

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

**Report of Independent Accountants and Consolidated  
Financial Statements**

**December 31, 2010 and 2009**

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Index to the consolidated financial statements**  
**December 31, 2010 and 2009**

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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, 2010 and 2009 and the related consolidated statements of income, changes in equity and cash flows for years then ended. The preparation of these financial statements and their notes is the responsibility of MERCANTIL management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of Mercantil Servicios Financieros, C.A. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with the rules and instructions of the SNV.

Espiñeira, Sheldon y Asociados

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Caracas, Venezuela  
February 25, 2011

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**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Consolidated balance sheet**  
**December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Assets</b>		
<b>Cash and due from banks</b> (Note 3)		
Cash	1,050,803	801,598
Central Bank of Venezuela	9,043,256	7,673,511
Venezuelan banks and other financial institutions	5,073	36,820
Foreign banks and other financial institutions	1,213,412	557,517
Pending cash items	<u>512,402</u>	<u>410,612</u>
	<u>11,824,946</u>	<u>9,480,058</u>
<b>Investment portfolio</b> (Note 4)		
Investments in trading securities	232,550	71,772
Investments in available-for-sale securities	17,087,370	10,136,710
Investments in held-to-maturity securities	623,040	456,373
Share trading portfolio	15,831	19,971
Investments in time deposits and placements	1,941,999	2,029,133
Restricted investments and repurchase agreements	<u>1,690,940</u>	<u>1,330,133</u>
	<u>21,591,730</u>	<u>14,044,092</u>
<b>Direct financial assets</b> (Note 5)		
	<u>-</u>	<u>293,880</u>
<b>Loan portfolio</b> (Note 6)		
Current	42,384,693	27,017,149
Rescheduled	683,007	87,870
Overdue	1,011,526	854,373
In litigation	<u>282,840</u>	<u>71,056</u>
	44,362,066	28,030,448
Allowance for losses on loan portfolio	<u>(1,433,960)</u>	<u>(892,725)</u>
	<u>42,928,106</u>	<u>27,137,723</u>
<b>Interest and commissions receivable</b> (Note 7)		
	<u>482,918</u>	<u>301,846</u>
<b>Long-term investments</b> (Note 8)		
	<u>188,824</u>	<u>153,336</u>
<b>Available-for-sale assets</b> (Note 9)		
	<u>94,879</u>	<u>51,453</u>
<b>Property and equipment</b> (Note 10)		
	<u>689,246</u>	<u>490,039</u>
<b>Other assets</b> (Note 11)		
	<u>1,582,313</u>	<u>1,122,383</u>
<b>Total assets</b>	<u>79,382,962</u>	<u>53,074,810</u>
<b>Memorandum accounts</b> (Note 24)		
	<u>109,001,424</u>	<u>74,195,950</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, 2010 and 2009**

