	<u>11,456</u>
Projected obligation/surplus assets (less assets)	7,951	(5,412)	(16,560)	(14,217)
Unrecognized past service cost	-	-	7,439	8,326
Unrecognized actuarial loss	<u>-</u>	<u>14,620</u>	<u>8,715</u>	<u>4,606</u>
	<u>7,951</u>	<u>9,208</u>	<u>(406)</u>	<u>(1,285)</u>
<b>Components of net benefit cost for the year</b>				
Service cost	342	207	1,693	1,091
Interest cost	3,962	3,330	3,102	1,916
Expected yield from Plan assets	(1,831)	(2,936)	(1,158)	265
Amortization of unrecognized past service cost	-	-	888	888
Amortization of actuarial loss	<u>(9,824)</u>	<u>12,215</u>	<u>-</u>	<u>-</u>
Net benefit cost for the year	<u>(7,351)</u>	<u>12,816</u>	<u>4,525</u>	<u>4,160</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

The following are the assumptions used to determine benefit obligations for the years ended:

	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	%	%	%	%
Discount rate	20.00	12.50	20.00	12.50
Salary increase	20.60	13.50	20.60	13.50
Yield on assets				
Bolivars	18.00	13.00	18.00	13.00
U.S. dollars	7.00	6.50	7.00	6.50
Increase in medical expense for the year	-	-	22.00	15.50

Plan costs for 2008 are estimated at Bs 11,438,000.

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

MERCANTIL and certain subsidiaries in Venezuela and abroad offer a long-term stock option plan to eligible officers approved by the Board of Directors' Compensation Committee. These shares are allotted over three-year periods and awarded annually. Fundación BMA manages the plan and sets up trust funds with the shares on behalf of members once these shares have been assigned and subsequently awarded to eligible officers based on individual allotments approved in accordance with plan regulations. During each administrative phase and until the shares are actually acquired by officers, cash dividends declared in respect of these shares are received by Fundación BMA and stock dividends by the participants. According to the long-term incentive nature of the plan, officers must be active employees of MERCANTIL in order to exercise their purchase options within the time periods established. Otherwise, or if the allotted shares are not purchased within the established time periods, the entitlements are cancelled. At December 31, 2008, 204 employees are participating in this plan. For the year ended December 31, 2008, Bs 9,693,000 million was contributed to this plan (Bs 3,500,000 for the year ended December 31, 2007).

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

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

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

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

(3) Includes stock dividends.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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

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

	<u>Shares awarded</u>		
	<u>Class “A”</u>	<u>Class “B”</u>	<u>Total</u>
<b>Balance at December 31, 2006</b>	321,949	260,842	582,791
Options awarded	599,954	500,119	1,100,073
Stock dividends	323,711	270,148	593,859
Options exercised	<u>(215,871)</u>	<u>(171,959)</u>	<u>(387,830)</u>
<b>Balance at December 31, 2007</b>	1,029,743	859,150	1,888,893
Options awarded	(228,767)	(192,839)	(421,606)
Options recovered	<u>(4,279)</u>	<u>(3,568)</u>	<u>(7,847)</u>
<b>Balance at December 31, 2008</b>	<u><u>796,697</u></u>	<u><u>662,743</u></u>	<u><u>1,459,440</u></u>

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

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

<i>(In bolivars)</i>	<b>Share volatility</b>	<b>Risk free rate</b>	<b>Time (Years)</b>	<b>Option value</b>
	%	%		
Phase III	35.8	26.9	6.5	14.58
Phase IV	31.4	8.3	2.4	30.95

In connection with the options awarded during the year ended December 31, 2008, MERCANTIL recognized expenses of Bs 2,402,000 in the consolidated statement of income based on the market value of options at the award date (Bs 22,114,000 for the year ended December 31, 2007).

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**19. Other Income**

Other income at December 31 comprises the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Credit card commissions	184,438	165,147
Decrease in allowances	83,012	59,027
Commissions on banking services	70,533	59,350
Interest on insurance policies financed	44,225	51,493
Recovery of loans recorded as uncollectible (Note 6)	41,008	33,786
Commission for foreign currency administration	37,763	33,722
Commissions on administration of housing savings fund	20,906	21,805
Commissions on drafts and transfers	20,124	19,056
Income (loss) from transactions with derivative instruments (Note 24)	19,051	(8,112)
Income from other accounts receivable	8,675	7,424
Gain on sale of available-for-sale assets (Note 9)	8,490	6,665
Cross Currency Swap valuation (Note 24)	5,858	6,468
Commissions on advisory services	5,292	13,588
Decrease in allowance for losses on loan portfolio (Note 6)	2,123	5,231
Other	<u>83,220</u>	<u>63,189</u>
	<u><b>634,718</b></u>	<u><b>537,839</b></u>

**20. Other Operating Expenses**

Other operating expenses at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
Professional fees and other external services	185,176	140,041
Taxes and contributions (Note 17)	143,815	96,588
Communications	106,799	99,306
Service commissions	83,335	83,337
Advertising and marketing	79,681	108,761
Robbery, assault and fraud	53,466	28,744
Provision for operating risks and other contingencies	52,024	32,798
Provisions for other assets	45,572	14,951
Office supplies	29,139	26,115
Transportation and security	19,606	17,142
Public relations and representation expenses	13,722	13,347
Donations	12,275	13,680
Provision for the Law for the Advancement Science, Technology and Innovation (Note 15)	7,881	6,330
Insurance expenses	6,771	6,337
Cross Currency Swap valuation (Note 24)	6,301	5,920
Other	<u>106,603</u>	<u>83,401</u>
	<u><b>952,166</b></u>	<u><b>776,798</b></u>

**21. Shareholders' Equity**

**a) Capital stock and authorized capital**

At December 31, 2008, MERCANTIL's subscribed and paid-in capital amounts to Bs 155,976,000, represented by 103,983,727 shares divided into 60,336,760 Class "A" common shares and 43,646,967 Class "B" common shares, with limited voting rights regarding approval of financial statements and appointment of statutory auditors, with a par value of Bs 1.50 each. Of these shares, 244,662 Class "A" and 371,507 Class "B" common shares constitute treasury stock in connection with the current

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

repurchase program of MERCANTIL shares. Outstanding shares amount to 103,367,558 shares: 60,092,098 Class "A" and 43,275,460 Class "B" common shares.

