

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

**Report of Independent Accountants  
and Consolidated Financial Statements  
December 31, 2009 and 2008**

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Index to the consolidated financial statements**  
**December 31, 2009 and 2008**

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**Report of Independent Accountants**

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

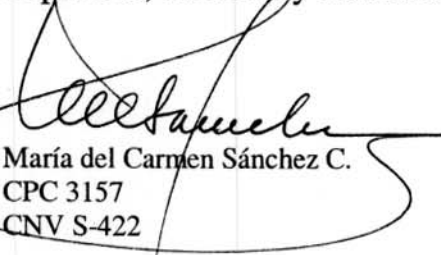
We have audited the consolidated balance sheets of Mercantil Servicios Financieros, C.A. (MERCANTIL) and its subsidiaries at December 31, 2009 and 2008, and the related consolidated income statements, statements of changes in equity and cash flow statements for the years then ended. The preparation of these financial statements and their notes is the responsibility of Mercantil Servicios Financieros, C.A. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 (VEN-NIF).

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, 2009 and 2008, 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 25, 2010

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated balance sheet**  
**December 31, 2009 and 2008**

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
<b>Cash and due from banks</b> (Note 3)		
Cash	801,598	692,405
Central Bank of Venezuela (BCV)	7,673,511	6,112,488
Venezuelan banks and other financial institutions	36,820	31,819
Foreign banks and other financial institutions	557,517	559,096
Pending cash items	410,612	343,301
Provision for cash and due from banks	<u>-</u>	<u>(8)</u>
	<u>9,480,058</u>	<u>7,739,101</u>
<b>Investment portfolio</b> (Note 4)		
Investments in trading securities	71,772	56,581
Investments in available-for-sale securities	10,136,710	5,587,336
Investments in held-to-maturity securities	456,373	641,453
Share trading portfolio	19,971	45,088
Investments in time deposits and placements	2,029,133	8,113,010
Restricted investments and repurchase agreements	<u>1,330,133</u>	<u>128,188</u>
	<u>14,044,092</u>	<u>14,571,656</u>
<b>Direct financial assets</b> (Note 5)	<u>293,880</u>	<u>312,012</u>
<b>Loan portfolio</b> (Note 6)		
Current	27,017,149	22,229,944
Rescheduled	87,870	49,413
Overdue	854,373	541,868
In litigation	<u>71,056</u>	<u>24,219</u>
	28,030,448	22,845,444
Allowance for losses on loan portfolio	<u>(892,725)</u>	<u>(626,329)</u>
	<u>27,137,723</u>	<u>22,219,115</u>
<b>Interest and commissions receivable</b> (Note 7)	<u>301,846</u>	<u>322,388</u>
<b>Long-term investments</b> (Note 8)	<u>153,336</u>	<u>92,556</u>
<b>Available-for-sale assets</b> (Note 9)	<u>51,453</u>	<u>25,243</u>
<b>Property and equipment</b> (Note 10)	<u>490,039</u>	<u>514,814</u>
<b>Other assets</b> (Note 11)	<u>1,122,383</u>	<u>1,032,992</u>
<b>Total assets</b>	<u>53,074,810</u>	<u>46,829,877</u>
<b>Memorandum accounts</b> (Note 24)	<u>74,195,950</u>	<u>55,674,051</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated balance sheet**  
**December 31, 2009 and 2008**

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Deposits (Note 12)		
Non-interest bearing checking accounts	10,398,275	7,789,967
Interest-bearing checking accounts	12,232,187	9,642,957
Savings deposits	13,902,051	11,427,879
Time deposits	<u>6,315,191</u>	<u>7,350,564</u>
	<u>42,847,704</u>	<u>36,211,367</u>
<b>Debt authorized by the Venezuelan Securities and Exchange Commission</b> (Note 13)		
Publicly traded debt securities issued by MERCANTIL	<u>312,394</u>	<u>173,922</u>
<b>Financial liabilities</b> (Note 14)		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	120,319	112,502
Liabilities to foreign banks and savings and loan institutions, up to one year	456	2,649
Liabilities to foreign banks and savings and loan institutions, more than one year	432,673	325,443
Direct financial liabilities	364,146	1,870,860
Liabilities under repurchase agreements	722,730	776,345
Other liabilities, up to one year	22,999	61,256
Other liabilities, more than one year	<u>2,137</u>	<u>2,904</u>
	<u>1,665,460</u>	<u>3,151,959</u>
<b>Interest and commissions payable</b>	<u>27,138</u>	<u>37,751</u>
<b>Other liabilities</b> (Note 15)	<u>3,094,804</u>	<u>2,918,561</u>
<b>Subordinated debt</b> (Note 16)	<u>244,656</u>	<u>244,656</u>
<b>Total liabilities</b>	<u>48,192,156</u>	<u>42,738,216</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>2,844</u>	<u>2,621</u>
<b>Equity</b> (Note 21)		
Capital stock	155,976	155,976
Capital inflation adjustment	191,709	191,709
Share premium	203,894	201,279
Capital reserves	166,715	166,715
Translation adjustment of net assets of subsidiaries abroad	280,144	279,497
Retained earnings	3,922,188	3,273,354
Repurchased shares held by subsidiaries	(29,319)	(16,515)
Repurchased shares reserved for employee stock option plan	(37,820)	(32,472)
Unrealized gain (loss) from adjustment of investments to market value	<u>26,323</u>	<u>(130,503)</u>
<b>Total equity</b>	<u>4,879,810</u>	<u>4,089,040</u>
<b>Total liabilities and equity</b>	<u>53,074,810</u>	<u>46,829,877</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated income statement**  
**Years ended December 31, 2009 and 2008**

(Thousands of bolivars,  
except net income per share)

	2009	2008
<b>Interest income</b> (Note 2)		
Income from cash and due from banks	11,179	33,787
Income from investment portfolio (Note 4)	1,099,090	957,586
Income from loan portfolio (Note 6)	3,488,723	3,450,762
Income from financial assets	<u>42,019</u>	<u>31,951</u>
Total interest income	<u>4,641,011</u>	<u>4,474,086</u>
<b>Interest expense</b> (Note 2)		
Interest on demand and savings deposits	(1,305,262)	(1,059,657)
Interest on time deposits	(226,191)	(428,639)
Interest on securities issued by MERCANTIL (Note 13)	(124,809)	(153,584)
Interest on financial liabilities	<u>(170,204)</u>	<u>(156,442)</u>
Total interest expense	<u>(1,826,466)</u>	<u>(1,798,322)</u>
<b>Gross financial margin</b>	2,814,545	2,675,764
Allowance for losses on loan portfolio (Notes 2 and 6)	(759,658)	(473,188)
Expenses from write-down of available-for-sale investments (Note 2-c)	<u>(34,993)</u>	<u>-</u>
<b>Net financial margin</b>	<u>2,019,894</u>	<u>2,202,576</u>
<b>Commissions and other income</b>		
Trust fund operations	48,265	42,673
Foreign currency operations (Note 23)	2,106	3,067
Commissions on customer account transactions	230,693	183,740
Commissions on letters of credit and guarantees granted	19,138	31,113
Equity in long-term investments (Note 8)	64,774	66,478
Exchange gain (loss) (Note 23)	2,350	(8,890)
Gain on sale of investment securities (Note 4)	198,947	258,919
Other income (Note 19)	<u>814,311</u>	<u>634,718</u>
Total commissions and other income	<u>1,380,584</u>	<u>1,211,818</u>
<b>Insurance premiums, net of claims</b> (Note 2-1)		
Premiums	2,278,612	1,666,930
Claims	<u>(1,952,257)</u>	<u>(1,391,018)</u>
Total insurance premiums, net of claims	<u>326,355</u>	<u>275,912</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(1,370,994)	(1,155,761)
Depreciation, property and equipment expenses, amortization of intangibles and other (Notes 10 and 11)	(357,952)	(293,118)
Fees paid to regulatory agencies	(192,011)	(144,533)
Other operating expenses (Note 20)	<u>(912,805)</u>	<u>(952,166)</u>
Total operating expenses	<u>(2,833,762)</u>	<u>(2,545,578)</u>
Operating income before tax and minority interests	<u>893,071</u>	<u>1,144,728</u>
<b>Income tax</b> (Note 17)		
Current	(96,890)	(192,181)
Deferred	<u>-</u>	<u>7,068</u>
Total tax	<u>(96,890)</u>	<u>(185,113)</u>
Net income before minority interests	796,181	959,615
<b>Minority interests</b>	<u>(489)</u>	<u>(628)</u>
Net income	<u><u>795,692</u></u>	<u><u>958,987</u></u>
<b>Net income per share</b> (Note 22)		
Basic	7,95	9,53
Diluted	7,95	9,53
Weighted average of outstanding common shares	100,117,194	100,607,594
Weighted average of outstanding diluted common shares	100,117,194	100,633,278

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated statement of changes in equity**  
**Years ended December 31, 2009 and 2008**

<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 equity
<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 investments	-	-	-	-	-	-	-	-	(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>	155,976	191,709	201,279	166,715	279,497	3,273,354	(16,515)	(32,472)	(130,503)	4,089,040
Net income	-	-	-	-	-	795,692	-	-	-	795,692
Repurchased shares	-	-	-	-	-	-	(12,804)	-	-	(12,804)
Repurchased shares reserved for employee stock option plan	-	-	2,615	-	-	-	-	(5,348)	-	(2,733)
Cash dividends (Note 21)	-	-	-	-	-	(109,271)	-	-	-	(109,271)
Unrealized gain on investments	-	-	-	-	-	-	-	-	156,826	156,826
Translation adjustment of net assets of subsidiaries abroad (Note 21)	-	-	-	-	647	-	-	-	-	647
Minimum dividend payable (Note 2)	-	-	-	-	-	(37,587)	-	-	-	(37,587)
<b>Balances at December 31, 2009</b>	<u>155,976</u>	<u>191,709</u>	<u>203,894</u>	<u>166,715</u>	<u>280,144</u>	<u>3,922,188</u>	<u>(29,319)</u>	<u>(37,820)</u>	<u>26,323</u>	<u>4,879,810</u>

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated cash flow statement**  
**Years ended December 31, 2009 and 2008**

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net income	795,692	958,987
Adjustments to reconcile net income to net cash provided by operating activities		
Allowance for losses on loan portfolio	759,658	473,188
Depreciation and amortization	146,118	129,924
Decrease in allowance for losses on loan portfolio	(7,699)	(2,123)
Provision for interest receivable and other assets	7,391	16,726
Gain on equity in long-term investments	(64,774)	(66,478)
Minority interest expenses	489	628
Deferred income tax	-	(7,068)
Amortization of available-for-sale assets	35,801	25,510
Accrual for employee termination benefits	161,354	109,958
Payment of employee termination benefits	(161,219)	(106,905)
Net change in operating assets and liabilities		
Interest and commissions receivable	20,542	(76,449)
Interest and commissions payable	(10,613)	(10,020)
Available-for-sale and other assets	(200,939)	(74,671)
Other liabilities	<u>211,072</u>	<u>936,111</u>
Net cash provided by operating activities	<u>1,692,872</u>	<u>2,307,318</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	(3,723,434)	(656,858)
Loans granted	(70,947,916)	(91,889,146)
Loans collected	65,277,349	88,537,459
Additions to property and equipment, net	<u>(61,064)</u>	<u>(168,581)</u>
Net cash used in investing activities	<u>(9,455,065)</u>	<u>(4,177,126)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	6,636,337	4,923,754
Short-term financial liabilities	(1,539,347)	1,283,317
Debt securities issued by MERCANTIL	138,472	(182,222)
New long-term financial liabilities	(5,343)	654,951
Long-term financial liabilities repaid	58,192	(553,106)
Cash dividends	(182,088)	(79,551)
Share premium	2,615	(389)
Repurchased shares	(12,804)	(14,997)
Repurchased shares held for employee stock option plan	<u>(5,348)</u>	<u>(3,345)</u>
Net cash provided by financing activities	<u>5,090,686</u>	<u>6,028,412</u>
<b>Cash and cash equivalents</b>		
Net (decrease) increase for the year	(2,671,507)	4,158,604
At the beginning of the year	<u>14,171,379</u>	<u>10,012,775</u>
At the end of the year	<u>11,499,872</u>	<u>14,171,379</u>
<b>Supplementary information</b>		
Taxes paid	<u>183,032</u>	<u>131,712</u>
Interest paid	<u>1,666,874</u>	<u>1,651,900</u>
Translation adjustment of net assets of subsidiaries abroad	<u>647</u>	<u>5,825</u>
Unrealized gain (loss) from adjustment of investments to market value	<u>156,826</u>	<u>(142,671)</u>

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

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

## **Notes to the consolidated financial statements**

### **December 31, 2009 and 2008**

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#### **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.

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 Islands) (domiciled in Grand Cayman, B.W.I.); and Mercantil Inversiones y Valores, C.A.

The financial statements of MERCANTIL at December 31, 2009 and 2008 were approved by the Board of Directors on January 12, 2010 and 2009, 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).

The General Bank Law was amended in December 2009 to require authorization from the Superintendency of Banks for purchasing bank stock, either directly or indirectly, to modify the percentage of total customer deposits that commercial and universal banks must contribute to the deposit guarantee fund (FOGADE), and to increase the deposit guarantee to Bs 30,000 per depositor. In January 2010, FOGADE contributions were fixed at 0.75% of total customer deposits at prior six-month end. This fee will be 0.5% for the first six-month period of 2010 (0.25% until December 31, 2009).

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

## **Notes to the consolidated financial statements**

### **December 31, 2009 and 2008**

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Regulations require the subsidiary Mercantil, C.A. Banco Universal to earmark a minimum nominal percentage of 47% of its gross loan portfolio at December 31, 2009 and 2008 to finance loans for agriculture, mortgages, manufacturing, small businesses and tourism.

Deposit and lending rates are regulated by BCV. BCV sets maximum and minimum interest rates for deposits and credit operations based on reference rates. In this regard, the annual interest rate for lending operations may not exceed 24% (26% from April 1 to June 4, 2009 and 28% at December 31, 2008) and 29% for credit card operations (31% from April 1 to June 4, 2009 and 33% at December 31, 2008). 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, 2009 and 2008 are as follows: agriculture 13%, microcredits 24% (28% at December 31, 2008), tourism 15% to 16% (16% to 17% at December 31, 2008), mortgage 4.66% to 14.39% (10.11% at December 31, 2008), and manufacturing 19% (Note 5). As from October 2008, annual interest rates for savings deposits may not fall below 12.5% calculated on daily balances (14% from April 1 to June 4, 2009 and 15% at December 31, 2008). Annual interest rates on time deposits may not fall below 14.5% (16% from April 1 to June 4, 2009 and 17% at December 31, 2008).