	2010	2009
	(Thousands of bolivars)	
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Deposits (Note 12)		
Non-interest bearing checking accounts	16,222,179	10,398,275
Interest-bearing checking accounts	19,929,002	12,232,187
Savings deposits	20,004,694	13,902,051
Time deposits	<u>6,211,038</u>	<u>6,315,191</u>
	<u>62,366,913</u>	<u>42,847,704</u>
<b>Debt authorized by the SNV (Note 13)</b>		
Publicly traded debt securities issued by MERCANTIL	<u>67,043</u>	<u>312,394</u>
<b>Financial liabilities (Note 14)</b>		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	252,874	120,319
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	140,000	-
Liabilities to foreign banks and savings and loan institutions, up to one year	548,552	456
Liabilities to foreign banks and savings and loan institutions, more than one year	1,296,441	432,673
Direct financial liabilities	-	364,146
Liabilities under repurchase agreements	866,439	722,730
Other liabilities, up to one year	27,201	22,999
Other liabilities, more than one year	<u>2,120</u>	<u>2,137</u>
	<u>3,133,627</u>	<u>1,665,460</u>
<b>Interest and commissions payable</b>	<u>29,475</u>	<u>27,138</u>
<b>Other liabilities (Note 15)</b>	<u>4,789,814</u>	<u>3,094,804</u>
<b>Subordinated debt (Note 16)</b>	<u>478,591</u>	<u>244,656</u>
<b>Total liabilities</b>	<u>70,865,463</u>	<u>48,192,156</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>4,199</u>	<u>2,844</u>
<b>Equity (Note 21)</b>		
Capital stock	154,406	155,976
Capital inflation adjustment	191,709	191,709
Share premium	203,536	203,894
Capital reserves	166,715	166,715
Translation adjustment of net assets of subsidiaries abroad	1,550,096	280,144
Retained earnings	5,922,273	3,922,188
Repurchased shares held by subsidiaries	(16,182)	(29,319)
Repurchased shares reserved for employee stock option plan	(41,569)	(37,820)
Unrealized gain from adjustment of investments to market value	<u>382,316</u>	<u>26,323</u>
<b>Total equity</b>	<u>8,513,300</u>	<u>4,879,810</u>
<b>Total liabilities and equity</b>	<u>79,382,962</u>	<u>53,074,810</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, 2010 and 2009**

	2010	2009
	(Thousands of bolivars, except net income per share)	
<b>Interest income</b> (Note 2)		
Income from cash and due from banks	6,495	11,179
Income from investment portfolio (Note 4)	1,025,296	1,099,090
Income from loan portfolio (Note 6)	4,544,692	3,488,723
Income from financial assets	<u>1,849</u>	<u>42,019</u>
Total interest income	<u>5,578,332</u>	<u>4,641,011</u>
<b>Interest expense</b> (Note 2)		
Interest on demand and savings deposits	(1,527,917)	(1,305,262)
Interest on time deposits	(111,867)	(226,191)
Interest on securities issued by MERCANTIL (Note 13)	(29,790)	(124,809)
Interest on financial liabilities	<u>(135,410)</u>	<u>(170,204)</u>
Total interest expense	<u>(1,804,984)</u>	<u>(1,826,466)</u>
<b>Gross financial margin</b>	3,773,348	2,814,545
Allowance for losses on loan portfolio (Notes 2 and 6)	(963,152)	(759,658)
Expenses from write-down of available-for-sale investments (Note 2-c)	<u>-</u>	<u>(34,993)</u>
<b>Net financial margin</b>	<u>2,810,196</u>	<u>2,019,894</u>
<b>Commissions and other income</b>		
Trust fund operations	56,267	48,265
Foreign currency operations (Note 23)	(7,612)	2,106
Commissions on customer account transactions	272,035	230,693
Commissions on letters of credit and guarantees granted	22,265	19,138
Equity in long-term investments (Note 8)	60,372	64,774
Exchange gain (Note 23)	1,063,278	2,350
Gain on sale of investment securities (Note 4)	572,446	198,947
Other income (Note 19)	<u>1,190,182</u>	<u>814,311</u>
Total commissions and other income	<u>3,229,233</u>	<u>1,380,584</u>
<b>Insurance premiums, net of claims</b> (Note 2-l)		
Premiums	3,284,696	2,278,612
Claims	<u>(2,863,982)</u>	<u>(1,952,257)</u>
Total insurance premiums, net of claims	<u>420,714</u>	<u>326,355</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(1,707,492)	(1,370,994)
Depreciation, property and equipment expenses, amortization of intangibles and other (Notes 10 and 11)	(453,031)	(357,952)
Fees paid to regulatory agencies	(486,579)	(192,011)
Other operating expenses (Note 20)	<u>(1,303,751)</u>	<u>(912,805)</u>
Total operating expenses	<u>(3,950,853)</u>	<u>(2,833,762)</u>
Operating income before tax and minority interests	<u>2,509,290</u>	<u>893,071</u>
<b>Income tax</b> (Note 17)		
Current	(275,100)	(96,890)
Deferred	<u>(56,676)</u>	<u>-</u>
Total income tax	<u>(331,776)</u>	<u>(96,890)</u>
Net income before minority interests	2,177,514	796,181
<b>Minority interests</b>	<u>(1,201)</u>	<u>(489)</u>
Net income	<u>2,176,313</u>	<u>795,692</u>
<b>Net income per share</b> (Note 22)		
Basic	21.82	7.95
Diluted	21.81	7.95
Weighted average of outstanding common shares	99,758,978	100,117,194
Weighted average of outstanding diluted common shares	99,776,014	100,117,194