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. As from January 1, 2008, when currency redenomination became effective, the par value of shares is Bs 1.50 (Note 1).

MERCANTIL's authorized capital stock at December 31, 2008 is Bs 314,493,000 (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 215,434,000 through the issue of a maximum of 718 million Class "A" or "B" common shares with a par value of Bs 1.50 each. During 2007 MERCANTIL made a public offer of up to 45 million shares (4.5% of its capital stock) at Bs 3.35 each, which were fully placed. Funds obtained were used to expand the banking, insurance and investment banking businesses.

**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 with 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 18 six-month phases. Below is a summary of the applicable conditions for the current phases:

<i>(In bolivars)</i>	<b>Date of approval at Shareholders' Meeting</b>	<b>Maximum authorized purchase price per share</b>	<b>Average purchase price</b>	<b>Repurchased and unredeemed shares</b>
<b>Phases</b>				
Sixteenth	September 2007	75	31.14	187,336
Seventeenth	March 2008	90	22.91	259,865
Eighteenth	September 2008	90	19.27	<u>168,968</u>
Repurchased and unredeemed shares (0.59 % of capital stock)				<u>616,169</u>

In October 2001, January 2003, February 2004, October 2005, and September and December 2007, approval was given to redeem 80,720,693 shares for Bs 187,370,000, which were acquired up to the sixteenth 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, December 2007 and March 2008. The redemption performed in March 2008 and December 2007 resulted in a reduction of MERCANTIL's paid-in capital of Bs 503,000 and Bs 768,000, respectively. As a result, all of the treasury stock acquired during the first, second, third, fourth, fifth, sixth, seventh, eighth, ninth, tenth, eleventh, twelfth, thirteenth, fourteenth and fifteenth phases of the program, and the sixteenth phase up to December 20, 2007, has been redeemed.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**d) Dividends declared**  
**In cash**

Type of dividend	Date of approval at Shareholders' Meeting	Amount per share Bs	Frequency or payment date
Ordinary	September 2007	0.13	February 2008
Special	March 2008	0.25	April 2008
Ordinary	March 2008	0.13	May 2008
Special	March 2008	0.25	July 2008
Ordinary	March 2008	0.13	August 2008
Ordinary	March 2008	0.13	November 2008
Ordinary	September 2008	0.14	February 2009

**In shares**

Date of approval at Shareholders' Meeting	Dividend date	Number of shares issued	Amount in thousands 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:

	<b>Year ended December 31, 2008</b>
<i>(Thousands of bolivars)</i>	
Consolidated net income	958,987
<b>Less</b>	
Equity in the results of subsidiaries	(985,620)
<b>Add</b>	
Dividends collected	<u>258,047</u>
Base income for dividend distribution	<u>231,414</u>

Retained earnings at December 31, 2008 include Bs 657,068,000 available for dividend distribution; the remaining balance derives from retained earnings of subsidiaries and will be available for distribution once these subsidiaries declare and pay dividends.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

**e) New corporate scheme for Mercantil Commercebank**

At a MERCANTIL Shareholders Meeting held on September 19, 2008, shareholders approved a corporate plan, under which the main purpose is to place Mercantil Commercebank, N.A. (U.S. domiciled) in a better condition in order to ease access to international capital markets. This corporate plan, which was previously presented for the consideration of the Venezuelan Securities and Exchange Commission (CNV) and the U.S. Federal Reserve, considered the establishment of a Voting Trust Agreement in the State of Florida. MERCANTIL, its affiliate Mercantil Commercebank Holding Co. and nine trustees, participate in this Voting Trust Agreement. These nine trustees were appointed by the Board of Directors of MERCANTIL and were ratified by the Board of Directors of Mercantil Commercebank Holding Co.

As established by the Voting Trust Agreement, on October 14, 2008, Mercantil Commercebank Holding Co. transferred Mercantil Commercebank, N.A. shares to the trust. Subsequently, the trustees formed a new company, denominated Mercantil Commercebank Florida Bancorp in the State of Florida, to which they transferred Mercantil Commercebank, N.A. shares. The Trust issued Voting Trust Certificates in favor of Mercantil Commercebank Holding Co., which were proportional to the Mercantil Commercebank, N.A. shares transferred to the Trust. As a result, Mercantil Commercebank Holding Co. will be the beneficial owner of Mercantil Commercebank, N.A. The trust may be early terminated by the Board of Directors of Mercantil Commercebank Holding Co., the Board of Directors of MERCANTIL, or the trustees.

Both Mercantil Commercebank Florida Bancorp and the trust are subject to the supervision of the U.S. Federal Reserve as both entities hold bank shares, as it has been the case of Mercantil Commercebank Holding Co.

In accordance with the terms established under the Voting Trust Agreement, at any time the trustees consider it convenient, the trustees will transfer the shares of Mercantil Commercebank Florida Bancorp to MERCANTIL shareholders in the same proportions to the number and class of shares of MERCANTIL that each shareholder owns, canceling the Voting Trust Certificates previously granted. In the case this distribution occurs, MERCANTIL and its affiliate Mercantil Commercebank Holding Co. will no longer be considered the beneficial owner, and therefore, will record the corresponding financial effect.

At December 31, 2008, MERCANTIL is the final beneficial owner of the Voting Trust and will absorb all the expected entity's losses and returns. As such, the balance sheet and the results of operations of the Voting Trust are included in MERCANTIL's consolidated financial statements.

**f) Other**

MERCANTIL's bylaws include a shareholders' rights plan, which stipulates that, under certain circumstances, shareholders holding shares for more than 180 days are entitled to subscribe shares at par value (Bs 1.50 per share). This measure follows the defensive corporate best practices in use by companies in industrialized nations to maximize the value available to shareholders in case of a non-negotiated purchase offer and thus strengthen their negotiating position in an event of this nature.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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, 2008, the Foundation has net equity of US\$757,375 (US\$745,474 at December 31, 2007), represented by securities at market value (Note 4).