**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 Bank (Panamá) S.A.**

This bank, incorporated and domiciled in accordance with the laws of Panama, is supervised by the Superintendency of Banks of Panama.

**e) 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.

**f) 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.

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

## **Notes to the consolidated financial statements**

### **December 31, 2009 and 2008**

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## **2. Accounting principles in use**

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 and the valuation of balances and transactions in foreign currency, 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 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**

VEN NIF 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, 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 the 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 presenting 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 instruments**

In accordance with CNV rules, contracted amounts in transactions with derivative 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 equity statement, rather than in the results for the period 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 and, in the case of the subsidiary Mercantil, C.A., Banco Universal, a global risk percentage for loans not assessed individually, and a general provision of 1% over loan balances at month end, except for microcredits, which are subject to a general provision of 2%. VEN NIF require the allowance for losses on the loan portfolio to be determined based on asset recoverability, considering the fair value of guarantees, and do not provide for a general provision, which would have to be accounted for as a reduction of retained earnings in the statement of changes in equity.

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**4) Rescheduled loans**

For the subsidiary Mercantil, C.A. Banco Universal, the Accounting Manual establishes that loans whose original repayment schedule, term or other conditions have been modified by the creditor at the request of the debtor must be reclassified within rescheduled loans. VEN NIF provide no specific guidance; however, they do state that impairment losses on financial assets carried at amortized cost shall be recognized in the results for the period in which they are incurred.

**5) Overdue and in-litigation loans**

Loans classified as overdue must be written off within 24 months after inclusion in this category. Loans in litigation must be fully provided for after 24 months in the in-litigation category. In addition, overdue monthly loan installments that have been repaid must be reclassified to the category to which they pertained before being classified as overdue. Likewise, when an individual repays pending loan installments of a loan in litigation, thereby terminating the lawsuit, the loan must be reclassified to the category to which it pertained before being classified as in litigation or overdue. Under VEN NIF, these loans are recorded based on collectibility.

**6) 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.

**7) 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.

**8) 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.

**9) Deferred income tax**

MERCANTIL computes a deferred 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 tax asset exceeds tax expense for the period is not recognized. In accordance with VEN NIF, a deferred 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.

**10) 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 are being 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.

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**11) 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 income statement.

**12) Investments in trading and available-for-sale securities**

Trading and available-for-sale securities may remain in these categories for a maximum and minimum of 90 days, respectively, as from the date they were classified in the respective category. Under VEN NIF, they may remain in these categories indefinitely.

**13) 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.

**14) Permanent losses on 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 allow any recovery of impairment previously expensed to be recorded as income.

**15) Foreign currency**

Foreign currency balances at December 31, 2009 are shown at the current official exchange rate of Bs 2.1446/US\$1, Bs 0.001/Ps1 and Bs 2.072/CHF1 (Bs 2.1446/US\$1, Bs 0.001/Ps1 and Bs 2.003/CHF1 at December 31, 2008), as established in the current Exchange Agreements described in Note 23. Exchange gains and losses are included in the consolidated income statement, 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 equity.

VEN NIF establish that net monetary liability positions in foreign currency which are not reasonably expected to be settled with foreign currency purchased from the Venezuelan government at the official exchange rate shall be measured on the basis of best estimates of future cash flows in bolivars expected to be required to settle these liabilities at the transaction or balance sheet date, using the exchange or settlement mechanisms permitted under Venezuelan law.

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

**a) Consolidation**

The consolidated financial statements include the accounts of 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

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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 reported amounts of assets and liabilities, the amounts of gains and losses recorded during the period, 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 known 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. Unrealized gains or losses resulting from fluctuations in fair values are included in the results for the period.

***Available-for-sale securities***

Available-for-sale debt securities are recorded at fair value. Unrealized gains or losses arising from differences in market values are included in equity as an unrealized gain or loss on adjustment of investments to market value 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 equity and will be amortized during the investment's remaining life as an adjustment to yield.

***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.

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***Impairment testing***

MERCANTIL assesses at each balance sheet date, or sooner if circumstances require it, whether there is objective evidence that a financial asset 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. Indicators of impairment are: 1) a prolonged period where fair value remains substantially below cost, 2) the financial condition and liquidity of the issuer, 3) a fall in the issuer's credit rating, 4) the disappearance of an active market for the security, and 5) MERCANTIL's inability to hold the investment long enough to allow for recovery of fair value. For the years ended December 31, 2009 and 2008, MERCANTIL has not identified impairments considered other than temporary in the value of its investments.

***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 period.

**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.

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**g) Property and equipment**

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 amount may not be recoverable. 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. Assets to be disposed of by sale are shown at the lower of book and fair value.

Assets received in lieu of 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 conformity with VEN NIF, these assets must be recorded at the lower of cost and market value and are classified as property and equipment or available-for-sale assets depending on their use.

**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 income accounts.

MERCANTIL assesses the collectibility of items within 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 setup, office improvement and software. 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 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**

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.

**l) Reserves for insurance operations**

The reserve for unearned premiums represents the unmatured 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.

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

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. During 2009 and 2008, Mercantil Commercebank, N.A. contributed Bs 4,289,000 and Bs 4,933,000, respectively, to the plan.

***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 period 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.

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***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 consolidated 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) 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 (Note 27).

**r) 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.

**s) Cash equivalents**

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

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**t) 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.

**u) Memorandum accounts**

MERCANTIL records under memorandum accounts assets received in trust, which are valued using the same parameters as for its own assets, commercial paper and debenture bonds that have been authorized for issue by the CNV, lines of credit and special trust services (Note 24).

**v) 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 period. The translation adjustment is recorded in equity (Note 23).

**w) Segment reporting**

A business segment is an identifiable component of a company, with specific products or services, which is subject to risks and returns that are different from those of other business segments (Note 28).

**3. Cash and due from banks**

The main banking subsidiaries must maintain minimum balances of cash and due from banks in local and foreign 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>2009</b>	<b>2008</b>
Demand deposits	1,125,785	89,738
Legal reserve in local currency	6,544,359	6,012,934
Legal reserve in U.S. dollars	<u>3,367</u>	<u>9,816</u>
	<u><b>7,673,511</b></u>	<u><b>6,112,488</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. Marginal increases in deposits as from July 2006 were subject to a legal reserve of 30% until January 30, 2009, when the rate was changed to 27%. As of March 2009, marginal increases in deposits were subject to a legal reserve of 25% until November 2009, when the rate was changed to 23%. Legal reserve funds do not earn interest for MERCANTIL.

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**4. Investment portfolio**

The investment portfolio comprises the following:

<i>(Thousands of bolivars)</i>	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Cost</b>	<b>Book value (equivalent to market value)</b>	<b>Cost</b>	<b>Book value (equivalent to market value)</b>
<b>Investments in trading securities</b>				
Investments in securities issued by Venezuelan entities				
Securities issued or guaranteed by the Bolivarian Republic of Venezuela in foreign currency	<u>809</u>	<u>809</u>	<u>-</u>	<u>-</u>
Investments in securities issued by entities in the United States of America				
Debt in companies sponsored and supervised by the government of the United States of America	-	-	35,935	35,935
Securities issued by the National Treasury of the United States of America	<u>42,727</u>	<u>42,727</u>	<u>-</u>	<u>-</u>
Other investments	<u>28,210</u>	<u>28,210</u>	<u>20,624</u>	<u>20,624</u>
	<u>70,937</u>	<u>70,937</u>	<u>56,559</u>	<u>56,559</u>
Investment insecurities issued by foreign entities				
Other investments	<u>26</u>	<u>26</u>	<u>22</u>	<u>22</u>
	<u>71,772</u>	<u>71,772</u>	<u>56,581</u>	<u>56,581</u>

<i>(Thousands of bolivars)</i>	<b>December 31, 2009</b>				<b>December 31, 2008</b>			
	<b>Cost</b>	<b>Unrealized gain</b>	<b>Unrealized loss</b>	<b>Book value (equivalent to market value)</b>	<b>Cost</b>	<b>Unrealized gain</b>	<b>Unrealized loss</b>	<b>Book value (equivalent to market value)</b>
<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)	<u>3,301,508</u>	<u>39,782</u>	<u>(43,603)</u>	<u>3,297,687</u>	<u>1,054,877</u>	<u>11,219</u>	<u>(20,289)</u>	<u>1,045,807</u>
In foreign currency	<u>447,285</u>	<u>44,849</u>	<u>(51,495)</u>	<u>440,639</u>	<u>420,895</u>	<u>943</u>	<u>(156,807)</u>	<u>265,031</u>
	<u>3,748,793</u>	<u>84,631</u>	<u>(95,098)</u>	<u>3,738,326</u>	<u>1,475,772</u>	<u>12,162</u>	<u>(177,096)</u>	<u>1,310,838</u>
Other investments								
In local currency	<u>542,897</u>	<u>2,377</u>	<u>(5,241)</u>	<u>540,033</u>	<u>150,321</u>	<u>2,788</u>	<u>(5,697)</u>	<u>147,412</u>
In foreign currency	<u>3,226</u>	<u>296</u>	<u>(133)</u>	<u>3,389</u>	<u>1,692</u>	<u>251</u>	<u>(138)</u>	<u>1,805</u>
	<u>546,123</u>	<u>2,673</u>	<u>(5,374)</u>	<u>543,422</u>	<u>152,013</u>	<u>3,039</u>	<u>(5,835)</u>	<u>149,217</u>
	<u>4,294,916</u>	<u>87,304</u>	<u>(100,472)</u>	<u>4,281,748</u>	<u>1,627,785</u>	<u>15,201</u>	<u>(182,931)</u>	<u>1,460,055</u>
Investments in securities issued by entities in the United States of America								
Securities issued or guaranteed by the government of the United States of America (2)	<u>2,985,502</u>	<u>31,025</u>	<u>(14,468)</u>	<u>3,002,059</u>	<u>2,723,286</u>	<u>33,025</u>	<u>(18,057)</u>	<u>2,738,254</u>
Debt in companies sponsored and supervised by the government of the United States of America (3)	<u>2,175,125</u>	<u>32,381</u>	<u>(6,670)</u>	<u>2,200,836</u>	<u>906,900</u>	<u>7,168</u>	<u>(5,372)</u>	<u>908,696</u>
Securities issued by the National Treasury of the United States of America	<u>187,547</u>	<u>827</u>	<u>(15,331)</u>	<u>173,043</u>	<u>152,224</u>	<u>1,115</u>	<u>(35)</u>	<u>153,304</u>
Other investments	<u>90,338</u>	<u>237</u>	<u>(82)</u>	<u>90,493</u>	<u>269,508</u>	<u>1,589</u>	<u>(12,533)</u>	<u>258,564</u>
	<u>5,438,512</u>	<u>64,470</u>	<u>(36,551)</u>	<u>5,466,431</u>	<u>4,051,918</u>	<u>42,897</u>	<u>(35,997)</u>	<u>4,058,818</u>
Investments in other countries	<u>388,024</u>	<u>2,800</u>	<u>(2,293)</u>	<u>388,531</u>	<u>71,927</u>	<u>104</u>	<u>(3,568)</u>	<u>68,463</u>
	<u>10,121,452</u>	<u>154,574</u>	<u>(139,316)</u>	<u>10,136,710</u>	<u>5,751,630</u>	<u>58,202</u>	<u>(222,496)</u>	<u>5,587,336</u>

- (1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$163,548 at December 31, 2009 payable in bolivars at the official exchange rate (Note 23).
- (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 and Federal Home Loan Bank.

The available-for-sale securities portfolio includes Petrobonos 2011, which are traded on the national and international markets. At December 31, 2009, these securities are valued based on the national

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market value, which represents the estimated cash flows in bolivars expected to be received at the realization date, based on their intended use.

At December 31, 2009, investments in available-for-sale securities with a market value of US\$1,057 million were pledged to guarantee deposits and investments sold under repurchase agreements (US\$1,141 million at December 31, 2008).

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

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Type of portfolio</b>		
Investments in available-for-sale securities	15,258	(164,294)
Investments in held-to-maturity securities reclassified to investments in available-for-sale securities	(4,325)	(6,827)
Share trading portfolio	14,439	14,550
Restricted investments	1,156	26,023
Affiliates shown under the equity method	(220)	(138)
Net increase from adjustment of spot contracts to market value	<u>15</u>	<u>183</u>
	<u>26,323</u>	<u>(130,503)</u>

At December 31, 2009, the market value of securities of the Bolivarian Republic of Venezuela owned by MERCANTIL and its subsidiaries is lower than cost by Bs 95,098,000. This loss is included in 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 high volatility of international oil prices which, in the opinion of management, do not significantly affect payment capabilities of the issuer. Therefore, this difference has not been recognized in the consolidated income statement. In addition, MERCANTIL has the ability to hold these securities for a sufficient period of time to recover unrealized losses. At February 25, 2010, the cost of these securities exceeds its market value by Bs 82,894,000.

In addition to securities of the Bolivarian Republic of Venezuela, at December 31, 2009, MERCANTIL has other securities with values lower than cost by Bs 44,218,000. MERCANTIL believes that these losses arise from normal stock market fluctuations and, consequently, are temporary. Management does not expect to realize these securities at a price below their book value.

<i>(Thousands of bolivars)</i>	<u>December 31, 2009</u>			<u>December 31, 2008</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)	317,867	8,060	325,927	385,318	(12,527)	372,791
Other investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,755</u>	<u>(193)</u>	<u>158,562</u>
	<u>317,867</u>	<u>8,060</u>	<u>325,927</u>	<u>544,073</u>	<u>(12,720)</u>	<u>531,353</u>
Investments in securities issued by entities in the United States of America in U.S. dollars						
Debt in companies sponsored and supervised by the government of the United States of America (2)	-	-	-	19,967	-	19,967
Other investments	<u>23,323</u>	<u>104</u>	<u>23,427</u>	<u>71,349</u>	<u>-</u>	<u>71,349</u>
	<u>23,323</u>	<u>104</u>	<u>23,427</u>	<u>91,316</u>	<u>-</u>	<u>91,316</u>
Investments in other countries	<u>115,183</u>	<u>1,007</u>	<u>116,190</u>	<u>6,064</u>	<u>-</u>	<u>6,064</u>
	<u>456,373</u>	<u>9,171</u>	<u>465,544</u>	<u>641,453</u>	<u>(12,720)</u>	<u>628,733</u>

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

## Notes to the consolidated financial statements

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- (1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$76,642 at December 31, 2009 payable in bolivars at the official exchange rate (Note 23).
- (2) Includes shares of the Federal National Mortgage Association.