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, 2010 and 2009**

	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
(Thousands of bolivars)										
<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 23)	-	-	-	-	647	-	-	-	-	647
Minimum dividend payable (Note 2)	-	-	-	-	-	(37,587)	-	-	-	(37,587)
<b>Balances at December 31, 2009</b>	155,976	191,709	203,894	166,715	280,144	3,922,188	(29,319)	(37,820)	26,323	4,879,810
Net income	-	-	-	-	-	2,176,313	-	-	-	2,176,313
Repurchased shares	-	-	-	-	-	-	(10,346)	-	-	(10,346)
Repurchased shares reserved for employee stock option plan	-	-	(358)	-	-	-	-	(3,749)	-	(4,107)
Cash dividends (Note 21)	-	-	-	-	-	(97,543)	-	-	-	(97,543)
Unrealized gain on investments	-	-	-	-	-	-	-	-	355,993	355,993
Translation adjustment of net assets of subsidiaries abroad (Note 23)	-	-	-	-	1,269,952	-	-	-	-	1,269,952
Redemption of repurchased shares	(1,570)	-	-	-	-	(21,913)	23,483	-	-	-
Minimum dividend payable (Note 2)	-	-	-	-	-	(56,772)	-	-	-	(56,772)
<b>Balances at December 31, 2010</b>	<u>154,406</u>	<u>191,709</u>	<u>203,536</u>	<u>166,715</u>	<u>1,550,096</u>	<u>5,922,273</u>	<u>(16,182)</u>	<u>(41,569)</u>	<u>382,316</u>	<u>8,513,300</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, 2010 and 2009**

	2010	2009
	(Thousands of bolivars)	
<b>Cash flows from operating activities</b>		
Net income	2,176,313	795,692
Adjustments to reconcile net income to net cash provided by operating activities		
Allowance for losses on loan portfolio	963,152	759,658
Depreciation and amortization	155,090	146,117
Decrease in allowance for losses on loan portfolio	(1,396)	(7,699)
Provision for interest receivable and other assets	37,334	7,391
Gain on equity in long-term investments	(60,372)	(64,774)
Minority interest expenses	1,201	489
Deferred income tax	56,676	-
Amortization of available-for-sale assets	53,685	35,801
Accrual for employee termination benefits	186,225	161,354
Payment of employee termination benefits	(178,999)	(161,219)
Net change in operating assets and liabilities		
Interest and commissions receivable	(181,073)	20,542
Interest and commissions payable	2,337	(10,613)
Available-for-sale and other assets	(424,619)	(200,939)
Other liabilities	<u>1,657,253</u>	<u>211,072</u>
Net cash provided by operating activities	<u>4,442,807</u>	<u>1,692,872</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	(6,012,620)	(3,723,434)
Loans granted	(176,440,649)	(70,947,916)
Loans collected	159,688,510	65,277,349
Additions to property and equipment, net	<u>(286,846)</u>	<u>(61,064)</u>
Net cash used in investing activities	<u>(23,051,605)</u>	<u>(9,455,065)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	19,519,209	6,636,337
Short-term financial liabilities	620,959	(1,539,347)
Debt securities issued by MERCANTIL	(245,351)	138,472
Subordinated debt	233,935	-
New long-term financial liabilities	(75,014)	(5,343)
Long-term financial liabilities repaid	922,223	58,192
Cash dividends	(123,635)	(182,088)
Share premium	(358)	2,615
Repurchased shares	(10,346)	(12,804)
Repurchased shares held for employee stock option plan	<u>(3,749)</u>	<u>(5,348)</u>
Net cash provided by financing activities	<u>20,837,873</u>	<u>5,090,686</u>
<b>Cash and cash equivalents</b>		
Net increase (decrease) for the year	2,229,075	(2,671,507)
At the beginning of the year	<u>11,499,872</u>	<u>14,171,379</u>
At the end of the year	<u><u>13,728,947</u></u>	<u><u>11,499,872</u></u>
<b>Supplementary information</b>		
Taxes paid	<u>72,812</u>	<u>183,032</u>
Interest paid	<u>1,667,237</u>	<u>1,666,874</u>
Translation adjustment of net assets of subsidiaries abroad	<u>1,269,952</u>	<u>647</u>
Unrealized gain from adjustment of investments to market value	<u>355,993</u>	<u>156,826</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, 2010 and 2009**