**22. Income per Share**

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

<i>(Thousands of bolivars, except for number of shares)</i>	<b>2008</b>	<b>2007</b>
<b>Net income per common share</b>		
Net income	958,987	783,333
Common shares issued	103,983,727	104,319,358
Weighted average of outstanding common shares	100,607,594	98,438,449
Basic net income per share	9.53	7.96
<b>Net income per diluted common share</b>		
Net income	958,987	783,333
Weighted average of outstanding common shares	100,607,594	98,438,449
Potentially diluted common shares	25,685	129,952
Total weighted average of outstanding diluted common shares	100,633,278	98,568,401
Diluted net income per share	9.53	7.95

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

On March 2, 2005, the Ministry of Finance and BCV changed the official exchange rates, effective as from that date, from Bs 1.91/US\$1 to Bs 2.14/US\$1 (purchase) and from Bs 1.92/US\$1 to Bs 2.15/US\$1 (sale).

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, 2008, Bs 42,546,000 (Bs 16,852,000 at December 31, 2007) has been received in respect of 2007, shown under other liabilities (Note 15). Foreign currency in respect of dividends for 2006 was received in July 2007.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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

<i>(Thousands of U.S. dollars)</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and due from banks	271,981	147,280
Investment portfolio	3,001,114	2,827,633
Loan portfolio	3,419,867	3,484,333
Other assets	<u>108,800</u>	<u>169,756</u>
	<u><b>6,801,762</b></u>	<u><b>6,629,002</b></u>
<b>Liabilities</b>		
Deposits	5,157,825	4,796,639
Financial liabilities	542,637	527,072
Other liabilities	63,339	31,422
Subordinated debt	<u>114,080</u>	<u>114,080</u>
	<u><b>5,877,881</b></u>	<u><b>5,469,213</b></u>

At December 31, 2008, net exchange losses resulting from foreign currency positions amounted to Bs 8,890,042 (Bs 1,537,000 during the year ended December 31, 2007). Furthermore, during the year ended December 31, 2008, gains from intermediation in foreign currency trading amounted to Bs 3,067,000 (Bs 3,765,000 during the year ended December 31, 2007).

The estimated effect of every Bs 100/US\$1 increase in the exchange rate of Bs 2.14/US\$1 at December 31, 2008 would be an increase in assets of Bs 680,176,000 and an increase in shareholders' equity of Bs 92,388,000.

**24. Memorandum Accounts**

Memorandum accounts at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
<b>Contingent debtor accounts</b>		
Guarantees granted	347,278	476,342
Lines of credit (Note 25)	1,091,952	1,575,616
Investment securities under resale agreements	3,617	-
Letters of credit	568,337	498,747
Transactions with derivative instruments	2,568,174	879,322
Cross Currency Swap Contract (Notes 11 and 15)	60,930	58,377
Tourism loan commitments	37,045	111,945
Other contingencies	<u>656,805</u>	<u>570,192</u>
	<u><b>5,334,138</b></u>	<u><b>4,170,541</b></u>
Assets received in trust	<u>8,605,247</u>	<u>8,006,657</u>
Special trust services	<u>970,786</u>	<u>1,031,101</u>
Debtor accounts for other special trust services (Housing Mutual Fund)	<u>-</u>	<u>1,324,034</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
<b>Other debtor memorandum accounts</b>		
Custody of values received	4,198,726	4,136,179
Collections	182,424	156,661
Guarantees received	22,152,471	18,810,952
Unused lines of credit	5,838,670	3,753,313
Publicly traded shares (Note 21)	158,518	158,014
Commercial paper pending issue (Note 2-u)	200,000	19,408
Debenture bonds pending issue (Note 13)	80,000	135,624
Other control accounts	<u>7,953,071</u>	<u>7,030,006</u>
	<u>40,763,880</u>	<u>34,200,157</u>
	<u>55,674,051</u>	<u>48,732,490</u>

**Assets received in trust**

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

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and due from banks	578,936	149,363
Investment portfolio	4,749,515	5,009,524
Loan portfolio	2,789,582	2,380,947
Interest and commissions receivable	54,903	35,479
Available-for-sale assets	-	1,554
Assets received for administration	11,406	9,272
Other assets	<u>420,905</u>	<u>420,518</u>
Total assets	<u>8,605,247</u>	<u>8,006,657</u>
<b>Liabilities</b>		
Other accounts payable	20,545	4,613
Other liabilities	<u>804</u>	<u>7,092</u>
Total liabilities	21,349	11,705
Shareholders' equity	<u>8,583,898</u>	<u>7,994,952</u>
Total liabilities and shareholders' equity	<u>8,605,247</u>	<u>8,006,657</u>

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

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**Securities under spot contracts**

MERCANTIL purchases and sells securities under spot contracts at an established price. For the year ended December 31, 2008, MERCANTIL recorded net losses from adjustment to market value of Bs 16,000 (net income of Bs 58,000 at December 31, 2007). Spot transactions were settled within seven business days of the date of origin (Note 11). Securities under spot contracts comprise the following:

<i>(Thousands of bolivars)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
<b>Securities</b>		
Purchase rights	273,440	265,092
Sale rights	<u>68,573</u>	<u>267,254</u>
	<u>342,013</u>	<u>532,346</u>

**Derivative financial instruments**

MERCANTIL enters into non-hedging futures contracts for the purchase and sale of securities at a fixed price. Net gains resulting from these contracts for the year ended December 31, 2008 amounted to Bs 19,051,000 (net losses of Bs 1,644,000 during the year ended December 31, 2007), shown under other income (Note 19).