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 equity under unrealized gain (loss) from adjustment of investments to market value. This transfer was approved by the Superintendency of Banks.

During the year ended December 31, 2009, the subsidiary Mercantil Commercebank N.A., transferred held-to-maturity investments at their amortized cost of Bs 101,654,000 (equivalent to US\$47.4 million) to the available-for-sale securities portfolio, resulting in an unrealized loss of Bs 7,077,000 (equivalent to US\$3.3 million), which is included under unrealized gain (loss) from adjustment of investments to market value.

	December 31, 2009				December 31, 2008			
	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>Share trading portfolio</b>								
Shares issued by Venezuelan companies	5,522	15,497	(1,058)	19,961	8,169	13,323	(505)	20,987
Shares issued by foreign companies	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>22,369</u>	<u>1,732</u>	<u>-</u>	<u>24,101</u>
	<u>5,532</u>	<u>15,497</u>	<u>(1,058)</u>	<u>19,971</u>	<u>30,538</u>	<u>15,055</u>	<u>(505)</u>	<u>45,088</u>

During the year ended December 31, 2009, the subsidiary Mercantil, C.A. Banco Universal recorded a gain of US\$267,919, equivalent to Bs 575,000, on the sale of 1,930 Class "B" MasterCard shares (US\$6,456,674, equivalent to Bs 13,847,000 in 2008), 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. In July 2009, these shares were sold to a third party at a gain of US\$16,558,000, equivalent to Bs 35,510,000, included under gain on sale of investment securities.

	December 31, 2009		December 31, 2008	
	Cost	Market value	Cost	Market value
<i>(Thousands of bolivars)</i>				
<b>Investments in time deposits and placements</b>				
Investments in securities issued by Venezuelan entities				
Time deposits				
with the Central Bank of Venezuela (BCV)	1,831,000	1,831,000	6,030,000	6,030,000
with financial institutions	69,000	69,000	262,458	262,458
Overnight deposits	<u>3,000</u>	<u>3,000</u>	<u>7,000</u>	<u>7,000</u>
	<u>1,903,000</u>	<u>1,903,000</u>	<u>6,299,458</u>	<u>6,299,458</u>
Investments in securities issued by financial institutions in the United States of America				
Time deposits				
Overnight deposits	51,899	51,899	7,399	7,399
	<u>518</u>	<u>518</u>	<u>1,612,634</u>	<u>1,612,634</u>
	<u>52,417</u>	<u>52,417</u>	<u>1,620,033</u>	<u>1,620,033</u>
Investments in securities issued by foreign entities				
	<u>73,716</u>	<u>73,716</u>	<u>193,519</u>	<u>193,519</u>
	<u>2,029,133</u>	<u>2,029,133</u>	<u>8,113,010</u>	<u>8,113,010</u>

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Time deposits and placements include investments for Bs 2,019,814,000, maturing within 90 days (Bs 6,432,278,000 at December 31, 2008).

<i>(Thousands of bolivars)</i>	<u>December 31, 2009</u>		<u>December 31, 2008</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	1,288,093	1,288,156	52,748	52,666
In foreign currency	<u>33</u>	<u>33</u>	<u>-</u>	<u>-</u>
	<u>1,288,126</u>	<u>1,288,189</u>	<u>52,748</u>	<u>52,666</u>
Securities issued or guaranteed by the government of the United States of America				
	<u>38,703</u>	<u>39,796</u>	<u>46,063</u>	<u>72,168</u>
Investments in other countries				
	<u>2,148</u>	<u>2,148</u>	<u>3,354</u>	<u>3,354</u>
	<u>1,328,977</u>	<u>1,330,133</u>	<u>102,165</u>	<u>128,188</u>

At December 31, 2009, restricted investments include securities of the Coral Gables agency of the subsidiary Mercantil, C.A. Banco Universal with a market value of US\$13,919,000 (US\$3,332,000 at December 31, 2008), pledged to regulatory entities in compliance with state requirements in the United States of America.

Below is a classification of investments by maturity at December 31, 2009:

<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 %	Cost	Amortized cost	Yield % (1)
<b>In bolivars</b>						
Less than 1 year	1,466,686	1,472,882	9.02	165,793	158,462	9.59
From 1 to 5 years	2,113,850	2,077,669	12.06	-	-	-
Over 5 years	289,974	311,627	8.45	158,353	159,406	6.69
<b>In U.S. dollars</b>						
Less than 1 year	100,255	101,501	5.04	21,976	21,910	1.38
From 1 to 5 years	741,247	772,246	4.60	106,596	105,832	2.55
Over 5 years	<u>5,409,440</u>	<u>5,400,785</u>	5.09	<u>10,383</u>	<u>10,763</u>	8.44
	<u>10,121,452</u>	<u>10,136,710</u>		<u>463,101</u>	<u>456,373</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, 2009, MERCANTIL recorded an expense of Bs 34,993,000 in the consolidated income statement, under expenses from write-down of available-for-sale investments, mainly due to the difference between the cost represented by the national market value at purchase date and the international market value of securities denominated in foreign currency acquired in October 2009.

During the year ended December 31, 2009, a net gain of Bs 168,077,000 (Bs 123,952,000 during the year ended December 31, 2008) was recorded on the sale of securities, included under gain on sale of investment securities.

During the year ended December 31, 2009, 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

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Bs 30,870,000 (Bs 134,967,000 during the year ended December 31, 2008) 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, 2009, MERCANTIL has investment securities issued or guaranteed by the Venezuelan government and investment securities with BCV, which represent 29.43% and 21.77%, respectively, of its investment securities portfolio (13.06% and 41.41%, respectively, at December 31, 2008). Furthermore, MERCANTIL has investments in bonds issued by the government and other government agencies of the United States of America representing 39.64% of its investment portfolio (26.60% at December 31, 2008).

**5. Direct financial assets**

At December 31, 2009, 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 293,880,000, with a par value of Bs 294,818,000 and yields between 8.24% and 12.97% (with a par value of Bs 316,044,000 and yields between 10.46% and 14.72% at December 31, 2008) and maturities as follows:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
Up to 30 days	282,750	236,582
31 to 60 days	11,130	60,546
61 to 90 days	<u>-</u>	<u>14,884</u>
	<u><b>293,880</b></u>	<u><b>312,012</b></u>

**6. Loan portfolio**

The loan portfolio is classified as follows:

<i>(Thousands of bolivars)</i>	<u>December 31, 2009</u>						<u>December 31, 2008</u>	
	<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	9,186,282	56,924	189,030	51,128	9,483,364	34	7,305,966	32
Credit cards	3,218,927	-	1,855	-	3,220,782	12	1,935,488	8
Agriculture	2,851,614	26,556	59,632	1,789	2,939,591	11	2,366,611	10
Construction	1,973,647	-	390,257	-	2,363,904	8	2,973,971	13
Industrial	2,327,474	70	11,168	303	2,339,015	8	1,399,286	6
Foreign trade	2,249,346	-	31,570	-	2,280,916	8	1,571,144	7
Home purchase	2,030,094	2,228	26,066	9,299	2,067,687	7	1,398,129	6
Car loans	1,203,199	-	16,167	-	1,219,366	4	1,772,979	8
Services	797,989	-	2,462	325	800,776	3	605,535	3
Other	<u>1,178,577</u>	<u>2,092</u>	<u>126,166</u>	<u>8,212</u>	<u>1,315,047</u>	<u>5</u>	<u>1,516,335</u>	<u>7</u>
	<u><b>27,017,149</b></u>	<u><b>87,870</b></u>	<u><b>854,373</b></u>	<u><b>71,056</b></u>	<u><b>28,030,448</b></u>	<u><b>100</b></u>	<u><b>22,845,444</b></u>	<u><b>100</b></u>

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

<i>(Thousands of bolivars)</i>	<b>December 31, 2009</b>	<b>%</b>	<b>December 31, 2008</b>	<b>%</b>
<b>Geographic location</b>				
Venezuela	21,045,321	76	15,765,191	69
United States of America	4,388,635	16	4,867,925	21
Brazil	590,209	2	370,025	2
Mexico	255,722	1	402,287	2
Peru	270,223	1	332,991	1
Colombia	126,614	-	166,234	1
Switzerland	65,425	-	393,712	2
Panama	46,565	-	84,050	-
Other countries	<u>1,241,734</u>	<u>4</u>	<u>463,029</u>	<u>2</u>
	<u>28,030,448</u>	<u>100</u>	<u>22,845,444</u>	<u>100</u>

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

<i>(Thousands of bolivars)</i>	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Balance at the beginning of the year	626,329	356,452
Provided in the year	759,658	473,188
Effect of translating allowances in foreign currency	(854)	(306)
Decrease in allowance (Note 19)	(7,699)	(2,123)
Write-off of uncollectible loans	(481,409)	(200,073)
Transfers to other reserves	<u>(3,300)</u>	<u>(809)</u>
Balance at the end of the year	<u>892,725</u>	<u>626,329</u>

At December 31, 2009, the loan portfolio no longer earning interest amounts to Bs 1,083,096,000 and includes US\$415,788,000 (Bs 566,087,000 including US\$224,400,000 at December 31, 2008).

During the year ended December 31, 2009, interest accrued but not recorded as income on loans overdue and in-litigation amounts to Bs 457,121,000 and includes US\$24.1 million (Bs 193,732,000 including US\$9.4 million during the year ended December 31, 2008). Interest on the loan portfolio for the year ended December 31, 2009 includes Bs 399,717,000 (Bs 128,651,000 for the year ended December 31, 2008) for interest collected on loans overdue and in-litigation deferred in previous years.

During the year ended December 31, 2009, uncollectible loans written off in previous years for Bs 100,465,000 (Bs 41,008,000 during the year ended December 31, 2008) are included in the consolidated income statement 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, 2009 and 2008, MERCANTIL does not have significant risk concentrations in its consolidated loan portfolio.

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**7. Interest and commissions receivable**

Interest and commissions receivable at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Interest on</b>		
Loan portfolio	215,910	197,868
Investment securities	<u>74,344</u>	<u>113,450</u>
	290,254	311,318
Commissions receivable	26,899	23,257
Provision for contingent losses	<u>(15,307)</u>	<u>(12,187)</u>
	<u>301,846</u>	<u>322,388</u>

**8. Long-term investments**

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

	Par value	December 31, 2009			December 31, 2008		
		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	74,630	2,580,000	43.00	62,337
Inversiones Platco, C.A.	100.00	30,000	50.00	48,676	30,000	50.00	3,510
Todo 1 Services, Inc.	2.14 (1)	26,187	47.72	21,498	26,187	47.04	21,765
Proyectos Conexus, C.A.	0.10	343,334	33.33	3,123	343,334	33.33	2,313
Other				<u>5,409</u>			<u>2,631</u>
				<u>153,336</u>			<u>92,556</u>

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

During the year ended December 31, 2009, MERCANTIL recorded income from equity participation of Bs 64,774,000 (Bs 66,478,000 at December 31, 2008), which includes a gain of Bs 70,137,000 from Cestaticket Accor Services, C.A., a loss of Bs 6,026,000 from Inversiones Platco, C.A and a loss of Bs 266,000 from Todo 1 Services, Inc. (income from equity participation of Bs 59,028,000 from Cestaticket Accor Services, C.A. and Bs 7,223,000 from Todo 1 Services, Inc. during the year ended December 31, 2008). In addition, dividends of Bs 57,844,000 were received from Cestaticket Accor Services, C.A. (Bs 32,173,000 during the year ended December 31, 2008).

During the year ended December 31, 2009, the subsidiary Mercantil, C.A. Banco Universal made capital contributions to its affiliate Inversiones Platco, C.A. of Bs 13,303,000 in cash and Bs 37,889,000 by assigning points of sale (POS) at their estimated market value, and recorded deferred income of Bs 21,922,000 in respect of the difference between the book value and the estimated market value of the POS (Notes 10 and 15).

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**9. Available-for-sale assets**

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

<i>(Thousands of bolivars)</i>	<b>Balances at December 31, 2008</b>	<b>Additions</b>	<b>Withdrawals</b>	<b>Sales</b>	<b>Other</b>	<b>Balances at December 31, 2009</b>
Real property received as payment	41,738	65,249	(19,578)	(20,368)	-	67,041
Idle assets	337	36,379	(4,808)	-	56	31,964
Other available-for-sale assets	6,941	20,747	-	(20,653)	-	7,035
Accumulated amortization	<u>(23,773)</u>	<u>(35,799)</u>	<u>822</u>	<u>4,219</u>	<u>(56)</u>	<u>(54,587)</u>
	<u>25,243</u>	<u>86,576</u>	<u>(23,564)</u>	<u>(36,802)</u>	<u>-</u>	<u>51,453</u>

During the year ended December 31, 2009, MERCANTIL recorded amortization expense of available-for-sale assets of Bs 35,799,000 (Bs 25,510,000 during the year ended December 31, 2008). Fully-amortized personal and real property are shown under memorandum accounts (Note 2).

During 2009, MERCANTIL sold assets received as payment and idle assets at a gain of Bs 12,046,000 and a loss of Bs 1,772,000 (gain of Bs 8,490,000 and loss of Bs 311,000 during the year ended December 31, 2008), shown in the consolidated income statement under other income and other expenses, respectively (Notes 19 and 20).

During the year ended December 31, 2009, the subsidiary Mercantil, C.A. Banco Universal reclassified Bs 31,326,000 to idle assets, of which Bs 13,455,000 is in respect of office furniture and constructions made in offices to be used by MERCANTIL at the Sambil La Candelaria shopping mall (Note 11).