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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 Stock Market Law and the Venezuelan Securities Superintendency (hereinafter SNV) 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 SNV.

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 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, 2010 and 2009 were approved by the Board of Directors on January 12, 2011 and 2010, respectively.

#### **Law of the National Financial System**

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

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

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

#### **Law on Banking Sector Institutions**

The Law on Banking Sector Institutions, which repealed the General Law of Banks and other Financial Institutions, was enacted by the National Assembly in December 2010. This Law, among other things, considers banking as a public service; defines financial intermediation as fundraising for investment in loan portfolios and securities issued or guaranteed by the Venezuelan government or government entities; expands prohibitions for directorships; requires boards of directors to approve transactions

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

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

### **December 31, 2010 and 2009**

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exceeding 2% of equity; establishes a social contribution of 5% of pre-tax income to finance projects developed by communal councils; limits consumer credits to 20% of the bank's loan portfolio, the bank's assets to 15% of total banking sector assets, transactions for a single debtor to 10% of equity and to 20% with bank or other appropriate guarantees; and defines debtor in relation to this limitation. The Law grants banks 135 days to submit an adjustment plan to be executed within 180 days, extendable for a like period, and 30 days, extendable for a like period, to divest unauthorized investments. The Law prohibits trading of assets or liabilities with foreign companies without SUDEBAN's authorization and investing in companies regulated by the Stock Market Law and the Insurance Activity Law.

Management of the subsidiary Mercantil, C.A. Banco Universal is drafting the adjustment plan required by the new Law, which includes changes to documents, systems and processes. However, it has not identified significant financial effects for the subsidiary.

In addition, the Law prohibits anyone with over 5% equity in an institution belonging to the National Financial System from having shareholdings in banks, in conformity with SUDEBAN rules and with the binding opinion of the National Financial System's governing body, and any excess over 5% must be divested within 30 continuous days of the Law's effective date. In this regard, the authorities must issue regulations to allow the parties to determine whether they are in violation of the Law. Until such regulations are issued, it could be legally considered that the deadline for divestiture of shareholdings has not begun.

Likewise, any interpretation of the Law on Banking Sector Institutions must be supplementary to the Law on the National Financial System, which outranks the former and allows the formation of financial groups, provided that they fulfill the objectives defined in said Law.

However, even though the aforementioned regulations have not been issued, MERCANTIL has established a trust fund for Mercantil Seguros, of which it is the beneficiary. Based on the new structure, MERCANTIL is now the shareholder of a company that indirectly owns almost all of Mercantil Seguros's shares. At December 31, 2010, MERCANTIL's consolidated financial statements include total assets of Bs 3,193 million, equity of Bs 871 million and net income of Bs 409 million from Mercantil Seguros and its subsidiaries for the year ended on that date.

In January 2011, Mercantil Merinvest Casa de Bolsa and Mercantil Servicios de Inversión suspended securities trading and other investment brokerage and administration activities until the regulations are issued. The Venezuelan Securities Superintendency (SNV) was duly notified of the suspension.