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

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

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	Maturity	Thousands of bolivars	Maturity
<b>Futures contracts</b>				
<b>Exchange rates (foreign currency)</b>				
Purchases	44,048	January-November 2009	49,539	January and October 2008
<b>Securities</b>				
Purchases	1,803,289	January - February 2009	162,911	January and July 2008
Sales	<u>302,691</u>	January - February 2009	<u>87,344</u>	January 2008
	<u>2,150,028</u>		<u>299,794</u>	

During the year ended December 31, 2007, MERCANTIL exchanged U.S. dollar securities worth US\$29.7 million with a third party for securities denominated in bolivars for Bs 63,750,000. Simultaneously, MERCANTIL entered into a Cross Currency Swap Contract with the same institution that allows MERCANTIL to acquire US\$29.7 million at Bs 63,750,000 in March 2012. At December 31, 2008, the contract's fair market value is US\$11 million (US\$27.2 million at December 31, 2007) and resulted in a gain of Bs 5,858,000 and a loss of Bs 6,301,000 (gain of Bs 6,011,000 and loss of Bs 5,601,000 for the year ended December 31, 2007), shown under other income and other operating expenses, respectively (Notes 19 and 20). In addition, during the year ended December 31, 2007, MERCANTIL entered into a Cross Currency Swap Contract with a third party, which resulted in a gain of Bs 457,000 and a loss of Bs 319,000, shown under other income and other operating expenses, respectively (Notes 19 and 20).

During 2008, Mercantil Commercebank, N.A. entered into swap agreements to cover the credit risk of certain fixed-rate investments. At December 31, 2008, the agreements' nominal value is US\$10.5 million and the market value is US\$0.3 million, resulting in the realization of US\$0.3 million of unrealized gains in respect of changes in the market value of these agreements.

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

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

### **December 31, 2008 and 2007**

---

In October 2008, Mercantil Commercebank, N.A. entered into five interest rate swap agreements to reduce the interest rate risk of certain fixed-rate loans. At December 31, 2008, the agreements' nominal value is US\$25 million and the market value is US\$(1.7) million, resulting in an unrealized loss of US\$1.7 million in respect of changes in the market value of these agreements.

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

#### **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 0.125% and 2% of the amount of the letter of credit and records the latter under assets once it is used by the customer. Unused letters of credit and other similar liabilities are included under memorandum accounts.

##### **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 Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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

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

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

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

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

<i>(Thousands of bolivars)</i>	<b>30 days</b>	<b>60 days</b>	<b>90 days</b>	<b>180 days</b>	<b>360 days</b>	<b>Over 360 days</b>	<b>Total</b>
<b>Assets</b>							
Cash and due from banks	7,739,101	-	-	-	-	-	7,739,101
Investment portfolio	4,628,690	1,994,775	71,517	182,303	403,590	7,290,781	14,571,656
Direct financial assets	236,582	60,546	14,884	-	-	-	312,012
Loan portfolio	5,735,462	2,335,575	2,438,479	1,720,505	1,330,165	9,285,258	22,845,444
Interest and commissions receivable	<u>322,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>322,388</u>
Total financial assets	<u>18,662,223</u>	<u>4,390,896</u>	<u>2,524,880</u>	<u>1,902,808</u>	<u>1,733,755</u>	<u>16,576,039</u>	<u>45,790,601</u>
<b>Liabilities</b>							
Deposits	31,469,923	839,390	704,242	760,849	540,058	1,896,905	36,211,367
Debt authorized by the Venezuelan Securities and Exchange Commission	-	-	59,962	36,713	37,449	39,798	173,922
Financial liabilities	1,853,547	185,666	6,671	1,383	-	1,104,692	3,151,959
Interest and commissions payable	37,751	-	-	-	-	-	37,751
Subordinated debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,656</u>	<u>244,656</u>
Total financial liabilities	<u>33,361,221</u>	<u>1,025,056</u>	<u>770,875</u>	<u>798,945</u>	<u>577,507</u>	<u>3,286,051</u>	<u>39,819,655</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**27. Fair Value of Financial Instruments**

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

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
<i>(Thousands of bolivars)</i>				
<b>Assets</b>				
Cash and due from banks	7,739,101	7,739,101	6,128,694	6,128,694
Investment portfolio	14,571,656	14,558,936	11,472,207	11,442,076
Direct financial assets	312,012	312,012	324,579	324,579
Loan portfolio, net of allowance	22,219,115	22,219,115	19,338,492	19,338,492
Interest and commissions receivable, net of provision	<u>322,388</u>	<u>322,388</u>	<u>245,939</u>	<u>245,939</u>
	<u>45,164,272</u>	<u>45,151,552</u>	<u>37,509,911</u>	<u>37,479,780</u>
<b>Liabilities</b>				
Deposits	36,211,367	36,211,367	31,287,613	31,287,613
Debt authorized by the Venezuelan Securities and Exchange Commission	173,922	173,922	356,144	356,144
Financial liabilities	3,151,959	3,151,959	1,766,797	1,766,797
Subordinated debt	37,751	37,751	244,656	244,656
Interest and commissions payable	<u>244,656</u>	<u>244,656</u>	<u>47,771</u>	<u>47,771</u>
	<u>39,819,655</u>	<u>39,819,655</u>	<u>33,702,981</u>	<u>33,702,981</u>
<b>Memorandum accounts</b>				
Contingent debtor accounts	<u>4,242,186</u>	<u>4,242,186</u>	<u>2,594,925</u>	<u>2,594,925</u>

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

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

**Short-term financial instruments**

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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.

**28. Geographic Segment Information**

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

<i>(Thousands of bolivars)</i>	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Gross financial margin</b>		
Venezuela	2,239,402	1,471,385
United States of America	408,009	417,377
Other	<u>28,353</u>	<u>24,160</u>
Total	<u>2,675,764</u>	<u>1,912,922</u>
<b>Net financial margin, commissions and other income</b>		
Venezuela	3,034,822	2,328,275
United States of America	318,994	440,865
Other	<u>60,578</u>	<u>37,983</u>
Total	<u>3,414,394</u>	<u>2,807,123</u>
<b>Income before tax and minority interests</b>		
Venezuela	1,140,565	812,224
United States of America	(16,094)	142,444
Other	<u>20,257</u>	<u>8,584</u>
Total	<u>1,144,728</u>	<u>963,252</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
<b>Assets</b>				
Venezuela	32,669,208	70	25,940,104	66
United States of America	12,971,686	27	12,057,236	31
Other	<u>1,188,983</u>	<u>3</u>	<u>1,052,212</u>	<u>3</u>
Total	<u>46,829,877</u>	<u>100</u>	<u>39,049,552</u>	<u>100</u>
<b>Liabilities</b>				
Venezuela	30,100,771	71	23,994,518	67
United States of America	11,654,773	27	10,796,926	30
Other	<u>985,293</u>	<u>2</u>	<u>850,494</u>	<u>3</u>
Total	<u>42,740,837</u>	<u>100</u>	<u>35,641,938</u>	<u>100</u>