**10. Property and equipment**

Property and equipment comprises the following:

<i>(Thousands of bolivars)</i>	<b>Balances at December 31, 2008</b>	<b>Additions</b>	<b>Withdrawals</b>	<b>Cost Fully- depreciated assets written off</b>	<b>Other</b>	<b>Loss in value</b>	<b>Translation adjustment</b>	<b>Balances at December 31, 2009</b>
Office furniture and equipment	405,518	68,048	(3,249)	(26,742)	(42,419)	-	79	401,235
Buildings and facilities	356,717	35,681	-	-	(7,690)	-	-	384,708
Vehicles	6,773	2,649	(341)	(82)	-	-	3	9,002
Land	17,142	1,655	(585)	-	-	-	-	18,212
Construction in progress	34,844	81,422	(62,712)	-	(23,280)	-	-	30,274
Other property	<u>90,806</u>	<u>1,359</u>	<u>(23,028)</u>	<u>-</u>	<u>(4,701)</u>	<u>(8,497)</u>	<u>4</u>	<u>55,943</u>
Total	<u>911,800</u>	<u>190,814</u>	<u>(89,915)</u>	<u>(26,824)</u>	<u>(78,090)</u>	<u>(8,497)</u>	<u>86</u>	<u>899,374</u>

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<i>(Thousands of bolivars)</i>	<b>Accumulated depreciation</b>						<b>Balances at December 31, 2009</b>
	<b>Balances at December 31, 2008</b>	<b>Additions</b>	<b>Withdrawals</b>	<b>Fully-depreciated assets written off</b>	<b>Other</b>	<b>Translation adjustment</b>	
Buildings and facilities	(122,809)	(15,699)	-	-	3,638	-	(134,870)
Office furniture and equipment	(262,311)	(54,020)	1,017	26,742	26,306	(76)	(262,342)
Vehicles	(3,102)	(1,394)	233	82	-	(3)	(4,184)
Other property	<u>(8,764)</u>	<u>(6,115)</u>	<u>6,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,940)</u>
Total	<u>(396,986)</u>	<u>(77,228)</u>	<u>8,189</u>	<u>26,824</u>	<u>29,944</u>	<u>(79)</u>	<u>(409,336)</u>

At December 31, 2009, property and equipment includes Bs 41,428,000 related to a corporate airplane (Bs 72,953,000 at December 31, 2008 related to two corporate airplanes). During the year ended December 31, 2009, MERCANTIL sold a corporate airplane at market value of Bs 16,085,000 (US\$7,500,000) to a third party. In addition, at December 31, 2009, depreciation, property and equipment expenses, amortization of intangibles and other includes Bs 8,497,000 from the impairment in the market value of the airplane sold. During the year ended December 31, 2009, MERCANTIL recorded depreciation expense of Bs 6,131,000 (Bs 6,635,000 during the year ended December 31, 2008).

During the year ended December 31, 2009, MERCANTIL recorded depreciation expense of Bs 77,342,000 (Bs 80,023,000 during the year ended December 31, 2008), shown in the consolidated income statement under operating expenses.

At December 31, 2009, buildings, facilities and land carried at Bs 268,050,000 have an estimated market value of Bs 1,915,853,000 based on valuations performed by independent appraisers in April and June 2009.

At December 31, 2009 and 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:

	<b>Useful life (Years)</b>	<b>Remaining useful life (Years)</b>
Buildings and facilities	40	23
Office furniture and equipment	4-10	3
Other property	10	8

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**11. Other assets**

Other assets at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
Insurance premiums receivable	325,135	240,625
Deferred expenses, net of accumulated amortization of Bs 132,318,000 (Bs 102,618,000 at December 31, 2008)	149,797	138,669
Goodwill	119,164	129,048
Prepaid expenses	97,259	46,022
Prepaid taxes, insurance and other prepaid expenses	58,672	96,946
Guarantee deposits to reinsurers	48,857	32,099
Deferred income tax (Note 17)	39,951	57,827
Sambil La Candelaria shopping mall rights (Note 9)	39,191	39,191
Systems development, net of accumulated amortization of Bs 118,905,000 (Bs 101,085,000 at December 31, 2008)	36,664	27,935
Sale of securities in process of collection	32,742	16,869
Pending items	23,633	55,565
Guarantee deposits and advances for acquisition of personal and real property (Note 10)	16,568	13,182
Accounts receivable from other credit card institutions	6,509	7,949
Currency redenomination expenses (Note 2)	4,811	7,970
Prepaid advertising	4,507	14,979
Adjustment of spot and forward contracts to market value (Note 24)	4,087	(14,052)
Cross Currency Swap valuation (Notes 15 and 24)	380	75
Other	<u>144,339</u>	<u>143,273</u>
	1,152,266	1,054,172
Provision for estimated losses on other assets	<u>(29,883)</u>	<u>(21,180)</u>
	<u><u>1,122,383</u></u>	<u><u>1,032,992</u></u>

In 2000, 2001 and 2006, MERCANTIL acquired a majority shareholding in a commercial bank in Venezuela (Interbank, C.A.), an insurance company (C.A. Seguros Orinoco) and a bank in Florida, U.S.A. (Florida Savings Bank), which gave rise to goodwill of Bs 131,222,000, Bs 19,602,000 and Bs 41,162,000, respectively. These three companies were later merged with 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, 2009 and 2008, MERCANTIL has recorded Bs 932,167, including US\$273,541, in connection with this settlement.

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Below is the movement of goodwill:

<i>(Thousands of bolivars)</i>	<u>Cost</u>	
	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Interbank, C.A.	131,222	131,222
Florida Savings Bank	41,162	41,162
C.A. Seguros Orinoco	19,602	19,602
Mercantil Seguros, C.A.	3,989	3,989
Todo 1 Service Inc.	<u>3,291</u>	<u>3,291</u>
	<u>199,266</u>	<u>199,266</u>

<i>(Thousands of bolivars)</i>	<u>Accumulated amortization</u>		
	<u>December 31, 2008</u>	<u>Additions</u>	<u>December 31, 2009</u>
Interbank, C.A.	52,488	6,564	59,052
Florida Savings Bank	5,317	2,058	7,375
C.A. Seguros Orinoco	7,426	1,062	8,488
Mercantil Seguros, C.A.	1,696	200	1,896
Todo 1 Service Inc.	<u>3,291</u>	<u>-</u>	<u>3,291</u>
	<u>70,218</u>	<u>9,884</u>	<u>80,102</u>

The balance of deferred expenses mainly includes expenses for office setup, leasehold improvements and projects to be capitalized, which include technology upgrades, 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, 2009, MERCANTIL's consolidated financial statements include Bs 49 million (Bs 52 million at December 31, 2008) for the aforementioned rights, as well as idle assets. In January 2010, the Venezuelan National Assembly declared this property of public utility and social interest, and urged the Capital District government to proceed with its expropriation, which was effected on February 24, 2010. To date, the expropriation terms are unknown. Based on an independent appraisal conducted in February 2010, the fair value of these assets is considered to exceed their book value.

The balance of pending items mainly comprises operations that, due to their nature, cannot be immediately imputed to a definitive account, as well as operations conducted in the normal course of business during the last days of the month that are being identified and have not yet been definitively recorded. Most of these operations clear during the first few days of the following month. Deposits with these same characteristics are included under other liabilities (Note 15).

During the year ended December 31, 2009, MERCANTIL recorded amortization expense of Bs 60,279,000 (Bs 49,901,000 during the year ended December 31, 2008), in this connection, shown in the consolidated income statement under depreciation, property and equipment expenses, amortization of intangibles and other.

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**12. Deposits**

Deposits comprise the following:

**Type of deposit**

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Non-interest-bearing checking accounts	10,398,275	24	7,789,967	22
Interest-bearing checking accounts	12,232,187	29	9,642,957	27
Savings accounts	13,902,051	32	11,427,879	32
Time deposits	<u>6,315,191</u>	<u>15</u>	<u>7,350,564</u>	<u>19</u>
	<u>42,847,704</u>	<u>100</u>	<u>36,211,367</u>	<u>100</u>

**Time deposits by maturity**

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Up to 30 days	1,234,489	20	2,609,120	35
31 to 60 days	648,503	10	839,390	11
61 to 90 days	393,998	6	704,242	10
91 to 180 days	567,304	9	760,849	10
181 to 360 days	466,460	7	540,058	7
Over 360 days	<u>3,004,437</u>	<u>48</u>	<u>1,896,905</u>	<u>27</u>
	<u>6,315,191</u>	<u>100</u>	<u>7,350,564</u>	<u>100</u>

Deposits bear interest at the rates shown below:

	<u>December 31, 2009</u>				<u>December 31, 2008</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>	
	<u>Minimum rate</u>	<u>Maximum rate</u>	<u>Minimum rate</u>	<u>Maximum rate</u>	<u>Minimum rate</u>	<u>Maximum rate</u>	<u>Minimum rate</u>	<u>Maximum rate</u>
	<u>%</u>		<u>%</u>		<u>%</u>		<u>%</u>	
Interest-bearing checking accounts	0.50	3.00	0.03	1.20	0.50	8.00	0.05	2.50
Savings deposits	12.50	12.50	0.03	2.00	15.00	15.00	0.10	2.90
Time deposits	14.50	17.00	0.10	6.10	11.00	17.00	0.10	6.10

At December 31, 2009, deposits include Bs 957,342,000 (Bs 969,436,000 at December 31, 2008) from the Venezuelan government and other government entities, equivalent to 2.2% of total deposits (2.7% at December 31, 2008).

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

At December 31, 2009, MERCANTIL has issued by public offering debenture bonds and commercial paper with the following characteristics:

**a) Debenture bonds**

<i>(Thousands of bolivars)</i>	<b>Amount issued and placed (Note 24)</b>	<b>Date of issue</b>	<b>Term (Years)</b>	<b>Percentage of return compared to TAM (•) %</b>
Issue 2007-I	20,000	May 2007	4	72.5
Issue 2007-II	36,009	October 2007 and March 2008	2.5	76-87
Issue 2008-I	80,000	February, March and April 2009	1-1.5 and 2	80-83-85
Issue 2009-I	<u>60,000</u>	August and September 2009	1 and 1.6	80-83
	196,009			
Bonds acquired by subsidiaries	<u>(13,615)</u>			
	<u>182,394</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 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.

**b) Commercial paper**

<i>(Thousands of bolivars)</i>	<b>Amount issued</b>	<b>Pending issue (Note 24)</b>	<b>Amount placed</b>	<b>Date of issue</b>	<b>Term (days)</b>	<b>Discount %</b>
<b>Issue 2008-II</b>						
Series VI	20,000	-	20,000	September 2009	120	10.00
Series VII	40,000	-	40,000	November 2009	77	9.00
Series VIII	<u>40,000</u>	-	<u>40,000</u>	December 2009	55	8.50
	<u>100,000</u>	-	<u>100,000</u>			
<b>Issue 2009-I</b>						
Series IV	30,000	-	30,000	December 2009	90	9.25
Pending issue	<u>70,000</u>	<u>70,000</u>	-			
	<u>100,000</u>	<u>70,000</u>	<u>30,000</u>			
	<u>200,000</u>	<u>70,000</u>	<u>130,000</u>			

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**14. Financial liabilities**

Financial liabilities are classified by type and maturity as follows:

<i>(Thousands of bolivars)</i>	<u>December 31, 2009</u>			<u>December 31, 2008</u>		
	<u>Up to one year</u>	<u>More than one year</u>	<u>Total</u>	<u>Up to one year</u>	<u>More than one year</u>	<u>Total</u>
<b>Liabilities with Venezuelan banks and savings and loan institutions</b>						
Credit balances with correspondent banks	120,309	-	120,309	87,502	-	87,502
Deposits and other liabilities with BANAVIH	10	-	10	-	-	-
Loans granted by Venezuelan financial institutions, with 26% annual interest	-	-	-	25,000	-	25,000
	<u>120,319</u>	<u>-</u>	<u>120,319</u>	<u>112,502</u>	<u>-</u>	<u>112,502</u>
<b>Liabilities with foreign banks and savings and loan institutions</b>						
Federal Home Loan Bank, with a par value of US\$201,754,359, with annual interest at between 2.0% and 5.9% (US\$151,767,436, with annual interest at between 2.6% and 5.9% at December 31, 2008)	9	432,673	432,682	37	325,443	325,480
Credit balances with foreign correspondent banks	447	-	447	2,612	-	2,612
	<u>456</u>	<u>432,673</u>	<u>433,129</u>	<u>2,649</u>	<u>325,443</u>	<u>328,092</u>
<b>Direct financial liabilities</b>						
Securities loan agreements	364,146	-	364,146	1,870,860	-	1,870,860
<b>Liabilities under repurchase agreements</b>						
Liabilities under repurchase agreements with a par value of US\$337,000,000, with annual interest at between 3.85% and 5.51% (US\$362,000,000, with annual interest at between 3.66% and 5.51% at December 31, 2008)	-	722,730	722,730	-	776,345	776,345
<b>Other liabilities</b>						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	2,111	2,111	-	2,851	2,851
Liabilities in respect of letters of credit	21,892	-	21,892	60,513	-	60,513
Other	1,107	26	1,133	743	53	796
	<u>22,999</u>	<u>2,137</u>	<u>25,136</u>	<u>61,256</u>	<u>2,904</u>	<u>64,160</u>
	<u>507,920</u>	<u>1,157,540</u>	<u>1,665,460</u>	<u>2,047,267</u>	<u>1,104,692</u>	<u>3,151,959</u>

Maturities of financial liabilities are as follows:

**Up to one year**

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Up to 30 days	498,771	99	1,853,547	91
Between 31 and 60 days	6,585	1	185,665	9
Between 61 and 90 days	1,030	-	6,671	-
Between 91 and 360 days	1,534	-	1,384	-
Total	<u>507,920</u>	<u>100</u>	<u>2,047,267</u>	<u>100</u>

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**More than one year**

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
2010	-	-	350,275	32
2011	387,086	33	91,193	8
2012	122,249	12	68,634	6
2013	375,305	32	321,690	29
2014 and beyond	<u>272,900</u>	<u>23</u>	<u>272,900</u>	<u>25</u>
Total	<u>1,157,540</u>	<u>100</u>	<u>1,104,692</u>	<u>100</u>

**Direct financial liabilities**

At December 31, 2009, MERCANTIL has securities loan agreements of Bs 364,146,000 (Bs 1,870,860,000 in 2008) represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela with annual yields between 11.98% and 16.13% (14.16% and 14.72% at December 31, 2008). Of these amounts, Bs 1,014,000 relate to the subsidiary Mercantil Merinvest Casa de Bolsa, C.A.