MERCANTIL has requested SUDEBAN's interpretation on this issue, and on the adoption deadlines to determine the possible future effects of this Law.

#### **Stock Market Law**

The new Stock Market Law became effective in August 2010 with significant changes to its regulations. The scope of the Law and the powers and regulations of the new Venezuelan Securities Superintendency are extended. This Law enables the Venezuelan President to suspend market operations and prohibits securities dealers from brokering public-sector securities. In addition, the Law defines rules for companies related to entities regulated by this Law and rules that disregard the legal personality benefit. A new regulation under this Law relates to stock in companies that make public offers to small investors. New regulations regarding the form and equity distribution to be adopted by issuers, and the functioning of boards of directors and calling of meetings may be issued. The Law

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

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

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also establishes that arbitration shall be the only dispute resolution mechanism among issuers, investors and brokers. The Law prohibits individuals with over 3% equity in entities of the financial system from becoming members of stock exchanges. An intervention system for companies regulated by this Law, including issuers, is also established. The Law creates the investors council as a mechanism for citizen participation and defense.

#### **Insurance Activity Law**

The Insurance Activity Law was enacted in July 2010. The scope of this Law extends to other sectors of the Venezuelan economy, e.g., prepaid medicine companies (fund administrators covering health expenses), insurance premium financing companies and insurance cooperatives. This Law establishes new obligations regarding social health service plans, service delivery methods, creation of new reserves, and an increase in the insurance company's contributions to the Insurance Superintendency to between 1.5% and 2.5% of net premiums collected (between 0.20% and 1.50% in 2010). Regulated entities were required to present a plan to adjust to the new regulatory framework within 60 working days to be executed within 6 months following approval.

In November 2010, the Insurance Superintendency approved the adjustment plan submitted by MERCANTIL. The adjustment plan, among other aspects, contemplates: 1) the modification of insurance documents, fees and other, 2) the immediate adjustment of the technical reserves for claims incurred but not yet reported and for catastrophic risks, 3) the insurance of company assets, and 4) the creation of guarantees to the Nation.

Management is taking all the necessary actions to comply with the Law within this six-month deadline.

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 Law on Banking Sector Institutions (General Bank Law) and the rules and instructions of the Superintendency of Banking Sector 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 FOGADE, and to increase the deposit guarantee to Bs 30,000 per depositor.

Regulations require the subsidiary Mercantil, C.A. Banco Universal to earmark a minimum nominal percentage of 52.01% of its gross loan portfolio to finance loans for agriculture, tourism, manufacturing and small businesses (47% to agriculture, mortgages, manufacturing, small businesses and tourism at December 31, 2009). At December 31, 2010 and 2009, the gross loan portfolio for these sectors is Bs 11,328,881,000 and Bs 6,205,563,000, respectively (Note 6).

Deposit and lending rates are regulated by BCV. BCV sets maximum and minimum interest rates for deposits and credit operations based on reference rates. In this regard, the annual interest rate for lending operations may not exceed 24% (26% from April 1 to June 4, 2009) and 29% for credit card operations (31% from April 1 to June 4, 2009). Financial institutions may only charge an additional 3% per annum on amounts overdue from clients. The maximum interest rates for directed loan

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portfolios at December 31, 2010 are as follows: agriculture 13%, microcredits 24%, tourism 15% to 16%, mortgages 4.66% to 14.39% and manufacturing 19%. 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). Annual interest rates on time deposits may not fall below 14.5% (16% from April 1 to June 4, 2009).

#### **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 Insurance Activity Law and its regulations, and by the accounting rules and instructions of the Venezuelan Insurance Superintendency.

#### **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 SNV and the Stock Market Law.

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

In April 2008, the Venezuelan Federation of Public Accountants (FCCPV) approved the adoption of accounting principles generally accepted in Venezuela (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 foreign currency transactions and balances, among others. In January 2009, the SNV 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 SNV, must continue to present their financial information in conformity with the SNV's Accounting Manual and Plan of Accounts until this Superintendency determines otherwise.