**29. Financial Information by Subsidiary**

Below is a summary of the financial information by subsidiary at December 31, 2008. This information includes the effect of eliminations normally made during consolidation:

<i>(Thousands of bolivars)</i>	<b>Mercantil, C.A. Banco Universal</b>	<b>Mercantil Commercebank Holding Co. (2)</b>	<b>Holding Mercantil Internacional (1)</b>	<b>Mercantil Seguros</b>	<b>Mercantil Merinvest</b>	<b>Mercantil Inversiones y Valores and others</b>	<b>Consolidated total</b>
Total assets	30,989,279	12,863,327	954,812	1,507,569	245,884	269,006	46,829,877
Investment portfolio	7,450,114	5,644,892	394,275	967,249	78,801	36,325	14,571,656
Loan portfolio, net	15,189,654	6,526,175	503,286	-	-	-	22,219,115
Deposits	25,305,662	10,052,043	853,662	-	-	-	36,211,367
Gross income before taxes	860,161	(31,372)	2,562	160,534	38,822	113,393	1,144,100
Net income	752,013	(58,020)	2,548	131,419	38,230	92,797	958,987
Number of employees	7,704	889	51	1,409	50	77	10,180

(1) Holding Company of Mercantil Bank Curacao, N.V. and its subsidiary Mercantil Bank (Panamá), S.A., and Mercantil Bank (Schweiz) AG and its subsidiary BMC Bank & Trust Limited.

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

**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.

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

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

### **December 31, 2008 and 2007**

---

#### **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.

MERCANTIL reviews on a daily basis its funds provided by cash, overnight deposits, current accounts, deposit maturity, loans, 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 the Central Bank of 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 operational risk as the possibility of incurring direct or indirect losses as a result of inadequate or defective internal processes, deficient internal controls, human error, system failures or external events. The operational risk management structure established by MERCANTIL enables it to conduct internal processes for identification, assessment, quantification, follow-up and mitigation of operational risks throughout the organization. This structure also provides management with the information required to set priorities and aid the decision-making process.

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

#### **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, 2008 and 2007, trust fund assets amount to Bs 8,605,247,000 and Bs 8,006,657,000, respectively, and are shown under memorandum accounts (Note 24).

### **31. Regulatory Capital Requirements**

MERCANTIL and certain subsidiaries are subject to various regulatory minimum capital requirements imposed by their supervisors (Note 1). Failure to meet capital requirements can initiate certain actions by regulators that, if undertaken, could have a material effect on MERCANTIL's financial statements. Under capital adequacy guidelines, MERCANTIL and its subsidiaries must meet specific capital

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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, 2008</u>		<u>December 31, 2007</u>	
	<u>Current</u>	<u>Minimum</u>	<u>Current</u>	<u>Minimum</u>
	<u>%</u>	<u>requirement</u>	<u>%</u>	<u>requirement</u>
		<u>%</u>		<u>%</u>
<b>Equity to risk-weighted assets and contingent operations</b>				
Mercantil Servicios Financieros, C.A.	18.50	8	16.71	8
Mercantil, C.A. Banco Universal	15.21	12	14.01	12
Mercantil Commercebank, N.A.	16.74	8	13.59	8
<b>Tier I equity to risk-weighted assets and contingent operations</b>				
Mercantil Servicios Financieros, C.A.	16.35	4	14.39	4
Mercantil Commercebank, N.A.	15.48	4	12.52	4
<b>Equity to total assets</b>				
Mercantil, C.A. Banco Universal	9.10	8	9.63	8
Mercantil Commercebank, N.A.	8.69	4	7.67	4

**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 28,064,000, mainly due to disallowance of certain income considered nontaxable, expenses related to tax-exempt income, expenses for unpaid or late payment of withholdings, nondeductible expenses for uncollectible accounts and rejection of tax loss carryforwards. Additionally, the subsidiary Mercantil, C.A. Banco Universal was subject to assessments of approximately Bs 3,341,000 in respect of unwithheld and late payment of value added tax (VAT). MERCANTIL subsidiaries appealed alleging no grounds for disallowance and rejection. To date, the tax courts have not ruled on some of these assessments; those that went in favor of MERCANTIL subsidiaries were appealed by the National Treasury and rulings are pending.

Mercantil, C.A. Banco Universal also received additional bank debit tax assessments amounting to Bs 23,508,000 million, which were appealed. In the opinion of the Bank's legal advisors, these assessments are not well grounded in law.

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

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

#### **December 31, 2008 and 2007**

---

MERCANTIL management identified a maximum risk of Bs 25,851,000 in connection with the aforementioned assessments based on inadmissibility of monetary restatement and compensatory interest; hence, a provision has been set aside to cover this amount (Note 15).

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

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

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

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 liquidator fees, was calculated at Bs 3,462,000 to be managed under a fiduciary agreement.

In September 2006, a MERCANTIL subsidiary was informed of 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 payment. Although MERCANTIL's legal advisors appealed this decision, in June 2007 DIAN requested official settlement of the tax review, through which the 2005 income tax return was modified involving a higher income tax payment of approximately Ps 33 billion (Bs 37 million) and a penalty of approximately Ps 53 billion (Bs 59 million). This decision was appealed again in August 2007 and in July 2008 DIAN issued a resolution stating that the application of the tax assessment was inadmissible since no income tax payments were omitted.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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