In January 2010, the Venezuelan Securities and Exchange Commission (CNV) reformed brokerage intermediation activities to suspend securities loan transactions carried out by brokerage firms and order the unwinding of loan agreements within 90 days. At February 25, 2010, MERCANTIL has no current securities loan agreements.

**Liabilities under repurchase agreements**

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

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
Balance at year end	722,730	776,345
Fair value of financial instruments (1)	722,730	776,345
Total maximum balance outstanding at the end of any month of the year	829,960	823,526
Average balance for the year	754,899	731,103

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

	%
<b>Weighted average interest rate</b>	
For the year	
In foreign currency	4.58
Interest rate at year end	
In foreign currency	4.62

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

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**15. Other liabilities**

Other liabilities at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
Reserves for insurance operations (Note 2)	1,303,605	922,788
Cashier's checks issued to clients	320,641	444,294
Other demand liabilities	275,438	267,607
Deferred income and interest (Note 8)	171,120	106,938
Provision for contingencies and other (Notes 17 and 32)	168,808	193,784
Accrued expenses	143,487	57,565
Personnel profit sharing and bonuses	133,552	123,926
Provisions for taxes payable (Note 17)	93,158	183,953
Pending items	74,075	131,295
Accounts payable to suppliers	70,108	57,529
Taxes collected and withheld	62,098	100,777
Dividends payable	55,667	87,632
Provision for operating risks	25,285	50,287
Labor contributions	18,593	25,300
Law on Narcotic and Psychotropic Substances	14,365	8,957
Cross Currency Swap valuation (Notes 11 and 24)	7,275	6,779
Deposits or advances received for leasing and sale of premises in Sambil La Candelaria shopping mall	5,702	10,869
Supplementary Savings Plan (Note 18-a)	4,211	4,131
Law for the Advancement of Science, Technology and Innovation	-	131
Other	<u>147,616</u>	<u>134,019</u>
	<u><b>3,094,804</b></u>	<u><b>2,918,561</b></u>

At December 31, 2009, MERCANTIL maintains provisions for operating risks of Bs 25,285,000 (Bs 50,287,000 at December 31, 2008) determined on the basis of methodologies for risk management assessment, measurement and control. Provisions for contingencies and other operating risks are recorded in the consolidated income statement under other operating expenses (Note 20).

At December 31, 2009, certain MERCANTIL subsidiaries have 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. In addition, for the year ended December 31, 2009, MERCANTIL made contributions to companies included under the aforementioned Law. At December 31, 2008, a provision of Bs 131,000 is maintained in this connection.

The Law on Narcotic and Psychotropic Substances and its Regulations require MERCANTIL to earmark 1% of its annual net income subject to income tax for employee-oriented social programs for the prevention of illegal drug consumption and traffic.

Pending items mainly include commitments acquired by Mercantil Commercebank, N.A. in respect of securities transactions pending settlement at year end, which clear during the first days of January 2010 and 2009, respectively.

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**16. Subordinated debt**

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

Issue date	Maturity date	Annual interest	Original amount in millions of US\$	Balances at December 31, 2009 and 2008	
				In millions of US\$	Equivalent in thousands 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 + 1.78	15	15	<u>32,169</u>
					<u>244,656</u>

Mercantil Commercebank Holding Corporation 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,	
	2009	2008
<b>Taxes</b>		
Current		
In Venezuela	89,902	162,217
Abroad	<u>6,988</u>	<u>29,964</u>
	<u>96,890</u>	<u>192,181</u>
Deferred		
In Venezuela	-	4,022
Abroad	-	<u>3,046</u>
	-	<u>7,068</u>

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**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, 2009, the main differences between book income and taxable income arise from the net effect of the annual inflation adjustment, shareholdings, provisions and accruals, nontaxable income and the net effect of tax-exempt income from National Public Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela.

At December 31, 2009, MERCANTIL and its subsidiaries have tax loss carryforwards of Bs 541,728,000 with sources and maturities as shown below:

<i>(Thousands of bolivars)</i>	<b>Territorial</b>	<b>Extraterritorial</b>	<b>Total global</b>
Tax losses	530,140	11,588	541,728
<b>Maturities</b>			
2010	413,311	1,433	414,744
2011	84,807	6,358	91,165
2012	32,022	3,797	35,819

The aforementioned amount mainly comprises tax losses of Mercantil Servicios Financieros, C.A. (Bs 246,458,000), Mercantil Seguros, C.A. (Bs 114,629,000), Mercantil Merinvest, C.A. (Bs 67,161,000) and Mercantil Merinvest Casa de Bolsa, C.A. (Bs 26,517,000).

The subsidiary Mercantil, C.A. Banco Universal computed estimated taxable income for the year ended December 31, 2009, giving rise to an estimated tax expense of Bs 62,064,000 (Bs 107,820,000 for the year ended December 31, 2008). 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, 2009:

Statutory tax rate	<u>34%</u>
<i>(Thousands of bolivars)</i>	
Notional tax expense based on book income computed at the effective tax rate	263,272
<b>Difference between notional tax expense and actual tax expense</b>	
Net effect of shareholdings	(18,827)
Effect of the annual inflation adjustment	(221,942)
Net effect of National Public Debt Bonds exemption	(74,466)
<b>Nondeductible provisions</b>	
Loan portfolio, net	91,272
Other provisions	(12,580)
Other	<u>21,537</u>
Effect of applying tax rate to net income in Venezuela	48,266
Effect of applying tax rate to foreign-earned net income	<u>13,798</u>
Effect of applying tax rate to net income in Venezuela and foreign-earned net income	<u>62,064</u>

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**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 and to report results obtained through a special return. MERCANTIL and the subsidiaries subject to these regulations filed transfer-pricing returns for information purposes within the established time frames.

**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.

***State taxes***

Companies in the United States of America must pay taxes in the state where they operate. In 2007 MERCANTIL 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.

**b) Deferred income tax**

The deferred tax asset at December 31 comprises the following:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
Unrealized loss on valuation of investments	(11,407)	(2,363)
Provision for operating and labor expenses	28,105	35,394
Allowance for losses on loan portfolio	21,990	23,535
Property and equipment, office setup expenses and other	<u>1,263</u>	<u>1,261</u>
Deferred tax asset	<u>39,951</u>	<u>57,827</u>
Provision for deferred income tax	<u>-----</u>	<u>(24,857)</u>

At December 31, 2009, deferred income tax of Bs 14,440,000 and Bs 25,511,000 corresponds to the subsidiaries Mercantil, C.A. Banco Universal and Mercantil Commercebank Holding Corporation, respectively.

MERCANTIL assesses recoverability of deferred tax assets using a model which considers the historic financial performance, taxable income projections and the future realization of existing temporary differences, among others. This assessment is based on approved business plans, among others, and includes management judgment on assumptions used, which may vary from one year to the next. At December 31, 2009, MERCANTIL, based on its assessment, estimates that the net deferred tax asset of Bs 39,951,000 is realizable.

**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 is levied upon debits or withdrawals made from current and savings accounts, custody deposits or any other type of demand deposits, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by incorporated and unincorporated entities with Venezuelan banks and other financial institutions. Debt payments made without the mediation of financial institutions are also subject to this tax. The tax rate was set at 1.5% as from November 1, 2007 and was repealed in June 2008. Tax

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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, 2009 amount to Bs 31 million (Bs 27 million for the year ended December 31, 2008).

**b) Supplementary Defined Benefit Plan**

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

**c) Post-retirement benefits**

The Supplementary 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 income statement for the year.

For the year ended December 31, 2009, MERCANTIL and its subsidiaries recorded an expense of Bs 15 million (Bs 28 million for the year ended December 31, 2008) in connection with the Supplementary Defined Benefit Plan and post-retirement benefits.

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At December 31, 2009 and 2008, the assets, obligations and results of the Supplementary Defined Benefit Plan and post-retirement benefits, as well as the long-term assumptions used, are as follows:

	<b>Supplementary Defined Benefit Plan</b>		<b>Post-retirement benefits</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<i>(Thousands of bolivars)</i>				
<b>Variation of projected benefit obligation</b>				
Benefit obligation at the beginning of the Plan	28,514	33,644	32,594	25,673
Service cost	116	342	2,600	1,693
Interest cost	5,702	3,962	6,310	3,102
Actuarial (gain) loss	1,572	(4,796)	(12,396)	4,109
Benefits paid	(6,208)	(4,638)	(2,579)	(1,983)
Plan modification	<u>11,684</u>	<u>7,951</u>	-	-
Projected benefit obligation	<u>41,380</u>	<u>36,465</u>	<u>26,529</u>	<u>32,594</u>
<b>Variation in restricted Plan assets</b>				
Opening fair value of assets	36,465	28,232	16,035	11,456
Yield on assets	1,322	1,831	159	1,158
MERCANTIL contribution	5,000	10,200	1,500	4,260
Benefits paid	-	(4,638)	-	-
Transfer of obligations	<u>(1,407)</u>	<u>840</u>	<u>1,407</u>	<u>(840)</u>
Closing fair value of assets	<u>41,380</u>	<u>36,465</u>	<u>19,101</u>	<u>16,034</u>
<b>Financial position at year end</b>				
Present value of obligations (DBO)	(41,380)	(36,465)	(26,529)	(32,594)
Assets of external fund supporting the Plan	<u>41,380</u>	<u>36,465</u>	<u>19,101</u>	<u>16,034</u>
Excess (deficit) of assets over projected obligation	-	-	(7,428)	(16,560)
Unrecognized past service cost	-	-	6,550	7,439
Unrecognized actuarial (gain) loss	-	-	<u>(4,333)</u>	<u>8,715</u>
	<u>==</u>	<u>==</u>	<u>(5,211)</u>	<u>(406)</u>
<b>Components of net benefit cost for the year</b>				
Service cost	116	342	2,600	1,693
Interest cost	5,702	3,962	6,310	3,102
Expected yield from Plan assets	(1,322)	(1,831)	(159)	(1,158)
Amortization of unrecognized past service cost	-	-	888	888
Amortization of actuarial (gain) loss	<u>(1,572)</u>	<u>(9,824)</u>	<u>651</u>	<u>-</u>
Net benefit cost for the year	<u>2,924</u>	<u>(7,351)</u>	<u>10,290</u>	<u>4,525</u>

The following are the assumptions used to determine benefit obligations:

	<b>Supplementary Defined Benefit Plan</b>		<b>Post-retirement benefits</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	%	%	%	%
Discount rate	24.00	20.00	24.00	20.00
Salary increase	24.00	20.60	24.00	20.60
Yield on assets				
Bolivars	20.00	18.00	20.00	18.00
U.S. dollars	6.00	7.00	6.00	7.00
Increase in medical expenses	-	-	27.00	22.00

Plan costs for 2010 are estimated at Bs 4,923,000.

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**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, 2009, 168 employees are participating in this plan.

Below is a breakdown of shares included in the plan at December 31, 2009, which are deposited in the Mercantil Seguros, C.A. trust fund:

Phase	Approval date	Number of shares		Option price		End of term for exercising the option
		Class "A"	Class "B"	Class "A"	Class "B"	
IV	2004	588,469 (1)	490,252 (1)	25.00	25.00	2010
V	2007	308,825 (2)	540,834 (2)	47.65	47.65	
Available shares		<u>764,346</u>	<u>287,656</u>			
Total shares in trust fund		<u>1,661,640</u> (3)	<u>1,318,742</u> (3)			

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

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

(3) Includes stock dividends.

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

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Below is the movement of shares awarded in Phase IV:

	<u>Shares awarded</u>		
	Class "A"	Class "B"	Total
<b>Balance at December 31, 2007</b>	1,029,743	859,150	1,888,893
Options exercised	(228,767)	(192,839)	(421,606)
Options recovered	<u>(4,279)</u>	<u>(3,568)</u>	<u>(7,847)</u>
<b>Balance at December 31, 2008</b>	796,697	662,743	1,459,440
Options exercised	(204,806)	(169,637)	(374,443)
Options recovered	<u>(3,422)</u>	<u>(2,854)</u>	<u>(6,276)</u>
<b>Balance at December 31, 2009</b>	<u>588,469</u>	<u>490,252</u>	<u>1,078,721</u>

Of the options outstanding at December 31, 2009, 1,078,721 options were exercisable (1,179,236 options at December 31, 2008).

The market value of each option was 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 IV	23.45	10.33	1.4	5.61

During the year ended December 31, 2009, MERCANTIL recognized expenses of Bs 2,370,000 in the consolidated income statement in respect of the extension of the term for exercising certain options awarded in previous periods. In connection with the options awarded during the year ended December 31, 2008, MERCANTIL recognized expenses of Bs 2,402,000 in the consolidated income statement based on the market value of options at the award date.

**19. Other income**

Other income at December 31 comprises the following:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
Credit card commissions	189,084	184,438
Recovery of loans recorded as uncollectible (Note 6)	100,465	41,008
Decrease in allowances	85,820	83,012
Commissions on banking services	83,244	70,533
Income (loss) from transactions with derivative instruments (Note 24)	66,813	19,051
Interest on insurance policies financed	66,143	44,225
Commissions on administration of housing savings fund	25,559	20,906
Commission for foreign currency administration	21,016	37,763
Commissions on drafts and transfers	18,975	20,124
Income from other accounts receivable	18,523	8,675
Decrease in provision for deferred income tax (Notes 11 and 17)	14,440	-
Gain on sale of available-for-sale assets (Note 9)	12,046	8,490
Commissions on advisory services	7,748	5,292
Decrease in allowance for losses on loan portfolio (Note 6)	7,699	2,123
Cross Currency Swap valuation (Note 24)	5,498	5,858
Other	<u>91,238</u>	<u>83,220</u>
	<u>814,311</u>	<u>634,718</u>

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**20. Other operating expenses**

Other operating expenses at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
Professional fees and other external services	175,862	185,176
Taxes and contributions (Note 17)	130,842	143,815
Communications	116,120	106,799
Service commissions	93,286	83,335
Robbery, assault and fraud	58,661	53,466
Office supplies	42,217	29,139
Advertising and marketing	40,262	79,681
Provisions for other assets	44,512	45,572
Transportation and security	23,575	19,606
Provision for operating risks and other contingencies	19,915	52,024
Provision for the Law for the Advancement of Science, Technology and Innovation (Note 15)	16,545	7,881
Public relations and representation expenses	11,882	13,722
Donations	9,964	12,275
Insurance expenses	6,938	6,771
Cross Currency Swap valuation (Note 24)	1,938	6,301
Other	<u>120,286</u>	<u>106,603</u>
	<u>912,805</u>	<u>952,166</u>

**21. Equity**

**a) Capital stock and authorized capital**

At December 31, 2009 and 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, 603,207 Class "A" and 654,711 Class "B" common shares constitute treasury stock in connection with the current repurchase program of MERCANTIL shares. Outstanding shares amount to 102,725,809 shares: 59,733,553 Class "A" and 42,992,256 Class "B" common shares.