MERCANTIL complies with the rules set out in the SNV's Accounting Manual and Plan of Accounts. When these rules contain no specific instructions, MERCANTIL follows VEN NIF. The accompanying consolidated financial statements have been prepared following the rules and instructions of the SNV, which differ from VEN NIF 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

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that inflation for the year exceeds one digit. In accordance with SNV instructions, as from 1999 MERCANTIL should not recognize the effects of inflation in its financial statements. The SNV has ruled that the methodology to be followed by MERCANTIL for preparation and presentation of its nominal financial statements is that set out in International Accounting Standard No. 29 (IAS 29). According to this standard, when an economy is no longer hyperinflationary and an entity ceases to prepare and present inflation-adjusted financial statements, it should use the amounts expressed in terms of purchasing power at the end of the previous reporting period as the 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 SNV 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, on 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.

**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, MERCANTIL must reclassify the loan to the category to which it pertained before being classified as in litigation or overdue. Under VEN NIF, these loans are recorded based on collectability.

**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.

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**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 were incurred.

**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 amount 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 SNV rules, reclassifications of held-to-maturity securities must be approved by the SNV.

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**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 transactions, mainly in U.S. dollars, are recorded at the official exchange rate in effect at the transaction date. Foreign currency balances at December 31, 2010 are shown at the official exchange rate of Bs 4.2893/US\$1, Bs 0.002/Ps1 and Bs 4.588/CHF1 (Bs 2.1446/US\$1, Bs 0.001/Ps1 and Bs 2.072/CHF1 at December 31, 2009), as established in the 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 two options for measuring transactions and balances in foreign currency: a) at the official exchange rates established in the exchange agreements issued by BCV or b) on the basis of best estimates of future cash flows in bolivars expected to be obtained using the exchange or settlement mechanisms permitted under Venezuelan law, such as the System for Transactions with Securities in Foreign Currency (SITME).

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

**a) Consolidation**

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

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

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

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

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**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.

***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, among others. For the years ended December 31, 2010 and 2009, MERCANTIL has identified no permanent impairment 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.

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***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 within interest income on the accrual basis (Note 4).

**e) Direct financial assets and liabilities**

These are mutuum or 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.

**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.

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**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**

Reserves for insurance claims include the estimated cost of claims reported and related expenses in addition to the estimated provisions for claims incurred but not yet reported.

Since reserves are based on estimates, the actual amounts may be greater or smaller than those reserves. The effects of changes in estimated reserves are included in the results for the period in which they occur. Reserves for insurance operations are shown within 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.

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***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 the Venezuelan Labor 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 the years ended December 31, 2010 and 2009, Mercantil Commercebank contributed Bs 3,953,000 and Bs 4,289,000, 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.

***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 initial past service 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, costs and expenses**

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

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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 amount 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 and those 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 22).

**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.

**t) Dividends**

In accordance with its bylaws, 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 SNV, lines of credit and special trust services (Note 24).

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

Assets and liabilities are translated at the period-end exchange rate, equity accounts at the historic exchange rate, and income accounts at the average exchange rate for the period. Translation adjustments are 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).

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**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 BCV included in cash and due from banks:

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
Demand deposits	2,331,873	1,125,785
Legal reserve in local currency	6,708,305	6,544,359
Legal reserve in U.S. dollars	<u>3,078</u>	<u>3,367</u>
	<u>9,043,256</u>	<u>7,673,511</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 (Notes 4 and 11) 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%, in March 2009 to 25%, in November to 23% and in October 2010 to 17%. Legal reserve funds do not earn interest for MERCANTIL.