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

<i>(Thousands of bolivars)</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and due from banks	15,908	6,543
Investment portfolio		
Mercantil, C.A. Banco Universal	2,608,390	2,118,482
Mercantil Commercebank Holding Co.	925,013	782,525
Inversiones y Valores Mercantil VI, C.A.	261,130	216,795
Holding Mercantil Internacional	201,664	176,072
Mercantil Merinvest, C.A.	95,646	74,672
Mercantil Inversiones y Valores, C.A.	82,814	33,205
Cestaticket Accor Services, C.A.	62,337	35,481
Other	96,018	444,527
Property and equipment	26,560	29,398
Other assets	<u>39,698</u>	<u>71,122</u>
Total assets	<u>4,415,178</u>	<u>3,988,822</u>
<b>Liabilities</b>		
Debenture bonds and commercial paper	191,374	394,968
Other liabilities	<u>134,764</u>	<u>186,240</u>
Total liabilities	326,138	581,208
<b>Shareholders' equity</b>		
Total liabilities and shareholders' equity	<u>4,089,040</u>	<u>3,407,614</u>
<b>Income</b>		
Interest income	15,440	23,470
Equity in subsidiaries, affiliates and other entities	1,170,765	916,787
<b>Expenses</b>		
Operating	(159,628)	(89,988)
Interest	<u>(67,590)</u>	<u>(66,936)</u>
Net income	<u>958,987</u>	<u>783,333</u>

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

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

Below are the consolidated financial statements of Mercantil Servicios Financieros, C.A. and its subsidiaries, expressed in constant bolivars at December 31, 2008:

**Supplementary Consolidated Balance Sheet**  
**December 31, 2008 and 2007**

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

	<b>2008</b>	<b>2007 (•)</b>
<b>Assets</b>		
<b>Cash and due from banks</b>		
Cash	692,405	556,608
Central Bank of Venezuela (BCV)	6,112,488	6,876,456
Venezuelan banks and other financial institutions	31,819	5,590
Foreign banks and other financial institutions	559,096	145,864
Pending cash items	343,301	499,389
Provision for cash and due from banks	<u>(8)</u>	<u>(415)</u>
	<u>7,739,101</u>	<u>8,083,492</u>
<b>Investment portfolio</b>		
Investments in trading securities	56,581	343,448
Investments in available-for-sale securities	5,587,336	7,795,503
Investments in held-to-maturity securities	641,453	1,446,473
Share-trading portfolio	72,383	66,258
Investments in time deposits and placements	8,113,010	5,269,494
Restricted investments and repurchase agreements	<u>128,188</u>	<u>232,234</u>
	<u>14,598,951</u>	<u>15,153,410</u>
<b>Direct financial assets</b>	<u>312,012</u>	<u>428,106</u>
<b>Loan portfolio</b>		
Current	22,229,944	25,779,756
Rescheduled	49,413	32,504
Overdue	541,868	154,289
In litigation	<u>24,219</u>	<u>10,260</u>
	22,845,444	25,976,809
Allowances for losses on loan portfolio	<u>(626,329)</u>	<u>(470,145)</u>
	<u>22,219,115</u>	<u>25,506,664</u>
<b>Interest and commissions receivable</b>	<u>322,388</u>	<u>324,383</u>
<b>Long-term investments</b>	<u>98,607</u>	<u>83,321</u>
<b>Available-for-sale assets</b>	<u>25,996</u>	<u>29,626</u>
<b>Property and equipment</b>	<u>1,021,490</u>	<u>1,030,645</u>
<b>Other assets</b>	<u>1,445,996</u>	<u>1,772,033</u>
<b>Total assets</b>	<u>47,783,656</u>	<u>52,411,680</u>

(•) Amounts expressed in the new currency unit

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**Supplementary Consolidated Balance Sheet**  
**December 31, 2008 and 2007**

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

	<b>2008</b>	<b>2007 (•)</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Non-interest-bearing checking accounts	7,789,967	8,763,808
Interest-bearing checking accounts	9,642,957	10,799,985
Savings deposits	11,427,879	11,577,120
Time deposits	<u>7,350,564</u>	<u>10,126,144</u>
	<u>36,211,367</u>	<u>41,267,057</u>
<b>Debt authorized by the Venezuelan Securities and Exchange Commission</b>		
Publicly traded debt securities issued by MERCANTIL	<u>173,922</u>	<u>469,739</u>
<b>Financial liabilities</b>		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	112,502	212,720
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	-	94,965
Liabilities to foreign banks and savings and loan institutions, up to one year	2,649	85,201
Liabilities to foreign banks and savings and loan institutions, more than one year	325,443	105,623
Direct financial liabilities	1,870,860	775,970
Liabilities under repurchase agreements	776,345	899,507
Other liabilities, up to one year	61,256	151,745
Other liabilities, more than one year	<u>2,904</u>	<u>4,601</u>
	<u>3,151,959</u>	<u>2,330,332</u>
<b>Interest and commissions payable</b>	<u>37,751</u>	<u>63,008</u>
<b>Other liabilities</b>	<u>2,919,035</u>	<u>2,561,135</u>
<b>Subordinated debt</b>	<u>244,656</u>	<u>322,691</u>
<b>Total liabilities</b>	<u>42,738,690</u>	<u>47,013,962</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>3,237</u>	<u>5,960</u>
<b>Shareholders' equity</b>		
Capital stock	155,976	156,479
Capital inflation adjustment	1,401,737	1,401,847
Share premium	566,924	567,418
Capital reserves	893,587	893,587
Translation adjustment of net assets of subsidiaries abroad	(686,227)	(360,124)
Retained earnings	2,928,418	2,854,807
Repurchased shares held by subsidiaries	(18,733)	(30,078)
Repurchased shares reserved for employee stock option plan	(32,139)	(37,912)
Unrealized loss from adjustment of investments to market value	<u>(167,814)</u>	<u>(54,266)</u>
<b>Total shareholders' equity</b>	<u>5,041,729</u>	<u>5,391,758</u>
<b>Total liabilities and shareholders' equity</b>	<u>47,783,656</u>	<u>52,411,680</u>

(•) Amounts expressed in the new currency unit

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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