MERCANTIL's authorized capital stock at December 31, 2009 is Bs 314,493,000 (Note 24).

**b) 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 redemption term of two years after acquisition). This Law sets out that repurchased shares have no voting rights.

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The repurchase program has been implemented in 20 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	18.96	311,822
Nineteenth	March 2009	90	20.66	383,930
Twentieth	September 2009	90	19.27	<u>114,965</u>
Repurchased and unredeemed shares (1.21% of capital stock)				<u>1,257,918</u>

In October 2009, approval was given to reduce shares acquired in the sixteenth, seventeenth, eighteenth and nineteenth phases. This reduction will be recorded in January 2010.

At December 31, 2009, 80,720,693 shares for Bs 187,370,000 were redeemed. They were acquired up to the sixteenth phase of the aforementioned repurchase program and were held as treasury stock in conformity with the Capital Markets Law.

**c) Cash dividends declared**

<b>Type of dividend</b>	<b>Date of approval at Shareholders' Meeting</b>	<b>Amount per share Bs</b>	<b>Frequency or payment date</b>
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
Special	March 2009	0.40	April 2009
Ordinary	March 2009	0.14	May 2009
Special	March 2009	0.40	July 2009
Ordinary	March 2009	0.14	August 2009
Ordinary	March 2009	0.14	November 2009
Ordinary	September 2009	0.15	February 2010

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.

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

<i>(Thousands of bolivars)</i>	<b>Year ended December 31, 2009</b>
Consolidated net income	795,692
<b>Less</b> Equity in the results of subsidiaries	(886,327)
<b>Add</b> Dividends collected	<u>391,334</u>
Base income for dividend distribution	<u>300,699</u>

Retained earnings at December 31, 2009 include Bs 908,162,000 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.

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

At a Shareholders' Meeting of MERCANTIL on September 19, 2008, it was resolved to adopt a new corporate scheme aimed at improving U.S.-based Mercantil Commercebank, N.A.'s ability to access international markets. This scheme, which was previously submitted to the Venezuelan Securities and Exchange Commission and the Federal Reserve of the United States of America for consideration, contemplates establishing a fiduciary agreement between MERCANTIL, its subsidiary Mercantil Commercebank Holding Corporation and nine trustees in the State of Florida, U.S.A. The trustees were designated by the Board of Directors of MERCANTIL and ratified by the Board of Directors of Mercantil Commercebank Holding Corporation.

In accordance with the fiduciary agreement, on October 14, 2008, Mercantil Commercebank Holding Corporation transferred shares of Mercantil Commercebank, N.A. to the trust fund. Subsequently, the trustees incorporated a new company, called Mercantil Commercebank Florida Bancorp, in the State of Florida, U.S.A., to which Mercantil Commercebank, N.A. shares were transferred. In return, trustees received shares of the new corporation abroad. The trust issued voting certificates in favor of Mercantil Commercebank Holding Corporation in the same proportion to and with the same rights as transferred shares of Mercantil Commercebank, N.A., thereby maintaining Mercantil Commercebank Holding Corporation as the final beneficial owner of Mercantil Commercebank, N.A. The trust may be early terminated by the Board of Directors of Mercantil Commercebank Holding Corporation, the Board of Directors of MERCANTIL or the trustees.

Like Mercantil Commercebank Holding Corporation, both Mercantil Commercebank Florida Bancorp and the trust fund, as bank shareholding companies, are subject to Federal Reserve supervision.

In conformity with the terms of the fiduciary agreement, the trustees may, at any time deemed convenient, transfer shares of Mercantil Commercebank Florida Bancorp to MERCANTIL shareholders in the same proportion to the number and class of shares held by each shareholder, thereby voiding the previously issued voting certificates. Should this transfer be carried out, MERCANTIL and its subsidiary Mercantil Commercebank Holding Corporation shall cease to be considered the trust's beneficial owners and, consequently, shall record the related financial effect.

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At December 31, 2009 and 2008, MERCANTIL is the final beneficiary of the trust and will absorb its expected losses and benefits. Accordingly, the trust's balance sheet and income statement at those dates are included in the accompanying consolidated financial statements of MERCANTIL.

**e) 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 the event of a non-negotiated takeover and thus strengthen their negotiating position in such an event.

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, 2009, the Foundation has net equity of US\$736,402 (US\$757,375 at December 31, 2008), 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 is shown below for the years end December 31:

*(Thousands of bolivars, except for number of shares)*

	<b>2009</b>	<b>2008</b>
<b>Net income per common share</b>		
Net income	795,692	958,987
Common shares issued	103,983,727	103,983,727
Weighted average of outstanding common shares	100,117,194	100,607,594
Basic net income per share	7,95	9,53
<b>Net income per diluted common share</b>		
Net income	795,692	958,987
Weighted average of outstanding common shares	100,117,194	100,607,594
Potentially diluted common shares	-	25,685
Total weighted average of outstanding diluted common shares	100,117,194	100,633,278
Diluted net income per share	7,95	9,53

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**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 applies 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, is in respect of dividends for 2007 and 2008, shown under other liabilities (Note 15). In April 2009, MERCANTIL's Board of Directors, in conformity with contractual provisions of the ADR program, agreed to ask the trustee JP Morgan Chase to establish a procedure to allow ADR holders to receive dividends in bolivars. This option is effective for dividends in bolivars paid as from April 2009. In July 2009, the total amount of the aforementioned dividends was transferred to the trustee (Note 15).

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>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and due from banks	270,010	271,981
Investment portfolio	3,001,959	3,001,114
Loan portfolio	3,343,940	3,419,867
Other assets	<u>67,645</u>	<u>108,800</u>
	<u>6,683,554</u>	<u>6,801,762</u>
<b>Liabilities</b>		
Deposits	5,073,011	5,157,825
Financial liabilities	549,167	542,637
Other liabilities	30,171	63,339
Subordinated debt	<u>114,080</u>	<u>114,080</u>
	<u>5,766,429</u>	<u>5,877,881</u>

During the year ended December 31, 2009, net exchange losses resulting from foreign currency positions amounted to Bs 2,350,000 (Bs 8,890,000 during the year ended December 31, 2008). Furthermore, during the year ended December 31, 2009, gains from intermediation in foreign currency trading amounted to Bs 2,106,000 (Bs 3,067,000 during the year ended December 31, 2008).

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**Subsequent event**

On January 8, 2010, the Venezuelan government and the Central Bank of Venezuela (BCV) enacted Exchange Agreement No. 14 to introduce a two-tiered exchange rate of Bs 2.5935/US\$1 or Bs 4.2893/US\$1 (purchase) and Bs 2.60/US\$1 or Bs 4.30/US\$1 (sale), thereby modifying the official exchange rates that had remained in effect since March 2005. The rate applicable to imports for priority sectors such as food, health, education, machinery and equipment, and science and technology, as well as for external public debt servicing, among others, is Bs 2.60/US\$1; whereas Bs 4.30/US\$1 shall apply to imports for all other sectors.

Foreign currency requests for trade transactions submitted to BCV before the Agreement became effective shall be liquidated at Bs 2.15/US\$1. In addition, the Bs 2.60/US\$1 rate shall apply to payments within the non-oil public sector, including external debt servicing.

BCV established that foreign currency assets and liabilities held by banks, exchange offices and other financial institutions, whether public or private, regulated by the General Bank Law, the Capital Markets Law, the Law of Insurers and Reinsurers, and other special laws shall be measured and recorded at Bs 2.60/US\$1 and public-sector securities at Bs 4.30/US\$1, except for Principal and Interest Covered Bonds (TICC), which shall be measured at 2.60/US\$1.

The accounting effect for MERCANTIL of measuring and recording foreign currency balances at January 11, 2010 at the exchange rate of Bs 2.60/US\$1, including public-sector securities in foreign currency of US\$103,345,000, was an increase in assets, liabilities, equity and income of Bs 3,221,678,000, Bs 2,640,794,000 Bs 401,147,000 and Bs 179,737,000, respectively, which were recorded in the consolidated financial statements at January 31, 2010. Management is currently analyzing these effects.

**24. Memorandum accounts**

Memorandum accounts at December 31 comprise the following:

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Contingent debtor accounts</b>		
Transactions with derivative instruments (Note 19)	2,213,892	2,568,174
Investment securities under resale agreements	1,226,000	3,617
Lines of credit (Note 25)	756,051	1,091,952
Letters of credit	368,419	568,337
Guarantees granted	341,152	347,278
Cross Currency Swap Contract (Notes 11, 15, 19 and 20)	61,997	60,930
Tourism loan commitments	25,059	37,045
Other contingencies	<u>778,922</u>	<u>656,805</u>
	<u>5,771,492</u>	<u>5,334,138</u>
Assets received in trust	<u>9,699,922</u>	<u>8,605,247</u>
Special trust services	<u>851,839</u>	<u>970,786</u>

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<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Other debtor memorandum accounts</b>		
Guarantees received	34,337,786	22,152,471
Custody of values received	9,561,001	4,198,726
Unused lines of credit	5,040,479	5,838,670
Collections	110,006	182,424
Publicly traded shares (Note 21)	158,517	158,517
Commercial paper pending issue (Notes 2-u and 13)	70,000	200,000
Debenture bonds pending issue (Note 13)	-	80,000
Other control accounts	<u>8,594,908</u>	<u>7,953,072</u>
	<u>57,872,697</u>	<u>40,763,880</u>
	<u>74,195,950</u>	<u>55,674,051</u>

**a) 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>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and due from banks	352,218	578,936
Investment portfolio	5,559,151	4,749,515
Loan portfolio	3,291,949	2,789,582
Interest and commissions receivable	53,045	54,903
Assets received for administration	10,959	11,406
Other assets	<u>432,600</u>	<u>420,905</u>
Total assets	<u>9,699,922</u>	<u>8,605,247</u>
<b>Liabilities</b>		
Other accounts payable	24,263	20,545
Other liabilities	<u>1,229</u>	<u>804</u>
Total liabilities	25,492	21,349
Equity	<u>9,674,430</u>	<u>8,583,898</u>
Total liabilities and equity	<u>9,699,922</u>	<u>8,605,247</u>

**b) Securities under spot contracts**

MERCANTIL purchases and sells securities under spot contracts at an established price. During the year ended December 31, 2009, MERCANTIL recorded net losses from adjustment to market value of Bs 1,656,000 (Bs 16,000 at December 31, 2008). 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>2009</b>	<b>2008</b>
<b>Securities</b>		
Purchase rights	1,365,996	273,440
Sale rights	<u>17,193</u>	<u>68,573</u>
	<u>1,383,189</u>	<u>342,013</u>

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**c) Transactions with derivative 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, 2009 amounted to Bs 66,813,000 (Bs 19,051,000 during the year ended December 31, 2008), 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:

Futures contracts	December 31, 2009		December 31, 2008	
	Thousands of bolivars	Maturity	Thousands of bolivars	Maturity
<b>Exchange rates (foreign currency)</b>				
Purchases	117,676	January and September 2010	44,048	January and November 2009
<b>Securities</b>				
Purchases	364,772	January 2010	1,803,289	January and February 2009
Sales	<u>294,640</u>	January 2010	<u>302,691</u>	January and February 2009
	<u>777,088</u>		<u>2,150,028</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, 2009, the contract's fair value is US\$11 million (US\$11 million at December 31, 2008) and it resulted in gains and losses of Bs 5,498,000 and Bs 1,939,000, respectively (Bs 5,858,000 and Bs 6,301,000, respectively, for the year ended December 31, 2008), 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. These agreements matured during 2009. At December 31, 2009, MERCANTIL recorded US\$0.3 million of unrealized losses in the income statement in respect of changes in the market value of these agreements.

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, 2009, the agreement's nominal value is US\$25 million and the market value is US\$1 million (liability), respectively.

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**25. Credit-related commitments**

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

**Guarantees granted**

After conducting a credit risk analysis, MERCANTIL provides guarantees to certain customers within their line of credit. These guarantees are issued to a beneficiary and may be executed if the customer fails to comply with the terms of the agreement. These guarantees earn annual commissions between 0.25% 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 issues renewable credit cards with limits for up to three years. However, it may exercise its option to cancel a credit commitment with a particular client at any time. Nominal credit card interest rates are variable for transactions in Venezuela and fixed for transactions in the United States of America.