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

	<b>2008</b>	<b>2007 (•)</b>
<b>Interest income</b>		
Income from cash and due from banks	37,662	18,360
Income from investment portfolio	1,057,691	1,167,304
Income from loan portfolio	3,747,821	3,230,629
Income from financial assets	<u>35,557</u>	<u>43,845</u>
Total interest income	<u>4,878,731</u>	<u>4,460,138</u>
<b>Interest expense</b>		
Interest on demand and savings deposits	(1,180,814)	(775,043)
Interest on time deposits	(480,022)	(568,000)
Interest on securities issued by MERCANTIL	(174,255)	(129,327)
Interest on financial liabilities	<u>(170,188)</u>	<u>(187,956)</u>
Total interest expense	<u>(2,005,279)</u>	<u>(1,660,326)</u>
<b>Gross financial margin</b>	<u>2,873,452</u>	<u>2,799,812</u>
Allowance for losses on loan portfolio	<u>(510,944)</u>	<u>(188,411)</u>
<b>Net financial margin</b>	<u>2,362,508</u>	<u>2,611,401</u>
<b>Commissions and other income</b>		
Trust fund operations	47,795	60,098
Foreign currency operations	3,798	5,246
Commissions on customer account transactions	204,470	268,949
Commissions on letters of credit and guarantees granted	34,813	47,731
Equity in long-term investments	59,279	46,397
Exchange loss	(9,541)	(3,180)
Gain on sale of investment securities	248,083	251,006
Other income	<u>848,018</u>	<u>777,438</u>
Total commissions and other income	<u>1,436,715</u>	<u>1,453,685</u>
<b>Insurance premiums, net of claims</b>		
Premiums	1,863,707	1,537,777
Claims	<u>(1,559,032)</u>	<u>(1,281,542)</u>
Total insurance premiums, net of claims	<u>304,675</u>	<u>256,235</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(1,292,119)	(1,327,808)
Depreciation, property and equipment expenses, amortization of intangibles and other	(453,277)	(426,497)
Fees paid to regulatory agencies	(162,767)	(167,088)
Other operating expenses	<u>(1,190,096)</u>	<u>(1,150,661)</u>
Total operating expenses	<u>(3,098,259)</u>	<u>(3,072,054)</u>
<b>Loss from net monetary position</b>	<u>(574,097)</u>	<u>(438,322)</u>
Operating income before tax and minority interests	<u>431,542</u>	<u>810,945</u>
<b>Income tax</b>		
Current	(215,369)	(276,037)
Deferred	<u>7,068</u>	<u>26,657</u>
Total tax	<u>(208,301)</u>	<u>(249,380)</u>
Net income before minority interests	223,241	561,565
<b>Minority interests</b>	<u>(103)</u>	<u>(361)</u>
Net income	<u>223,138</u>	<u>561,204</u>

(•) Amounts expressed in the new currency unit

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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

<i>(Thousands of constant bolivars at December 31, 2008)</i>	Capital stock	Capital inflation adjustment	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad	Retained earnings	Repurchased shares held by subsidiaries	Repurchased shares reserved for employee stock option plan	Unrealized loss from adjustment of investments to market value	Total shareholders' equity
<b>Balances at December 31, 2006 (*)</b>	107,717	1,376,396	329,159	893,587	(111,532)	2,532,960	(36,926)	(64,651)	(19,302)	5,007,408
Net income	-	-	-	-	-	561,204	-	-	-	561,204
Repurchased shares	-	-	-	-	-	-	(39,893)	-	-	(39,893)
Repurchased shares reserved for employee stock option plan	-	-	25,739	-	-	-	-	26,739	-	52,478
Capital increase	6,750	3,211	212,520	-	-	-	-	-	-	222,481
Minimum dividend payable	-	-	-	-	-	(31,809)	-	-	-	(31,809)
Stock dividends	42,780	22,485	-	-	-	(65,265)	-	-	-	-
Cash dividends	-	-	-	-	-	(106,809)	-	-	-	(106,809)
Unrealized loss on available-for-sale investments	-	-	-	-	-	-	-	-	(34,964)	(34,964)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(248,592)	-	-	-	-	(248,592)
Redemption of repurchased shares	(768)	(245)	-	-	-	(35,849)	36,862	-	-	-
Sale of shares held by subsidiaries	-	-	-	-	-	375	9,879	-	-	10,254
<b>Balances at December 31, 2007 (*)</b>	156,479	1,401,847	567,418	893,587	(360,124)	2,854,807	(30,078)	(37,912)	(54,266)	5,391,758
Net income	-	-	-	-	-	223,138	-	-	-	223,138
Repurchased shares	-	-	-	-	-	-	(5,043)	-	-	(5,043)
Repurchased shares reserved for employee stock option plan	-	-	(494)	-	-	-	-	5,773	-	5,279
Cash dividends	-	-	-	-	-	(104,876)	-	-	-	(104,876)
Unrealized loss on available-for-sale investments	-	-	-	-	-	-	-	-	(113,548)	(113,548)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(326,103)	-	-	-	-	(326,103)
Minimum dividends payable	-	-	-	-	-	(28,876)	-	-	-	(28,876)
Redemption of repurchased shares	(503)	(110)	-	-	-	(15,775)	16,388	-	-	-
<b>Balances at December 31, 2008</b>	<u>155,976</u>	<u>1,401,737</u>	<u>566,924</u>	<u>893,587</u>	<u>(686,227)</u>	<u>2,928,418</u>	<u>(18,733)</u>	<u>(32,139)</u>	<u>(167,814)</u>	<u>5,041,729</u>

(\*) Amounts expressed in the new currency unit

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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

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

	<b>2008</b>	<b>2007 (•)</b>
<b>Cash flows from operating activities</b>		
Net income	223,138	561,204
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	270,945	231,545
Allowance for losses on loan portfolio	510,944	188,411
Decrease in allowance for losses on loan portfolio	(2,287)	7,612
Provision for available-for-sale assets	27,773	626
Provision for interest receivable and other assets	19,195	15,860
Gain on equity in long-term investments	(59,279)	46,397
Deferred income tax	(7,800)	(26,657)
Minority interests	103	361
Accrual for employee termination benefits	125,041	119,351
Payment of employee termination benefits	(123,377)	(119,736)
Net change in operating assets and liabilities		
Interest and commissions receivable	1,995	(23,666)
Interest and commissions payable	(25,258)	3,034
Available-for-sale and other assets	291,351	(514,131)
Other liabilities	<u>314,428</u>	<u>(101,086)</u>
Net cash provided by operating activities	<u>1,566,912</u>	<u>389,125</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	1,468,136	2,082,984
Loans granted	(91,765,755)	(31,627,498)
Loans collected	94,544,646	29,475,559
Additions to property and equipment, net	<u>(146,550)</u>	<u>(192,583)</u>
Net cash provided by (used in) investing activities	<u>4,100,477</u>	<u>(261,538)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	(5,055,690)	487,112
Short-term financial liabilities	1,021,292	(495,794)
Debt securities issued by MERCANTIL	(295,817)	51,249
Subordinated debt	(78,035)	(110,594)
New long-term financial liabilities	344,808	(18,654)
Long-term financial liabilities repaid	(562,828)	(81,244)
Capital increase	-	9,961
Cash dividends	(76,409)	(121,058)
Repurchased shares	(5,043)	(39,893)
Repurchased shares reserved for employee stock option plan	5,773	26,739
Share premium	(494)	238,259
Sale of shares held by subsidiaries	<u>-</u>	<u>10,254</u>
Net cash used in financing activities	<u>(4,702,443)</u>	<u>(43,663)</u>
<b>Cash and cash equivalents</b>		
Net increase for the year	964,946	83,924
At the beginning of the year	<u>13,206,433</u>	<u>13,122,509</u>
At the end of the year	<u>14,171,379</u>	<u>13,206,433</u>
<b>Supplementary information</b>		
Taxes paid	<u>568,720</u>	<u>26,144</u>
Interest paid	<u>1,860,348</u>	<u>607,567</u>
Translation adjustment of net assets of subsidiaries abroad	<u>(326,103)</u>	<u>(248,592)</u>
Unrealized loss from adjustment of investments to market value	<u>(113,548)</u>	<u>(34,964)</u>

(•) Amounts expressed in the new currency unit

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

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

### **December 31, 2008 and 2007**

---

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

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

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

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

CPI indices and inflation rates for the years ended December 31, 2008 and 2007, according to information published by BCV, are as follows:

<b>Years ended</b>	<b>CPI base for 2007=100</b>	<b>Inflation rate</b>
December 2007	100	22.46
December 2008	129.71	29.71

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

Monetary assets and liabilities at December 31, 2008, including amounts in foreign currency are, by their nature, shown in terms of purchasing power at that date. For comparative purposes, monetary assets and liabilities at December 31, 2007 have been restated to express them in terms of purchasing power at December 31, 2008.

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.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

---

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

<i>(Thousands of constant bolivars at December 31, 2008)</i>	<b>Years ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Net monetary asset position at the beginning of the year	<u>3,588,351</u>	<u>3,360,712</u>
<b>Transactions that increased net monetary position</b>		
Net change in subsidiaries and affiliates	-	10,254
Net change in available-for-sale assets	-	2,335
Net change in other liabilities	7,656	7,112
Deferred income tax	7,068	26,657
Shares purchased by employees, net	5,773	26,739
Capital increase	-	9,961
Share premium	-	238,259
Income	<u>6,620,121</u>	<u>6,170,059</u>
Subtotal	<u>6,640,618</u>	<u>6,491,376</u>
<b>Transactions that decreased net monetary position</b>		
Repurchased shares	(5,043)	(39,893)
Net change in available-for-sale assets	(1,741)	-
Translation adjustment of subsidiaries abroad	(326,103)	(248,592)
Unrealized net loss	(113,548)	(34,964)
Net change in securities	(32,559)	(21,457)
Cash dividends	(104,883)	(106,809)
Minimum dividend payable	(28,876)	(31,809)
Net change in property and equipment	(54,450)	(180,044)
Net change in subsidiaries and affiliates	(15,820)	(8,719)
Net change in other assets	(20,610)	(180,301)
Share premium	(494)	-
Expenses	<u>(5,583,326)</u>	<u>(4,972,827)</u>
Subtotal	<u>(6,287,453)</u>	<u>(5,825,415)</u>
Estimated net monetary asset position	3,941,516	4,026,673
Historic net monetary asset position	<u>3,367,419</u>	<u>3,588,351</u>
Loss from net monetary position	<u>574,097</u>	<u>438,322</u>

**Nonmonetary assets**

Property and equipment is recorded in constant currency at December 31, 2008, 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, time deposits and restricted investments.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**

**Shareholders' equity**

All equity accounts are shown in constant currency at December 31, 2008. Dividends are stated in constant currency based on the date they were 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.

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

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

**a) Property and equipment**

<i>(Thousands of constant bolivars at December 31, 2008)</i>	Cost						Balances at December 31, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Buildings and facilities	1,085,772	131,795	(8,668)	-	(13,096)	(17,730)	1,178,073
Furniture and equipment	852,835	99,931	(1,640)	(511)	(6,968)	(16,526)	927,121
Vehicles	10,358	2,241	(514)	(460)	(192)	(41)	11,392
Land	58,264	28	-	-	-	(2,599)	55,693
Construction in progress	149,364	67,887	(8,361)	-	(152,432)	(10,617)	45,841
Other assets	<u>91,729</u>	<u>52,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,555)</u>	<u>138,772</u>
Total	<u>2,248,322</u>	<u>354,480</u>	<u>(19,183)</u>	<u>(971)</u>	<u>(172,688)</u>	<u>(53,068)</u>	<u>2,356,892</u>

<i>(Thousands of constant bolivars at December 31, 2008)</i>	Accumulated depreciation						Balances at December 31, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Buildings and facilities	(556,867)	(54,805)	1,135	-	20,122	4,368	(586,047)
Furniture and equipment	(651,143)	(98,327)	1,344	511	4,249	11,727	(731,639)
Vehicles	(6,364)	(2,033)	347	460	1,349	27	(6,214)
Other assets	<u>(3,303)</u>	<u>(8,279)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80</u>	<u>(11,502)</u>
Total	<u>(1,217,677)</u>	<u>(163,444)</u>	<u>2,826</u>	<u>971</u>	<u>25,720</u>	<u>16,202</u>	<u>(1,335,402)</u>

At December 31, 2008, property and equipment, including buildings, facilities and land amounting to Bs 647,721,000, has an estimated market value of Bs 669,877,000, calculated by independent appraisers in December 2005.