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

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

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**26. Maturity of financial assets and liabilities**

Financial assets and liabilities at December 31, 2009 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	9,480,058	-	-	-	-	-	9,480,058
Investment portfolio	3,496,637	280,193	372,211	533,976	457,561	8,903,514	14,044,092
Direct financial assets	282,750	11,130	-	-	-	-	293,880
Loan portfolio	7,071,720	3,445,907	3,024,717	2,635,724	2,043,491	9,808,889	28,030,448
Interest and commissions receivable	<u>301,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>301,846</u>
Total financial assets	<u>20,633,011</u>	<u>3,737,230</u>	<u>3,396,928</u>	<u>3,169,700</u>	<u>2,501,052</u>	<u>18,712,403</u>	<u>52,150,324</u>
<b>Liabilities</b>							
Deposits	37,767,002	648,503	393,998	567,304	466,460	3,004,437	42,847,704
Debt authorized by the Venezuelan Securities and Exchange Commission	20,000	80,000	29,499	36,899	78,788	67,208	312,394
Financial liabilities	498,771	6,585	1,030	1,534	-	1,157,540	1,665,460
Interest and commissions payable	27,138	-	-	-	-	-	27,138
Subordinated debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,656</u>	<u>244,656</u>
Total financial liabilities	<u>38,312,911</u>	<u>735,088</u>	<u>424,527</u>	<u>605,737</u>	<u>545,248</u>	<u>4,473,841</u>	<u>45,097,352</u>

**27. Fair value of financial instruments**

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

<i>(Thousands of bolivars)</i>	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
<b>Assets</b>				
Cash and due from banks	9,480,058	9,480,058	7,739,101	7,739,101
Investment portfolio	14,044,092	14,053,263	14,571,656	14,558,936
Direct financial assets	293,880	293,880	312,012	312,012
Loan portfolio, net of allowance	27,137,723	27,137,723	22,219,115	22,219,115
Interest and commissions receivable, net of provision	<u>301,846</u>	<u>301,846</u>	<u>322,388</u>	<u>322,388</u>
	<u>51,257,599</u>	<u>51,266,770</u>	<u>45,164,272</u>	<u>45,151,552</u>
<b>Liabilities</b>				
Deposits	42,847,704	42,847,704	36,211,367	36,211,367
Debt authorized by the Venezuelan Securities and Exchange Commission	312,394	312,394	173,922	173,922
Financial liabilities	1,665,460	1,665,460	3,151,959	3,151,959
Subordinated debt	27,138	27,138	37,751	37,751
Interest and commissions payable	<u>244,656</u>	<u>244,656</u>	<u>244,656</u>	<u>244,656</u>
	<u>45,097,352</u>	<u>45,097,352</u>	<u>39,819,655</u>	<u>39,819,655</u>
<b>Memorandum accounts</b>				
Contingent debtor accounts	<u>5,015,441</u>	<u>5,015,441</u>	<u>4,242,186</u>	<u>4,242,186</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.

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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 demand deposits and short-term financial liabilities.

**Investment portfolio**

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

**Loan portfolio**

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

**Deposits**

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

**Financial liabilities**

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

**Risk-based financial instruments recorded in memorandum accounts**

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

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**28. Geographic segment information**

MERCANTIL's operations are distributed geographically as follows:

<i>(Thousands of bolivars)</i>	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Gross financial margin</b>		
Venezuela	2,449,911	2,239,402
United States of America	333,318	408,009
Other	<u>31,316</u>	<u>28,353</u>
Total	<u><u>2,814,545</u></u>	<u><u>2,675,764</u></u>
<b>Net financial margin, commissions and other income</b>		
Venezuela	3,124,149	3,034,822
United States of America	98,145	318,994
Other	<u>78,184</u>	<u>60,578</u>
Total	<u><u>3,400,478</u></u>	<u><u>3,414,394</u></u>
<b>Operating income before tax and minority interests</b>		
Venezuela	972,290	1,140,565
United States of America	(116,770)	(16,094)
Other	<u>37,551</u>	<u>20,257</u>
Total	<u><u>893,071</u></u>	<u><u>1,144,728</u></u>

	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Thousands of bolivars</b>	<b>%</b>	<b>Thousands of bolivars</b>	<b>%</b>
<b>Assets</b>				
Venezuela	39,000,854	74	32,669,208	70
United States of America	12,803,218	24	12,971,686	27
Other	<u>1,270,738</u>	<u>2</u>	<u>1,188,983</u>	<u>3</u>
Total	<u><u>53,074,810</u></u>	<u><u>100</u></u>	<u><u>46,829,877</u></u>	<u><u>100</u></u>
<b>Liabilities</b>				
Venezuela	35,775,684	74	30,100,771	71
United States of America	11,479,613	24	11,654,773	27
Other	<u>939,703</u>	<u>2</u>	<u>985,293</u>	<u>2</u>
Total	<u><u>48,195,000</u></u>	<u><u>100</u></u>	<u><u>42,740,837</u></u>	<u><u>100</u></u>

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**29. Financial information by subsidiary**

Below is a summary of the financial information by subsidiary at December 31, 2009. This information includes the effect of eliminations normally made during consolidation:

<i>(Thousands of bolivars)</i>	Mercantil, C.A. Banco Universal	Mercantil Commercbank Holding Co. (1)	Holding Mercantil Internacional (2)	Mercantil Seguros	Mercantil Merinvest	Mercantil Inversiones y Valores and other	Consolidated total
Total assets	36,935,307	12,710,360	1,049,537	2,052,175	111,207	216,224	53,074,810
Investment portfolio	6,666,092	4,997,601	880,307	1,364,892	63,487	71,713	14,044,092
Loan portfolio, net	20,039,669	6,980,184	117,870	-	-	-	27,137,723
Total liabilities	33,821,087	11,454,873	858,066	1,659,319	15,445	386,210	48,195,000
Deposits	32,071,634	9,931,355	844,715	-	-	-	42,847,704
Gross financial margin	2,353,313	330,188	21,972	139,251	10,601	(40,780)	2,814,545
Gross income before tax	732,873	(113,432)	23,582	202,373	50,337	(3,151)	892,582
Net income	643,737	(120,173)	23,582	202,373	49,395	(3,222)	795,692
Number of employees	7,430	790	49	1,439	51	74	9,833

(1) Final beneficial owner of Mercantil Commercbank N.A.

(2) Owner of Mercantil Bank Curacao, N.V. and its subsidiary Mercantil Bank (Panamá), S.A. and Mercantil Bank (Schweiz) AG and its subsidiary Mercantil Bank & Trust Limited (Cayman).

**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 the payment capabilities of its borrowers. MERCANTIL structures the level of credit risk by establishing limits for single or group borrowers.

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

**Market risk**

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

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

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Exchange rate risk arises 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'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, 2009 and 2008, trust fund assets amount to Bs 9,699,922,000 and Bs 8,605,247,000, 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 guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

Below are the regulatory capital requirements of MERCANTIL and its main banking subsidiaries at December 31:

	<u>2009</u> Current %	<u>2008</u> Current %	Minimum required %
<b>Equity to risk-weighted assets and contingent operations</b>			
Mercantil Servicios Financieros, C.A. and its subsidiaries (consolidated)	18.30	18.50	8.00
Mercantil, C.A. Banco Universal and branches abroad	17.01	15.21	12.00
Mercantil Commercebank, N.A.	22.05	16.74	8.00

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	<u>2009</u> Current %	<u>2008</u> Current %	Minimum required %
<b>Tier I equity to risk-weighted assets and contingent operations</b>			
Mercantil Servicios Financieros, C.A. and its subsidiaries (consolidated)	16.22	16.35	4.00
Mercantil Commercebank, N.A.	20.78	15.48	4.00
<b>Equity to total assets</b>			
Mercantil, C.A. Banco Universal and branches abroad	10.17	9.10	8.00
Mercantil Commercebank, N.A.	10.09	8.69	4.00

**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 that 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 26,467,000, 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 (the Bank) also received and appealed additional bank debit tax assessments amounting to Bs 23,508,000. In the opinion of the Bank's legal advisors, these assessments are not well grounded in law.

MERCANTIL management identified a maximum risk of Bs 24,314,000 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 February 2009, the subsidiary Mercantil, C.A. Banco Universal was notified of a tax assessment of Bs 1,408,000 in respect of income tax for 2007. The assessment is based on the taxability of interest on the overdue or in-litigation loan portfolio. In April 2009, the subsidiary filed a discharge claim in this connection. In the opinion of management and its legal advisors, this assessment is not well grounded in law.

In April 2008, the subsidiary Mercantil, C.A. Banco Universal was subject to a tax assessment of Bs 62,679,000 in respect of the proportional tax on dividends. In June 2008, the Bank filed a discharge claim with the Tax Authorities stating its legal arguments against this assessment. In December 2008, 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.

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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 25,364,000, in respect of alleged differences in the contributions made under the Housing Loan Law. The Bank appealed this assessment in July 2008. In August 2008, BANAVIH ruled partially in favor of the Bank and reduced the assessment to Bs 11,647,000. However, in September 2008, the subsidiary 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 subsidiary 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 36,978,000 for general damages and loss of profits, plus monetary indexation. In November 2006, the Bank's legal advisors filed for annulment of the ruling, which includes allegations for nonfeasance and law infringement. In March 2009, the Supreme Tribunal of Justice ruled in favor of the annulment appeal filed by the subsidiary against the July 2006 sentence and ordered that a new ruling be issued. In the opinion of Bank management and its legal advisors, the new ruling will be favorable to the Bank.

At a Special Shareholders' Meeting of the subsidiary Holding de Inversión Mercantil de Colombia, S.A. held in December 2006, approval was granted to liquidate this subsidiary and distribute the remainder among shareholders. The amount to cover certain administrative and labor contingencies, as well as undetermined contingencies and liquidator fees, was calculated at Bs 3,463,000 to be managed under a trust fund agreement. At December 31, 2009, the balance of this trust fund is Bs 1,806,000 (Bs 1,878,000 at December 31, 2008).

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

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

<i>(Thousands of bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and due from banks	7,682	15,908
Investment portfolio		
Mercantil, C.A. Banco Universal	3,183,659	2,608,390
Mercantil Commercebank Holding Corporation	1,091,572	925,013
Inversiones y Valores Mercantil VI, C.A.	422,335	261,130
Holding Mercantil Internacional	231,150	201,664
Mercantil Merinvest, C.A.	95,515	95,646
Mercantil Inversiones y Valores, C.A.	57,966	82,814
Cestaticket Accor Services, C.A.	74,630	62,337
Other	72,717	96,018
Property and equipment	-	26,560
Other assets	<u>36,751</u>	<u>39,698</u>
Total assets	<u>5,273,977</u>	<u>4,415,178</u>
<b>Liabilities</b>		
Debenture bonds and commercial paper	326,009	191,374
Other liabilities	<u>68,158</u>	<u>134,764</u>
Total liabilities	394,167	326,138
<b>Equity</b>		
Total liabilities and equity	<u>4,879,810</u>	<u>4,089,040</u>
<b>Income</b>		
Interest income	4,018	15,440
Equity in subsidiaries, affiliates and other entities	967,357	1,170,765
<b>Expenses</b>		
Operating	(132,360)	(159,628)
Interest	<u>(43,323)</u>	<u>(67,590)</u>
Net income	<u>795,692</u>	<u>958,987</u>

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**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.

Below are the consolidated financial statements of Mercantil Servicios Financieros, C.A. and its subsidiaries expressed in constant bolivars at December 31, 2009:

**Supplementary consolidated balance sheet**  
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*(Thousands of constant bolivars  
at December 31, 2009)*

	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
<b>Cash and due from banks</b>		
Cash	801,598	878,813
Central Bank of Venezuela (BCV)	7,673,511	7,758,084
Venezuelan banks and other financial institutions	36,820	40,385
Foreign banks and other financial institutions	557,517	709,615
Pending cash items	410,612	435,724
Provision for cash and due from banks	<u>-</u>	<u>(10)</u>
	<u>9,480,058</u>	<u>9,822,611</u>
<b>Investment portfolio</b>		
Investments in trading securities	71,772	71,813
Investments in available-for-sale securities	10,136,710	7,091,551
Investments in held-to-maturity securities	456,373	814,145
Share trading portfolio	45,908	91,870
Investments in time deposits and placements	2,029,133	10,297,183
Restricted investments and repurchase agreements	<u>1,330,133</u>	<u>162,698</u>
	<u>14,070,029</u>	<u>18,529,260</u>
<b>Direct financial assets</b>	<u>293,880</u>	<u>396,012</u>
<b>Loan portfolio</b>		
Current	27,017,149	28,214,657
Rescheduled	87,870	62,716
Overdue	854,373	687,749
In litigation	<u>71,056</u>	<u>30,739</u>
	28,030,448	28,995,861
Allowance for losses on loan portfolio	<u>(892,725)</u>	<u>(794,948)</u>
	<u>27,137,723</u>	<u>28,200,913</u>
<b>Interest and commissions receivable</b>	<u>301,846</u>	<u>409,181</u>
<b>Long-term investments</b>	<u>171,272</u>	<u>125,154</u>
<b>Available-for-sale assets</b>	<u>62,619</u>	<u>32,994</u>
<b>Property and equipment</b>	<u>1,250,584</u>	<u>1,296,494</u>
<b>Other assets</b>	<u>1,638,746</u>	<u>1,835,279</u>
<b>Total assets</b>	<u>54,406,757</u>	<u>60,647,898</u>
	<u>74,195,950</u>	<u>70,662,539</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2009 and 2008**

**Supplementary consolidated balance sheet**  
**December 31, 2009 and 2008**

*(Thousands of constant bolivars  
at December 31, 2009)*

	<b>2009</b>	<b>2008</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Deposits		
Non-interest-bearing checking accounts	10,398,275	9,887,171
Interest-bearing checking accounts	12,232,187	12,239,019
Savings deposits	13,902,051	14,504,476
Time deposits	<u>6,315,191</u>	<u>9,329,473</u>
	<u>42,847,704</u>	<u>45,960,139</u>
<b>Debt authorized by the Venezuelan Securities and Exchange Commission</b>		
Publicly traded debt securities issued by MERCANTIL	<u>312,394</u>	<u>220,745</u>
<b>Financial liabilities</b>		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	120,319	142,789
Liabilities to foreign banks and savings and loan institutions, up to one year	456	3,362
Liabilities to foreign banks and savings and loan institutions, more than one year	432,673	413,059
Direct financial liabilities	364,146	2,374,530
Liabilities under repurchase agreements	722,730	985,351
Other liabilities, up to one year	22,999	77,747
Other liabilities, more than one year	<u>2,137</u>	<u>3,686</u>
	<u>1,665,460</u>	<u>4,000,524</u>
<b>Interest and commissions payable</b>	<u>27,138</u>	<u>47,914</u>
<b>Other liabilities</b>	<u>3,105,143</u>	<u>3,704,884</u>
<b>Subordinated debt</b>	<u>244,656</u>	<u>310,521</u>
<b>Total liabilities</b>	<u>48,202,495</u>	<u>54,244,727</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>3,876</u>	<u>4,108</u>
<b>Equity</b>		
Capital stock	155,976	155,976
Capital inflation adjustment	1,821,103	1,821,103
Share premium	722,838	719,551
Capital reserves	1,134,156	1,134,156
Translation adjustment of net assets of subsidiaries abroad	(1,203,294)	(870,972)
Retained earnings	3,615,007	3,716,812
Repurchased shares held by subsidiaries	(32,039)	(23,776)
Repurchased shares reserved for employee stock option plan	(41,493)	(40,791)
Unrealized gain (loss) from adjustment of investments to market value	<u>28,132</u>	<u>(212,996)</u>
<b>Total equity</b>	<u>6,200,386</u>	<u>6,399,063</u>
<b>Total liabilities and equity</b>	<u>54,406,757</u>	<u>60,647,898</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2009 and 2008**

**Supplementary consolidated income statement**  
**Years ended December 31, 2009 and 2008**

*(Thousands of constant bolivars  
at December 31, 2009)*

	<b>2009</b>	<b>2008</b>
<b>Interest income</b>		
Income from cash and due from banks	13,106	47,797
Income from investment portfolio	1,236,056	1,342,316
Income from loan portfolio	3,866,014	4,756,360
Income from financial assets	<u>47,510</u>	<u>45,125</u>
Total interest income	<u>5,162,686</u>	<u>6,191,598</u>
<b>Interest expense</b>		
Interest on demand and savings deposits	(1,460,051)	(1,498,571)
Interest on time deposits	(253,589)	(609,196)
Interest on securities issued by MERCANTIL	(143,330)	(221,147)
Interest on financial liabilities	<u>(191,519)</u>	<u>(215,986)</u>
Total interest expense	<u>(2,048,489)</u>	<u>(2,544,900)</u>
<b>Gross financial margin</b>	3,114,197	3,646,698
Allowance for losses on loan portfolio	(830,241)	(648,439)
Expenses from write-down of available-for-sale investments	<u>(34,600)</u>	<u>-</u>
<b>Net financial margin</b>	<u>2,249,356</u>	<u>2,998,259</u>
<b>Commissions and other income</b>		
Trust fund operations	53,510	60,657
Foreign currency operations	2,349	4,820
Commissions on customer account transactions	254,899	259,493
Commissions on letters of credit and guarantees granted	21,196	44,181
Equity in long-term investments	59,366	75,231
Exchange gain (loss)	2,141	(12,108)
Gain on sale of investment securities	189,672	314,842
Other income	<u>1,084,779</u>	<u>1,076,220</u>
Total commissions and other income	<u>1,667,912</u>	<u>1,823,336</u>
<b>Insurance premiums, net of claims</b>		
Premiums	2,518,745	2,365,231
Claims	<u>(2,152,367)</u>	<u>(1,978,568)</u>
Total insurance premiums, net of claims	<u>366,378</u>	<u>386,663</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(1,523,317)	(1,639,828)
Depreciation, property and equipment expenses, amortization of intangibles and other	(618,699)	(575,254)
Fees paid to regulatory agencies	(213,291)	(206,568)
Other operating expenses	<u>(1,042,031)</u>	<u>(1,510,351)</u>
Total operating expenses	<u>(3,397,338)</u>	<u>(3,932,001)</u>
<b>Loss from net monetary position</b>	<u>(716,951)</u>	<u>(728,587)</u>
Operating income before tax and minority interests	<u>169,357</u>	<u>547,670</u>
<b>Income tax</b>		
Current	(104,047)	(273,325)
Deferred	<u>-</u>	<u>8,970</u>
Total tax	<u>(104,047)</u>	<u>(264,355)</u>
Net income before minority interests	65,310	283,315
<b>Minority interests</b>	<u>(52)</u>	<u>(131)</u>
Net income	<u>65,258</u>	<u>283,184</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2009 and 2008**

**Supplementary consolidated statement of changes in equity**  
**Years ended December 31, 2009 and 2008**

<i>(Thousands of constant bolivars at December 31, 2009)</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 gain (loss) from adjustment of investments to market value	Total equity
<b>Balances at December 31, 2007</b>	156,479	1,821,378	720,177	1,134,156	(457,115)	3,624,025	(38,174)	(48,118)	(68,892)	6,843,916
Net income	-	-	-	-	-	283,184	-	-	-	283,184
Repurchased shares	-	-	-	-	-	-	(6,400)	-	-	(6,400)
Repurchased shares reserved for employee stock option plan	-	-	(626)	-	-	-	-	7,327	-	6,701
Minimum dividend payable	-	-	-	-	-	(37,279)	-	-	-	(37,279)
Cash dividends	-	-	-	-	-	(133,098)	-	-	-	(133,098)
Unrealized loss on investments	-	-	-	-	-	-	-	-	(144,104)	(144,104)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(413,857)	-	-	-	-	(413,857)
Redemption of repurchased shares	(503)	(275)	-	-	-	(20,020)	20,798	-	-	-
<b>Balances at December 31, 2008</b>	155,976	1,821,103	719,551	1,134,156	(870,972)	3,716,812	(23,776)	(40,791)	(212,996)	6,399,063
Net income	-	-	-	-	-	65,258	-	-	-	65,258
Repurchased shares	-	-	-	-	-	-	(8,263)	-	-	(8,263)
Repurchased shares reserved for employee stock option plan	-	-	3,287	-	-	-	-	(702)	-	2,585
Cash dividends	-	-	-	-	-	(129,476)	-	-	-	(129,476)
Unrealized gain on investments	-	-	-	-	-	-	-	-	241,128	241,128
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(332,322)	-	-	-	-	(332,322)
Minimum dividend payable	-	-	-	-	-	(37,587)	-	-	-	(37,587)
<b>Balances at December 31, 2009</b>	<u>155,976</u>	<u>1,821,103</u>	<u>722,838</u>	<u>1,134,156</u>	<u>(1,203,294)</u>	<u>3,615,007</u>	<u>(32,039)</u>	<u>(41,493)</u>	<u>28,132</u>	<u>6,200,386</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2009 and 2008**

**Supplementary consolidated cash flow statement**  
**Years ended December 31, 2009 and 2008**

*(Thousands of constant bolivars  
at December 31, 2009)*

	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net income	65,258	283,184
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	339,692	343,856
Allowance for losses on loan portfolio	830,224	648,439
Decrease in allowance for losses on loan portfolio	(7,960)	(2,902)
Amortization of available-for-sale assets	43,849	35,247
Provision for interest receivable and other assets	5,773	24,360
Gain on equity in long-term investments	(59,365)	(75,231)
Deferred income tax	-	(9,899)
Minority interest expenses	51	131
Accrual for employee termination benefits	180,226	158,690
Payment of employee termination benefits	(172,678)	(156,578)
Net change in operating assets and liabilities		
Interest and commissions receivable	107,330	2,532
Interest and commissions payable	(20,773)	(32,055)
Available-for-sale and other assets	85,021	369,754
Other liabilities	<u>(570,923)</u>	<u>399,041</u>
Net cash provided by operating activities	<u>825,725</u>	<u>1,988,569</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	(1,762,202)	1,864,166
Loans granted	(69,161,400)	(116,459,920)
Loans collected	69,402,198	119,986,610
Additions to property and equipment, net	<u>(159,381)</u>	<u>(185,987)</u>
Net cash provided by (used in) investing activities	<u>(1,680,785)</u>	<u>5,204,869</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	(3,112,335)	(6,416,176)
Short-term financial liabilities	(2,090,439)	1,296,122
Debt securities issued by MERCANTIL	91,644	(375,421)
Subordinated debt	(65,865)	(99,034)
New long-term financial liabilities	(294,480)	437,596
Long-term financial liabilities repaid	49,933	(714,285)
Cash dividends	(203,701)	(96,971)
Repurchased shares	(8,263)	(6,400)
Repurchased shares held for employee stock option plan	(702)	7,327
Share premium	<u>3,287</u>	<u>(627)</u>
Net cash used in financing activities	<u>(5,630,921)</u>	<u>(5,967,869)</u>
<b>Cash and cash equivalents</b>		
Increase (decrease) for the year	(6,485,981)	1,225,569
At the beginning of the year	<u>17,985,853</u>	<u>16,760,284</u>
At the end of the year	<u>11,499,872</u>	<u>17,985,853</u>
<b>Supplementary information</b>		
Taxes paid	<u>284,296</u>	<u>721,763</u>
Interest paid	<u>1,063,093</u>	<u>2,360,968</u>
Translation adjustment of net assets of subsidiaries abroad	<u>332,322</u>	<u>(413,857)</u>
Unrealized gain (loss) from adjustment of investments to market value	<u>241,128</u>	<u>(144,104)</u>

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

## **Notes to the consolidated financial statements**

### **December 31, 2009 and 2008**

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

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

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

CPI indices and inflation rates for the years ended December 31, 2009 and 2008, 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 2008	129.71	29.71
December 2009	167.40	26.91

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

Monetary assets and liabilities at December 31, 2009, 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, 2008 have been restated to express them in terms of purchasing power at December 31, 2009.

The result from monetary position reflects the loss or gain obtained from maintaining a net monetary asset or net monetary liability position during an inflationary period and is shown in the consolidated income statement as loss from net monetary position.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2009 and 2008**

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

<i>(Thousands of constant bolivars at December 31, 2009)</i>	<b>Years ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Net monetary asset position at the beginning of the year	<u>4,273,992</u>	<u>4,553,976</u>
<b>Transactions that increased net monetary position</b>		
Net change in securities	17,638	-
Unrealized gain on investments	264,089	-
Net change in other liabilities	-	9,716
Deferred income tax	-	8,969
Shares purchased by employees, net	-	7,327
Share premium	3,287	-
Income	<u>7,193,442</u>	<u>8,401,596</u>
Subtotal	<u>7,478,456</u>	<u>8,427,608</u>
<b>Transactions that decreased net monetary position</b>		
Repurchased shares	(8,263)	(6,400)
Net change in property and equipment	(33,124)	(2,210)
Translation adjustment of subsidiaries abroad	(332,322)	(413,857)
Unrealized loss	-	(144,104)
Net change in securities	-	(41,321)
Cash dividends	(129,478)	(133,107)
Minimum dividend payable	(37,587)	(36,646)
Net additions to property and equipment	(113,426)	(69,102)
Net change in subsidiaries and affiliates	(46,120)	(20,077)
Net change in other liabilities	(26,992)	-
Shares sold by employees, net	(702)	-
Net change in other assets	(48,564)	(26,156)
Share premium	-	(627)
Expenses	<u>(6,203,475)</u>	<u>(7,085,799)</u>
Subtotal	<u>(6,980,053)</u>	<u>(7,979,406)</u>
Estimated net monetary asset position	4,772,395	5,002,178
Historic net monetary asset position	<u>4,055,444</u>	<u>4,273,591</u>
Loss from net monetary position	<u>716,951</u>	<u>728,587</u>

**Nonmonetary assets**

Property and equipment, available-for-sale assets and deferred charges are expressed in constant currency at December 31, 2009, based on the CPI at their dates of origin.

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

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.

**Equity**

All equity accounts are shown in constant currency at December 31, 2009. Dividends are stated in constant currency based on the date they were declared.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2009 and 2008**

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**Income statement**

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**

*(Thousands of constant bolivars  
at December 31, 2009)*

	<b>2009</b>	<b>2008</b>
Buildings and facilities	1,644,777	1,495,232
Furniture and equipment	1,053,882	1,176,719
Vehicles	16,296	14,459
Land	145,414	70,687
Construction in progress	32,746	58,182
Other assets	<u>133,074</u>	<u>176,132</u>
	3,026,189	2,991,411
Accumulated depreciation	<u>(1,775,605)</u>	<u>(1,694,917)</u>
	<u>1,250,584</u>	<u>1,296,494</u>

At December 31, 2009, buildings, facilities and land amounting to Bs 890,217,000 have an estimated market value of Bs 1,915,853,000, calculated by independent appraisers between April and June 2009.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2009 and 2008**

**b) Other assets**

<i>(Thousands of constant bolivars at December 31, 2009)</i>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Goodwill	538,070	594,130
Insurance premiums receivable	325,135	305,405
Deferred expenses, net of accumulated amortization	209,570	215,486
Prepaid expenses	97,259	58,590
Sambil La Candelaria shopping mall rights	84,429	84,429
Prepaid taxes, insurance and other prepaid expenses	58,672	123,046
Systems development, net of accumulated amortization	50,250	53,018
Guarantee deposits to reinsurers	48,857	36,259
Deferred income tax	39,951	73,395
Sale of securities in process of collection	32,742	21,410
Pending items	23,633	77,950
Guarantee deposits and advances for acquisition of property	16,568	16,706
Currency redenomination	7,470	12,107
Accounts receivable from other credit card issuing institutions	6,509	10,088
Prepaid advertising	4,507	19,129
Adjustment of spot contracts to market value	4,087	(20,638)
Cross Currency Swap valuation	380	95
Other	<u>120,540</u>	<u>181,554</u>
	1,668,629	1,862,159
Provision for estimated losses on other assets	<u>(29,883)</u>	<u>(26,880)</u>
	<u>1,638,746</u>	<u>1,835,279</u>

Below is the movement of goodwill for the year ended December 31, 2009:

<i>(Thousands of constant bolivars at December 31, 2009)</i>	<b>Cost</b>			<b>Balances at December 31, 2009</b>
	<b>Balances at December 31, 2008</b>	<b>Additions</b>	<b>Translation adjustment</b>	
Interbank, C.A.	827,006	-	-	827,006
Florida Savings Bank	52,244	-	(8,017)	44,227
C.A. Seguros Orinoco	90,109	-	-	90,109
Mercantil Seguros, C.A.	25,459	-	-	25,459
Todo 1 Service, Inc.	<u>7,790</u>	<u>-</u>	<u>-</u>	<u>7,790</u>
	<u>1,002,608</u>	<u>-</u>	<u>(8,017)</u>	<u>994,591</u>

<i>(Thousands of constant bolivars at December 31, 2009)</i>	<b>Accumulated amortization</b>			<b>Balances at December 31, 2009</b>
	<b>Balances at December 31, 2008</b>	<b>Additions</b>	<b>Translation adjustment</b>	
Interbank, C.A.	(358,058)	(40,096)	-	(398,154)
Florida Savings Bank	(6,748)	(2,191)	1,564	(7,375)
C.A. Seguros Orinoco	(25,329)	(5,782)	-	(31,111)
Mercantil Seguros, C.A.	(10,823)	(1,268)	-	(12,091)
Todo 1 Service, Inc.	<u>(7,790)</u>	<u>-</u>	<u>-</u>	<u>(7,790)</u>
	<u>(408,478)</u>	<u>(49,337)</u>	<u>1,564</u>	<u>(456,521)</u>