**4. Investment portfolio**

The investment portfolio comprises the following:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Cost	Book value (equivalent to market value)	Cost	Book value (equivalent to market value)
	(Thousands of bolivars)			
<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>38,776</u>	<u>38,776</u>	<u>809</u>	<u>809</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	112,477	112,477	-	-
Securities issued by the National Treasury of the United States of America	-	-	42,727	42,727
Other investments	<u>81,253</u>	<u>81,253</u>	<u>28,210</u>	<u>28,210</u>
	<u>193,730</u>	<u>193,730</u>	<u>70,937</u>	<u>70,937</u>
Investment in securities issued by entities in other countries				
Other investments	<u>44</u>	<u>44</u>	<u>26</u>	<u>26</u>
	<u>232,550</u>	<u>232,550</u>	<u>71,772</u>	<u>71,772</u>

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	December 31, 2010			Book value (equivalent to market value)  (Thousands of bolivars)	December 31, 2009			Book value (equivalent to market value)
	Cost	Unrealized gain	Unrealized loss		Cost	Unrealized gain	Unrealized loss	
<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)	4,652,884	294,068	(57,619)	4,889,333	3,301,508	39,782	(43,603)	3,297,687
In foreign currency	<u>492,871</u>	<u>65,124</u>	<u>(50,486)</u>	<u>507,509</u>	<u>447,285</u>	<u>44,849</u>	<u>(51,495)</u>	<u>440,639</u>
	<u>5,145,755</u>	<u>359,192</u>	<u>(108,105)</u>	<u>5,396,842</u>	<u>3,748,793</u>	<u>84,631</u>	<u>(95,098)</u>	<u>3,738,326</u>
Other investments								
In local currency	473,316	2,693	(3,168)	472,841	542,897	2,377	(5,241)	540,033
In foreign currency	<u>3,108</u>	<u>-</u>	<u>(133)</u>	<u>2,975</u>	<u>3,226</u>	<u>296</u>	<u>(133)</u>	<u>3,389</u>
	<u>476,424</u>	<u>2,693</u>	<u>(3,301)</u>	<u>475,816</u>	<u>546,123</u>	<u>2,673</u>	<u>(5,374)</u>	<u>543,422</u>
	<u>5,622,179</u>	<u>361,885</u>	<u>(111,406)</u>	<u>5,872,658</u>	<u>4,294,916</u>	<u>87,304</u>	<u>(100,472)</u>	<u>4,281,748</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)	6,247,088	76,202	(15,573)	6,307,717	2,985,502	31,025	(14,468)	3,002,059
Debt in companies sponsored and supervised by the government of the United States of America (3)	2,347,294	59,728	(8,563)	2,398,459	2,175,125	32,381	(6,670)	2,200,836
Securities issued by the National Treasury of the United States of America	237,311	405	(153)	237,563	187,547	827	(15,331)	173,043
Other investments	<u>1,123,585</u>	<u>5,577</u>	<u>(41,652)</u>	<u>1,087,510</u>	<u>90,338</u>	<u>237</u>	<u>(82)</u>	<u>90,493</u>
	<u>9,955,278</u>	<u>141,912</u>	<u>(65,941)</u>	<u>10,031,249</u>	<u>5,438,512</u>	<u>64,470</u>	<u>(36,551)</u>	<u>5,466,431</u>
Investments in other countries	<u>1,183,830</u>	<u>6,400</u>	<u>(6,767)</u>	<u>1,183,463</u>	<u>388,024</u>	<u>2,800</u>	<u>(2,293)</u>	<u>388,531</u>
	<u>16,761,287</u>	<u>510,197</u>	<u>(184,114)</u>	<u>17,087,370</u>	<u>10,121,452</u>	<u>154,574</u>	<u>(139,316)</u>	<u>10,136,710</u>

- (1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$274,220,880 at December 31, 2010 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, the Federal Home Loan Mortgage Corporation and the 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, 2010, these securities are measured based on the national market value, which represents the estimated cash flows in bolivars expected to be received at the realization date, based on their intended use. The remaining securities in foreign currency are measured based on the international market value.

At December 31, 2010, investments in available-for-sale securities with a market value of US\$1,011 million were pledged to guarantee deposits and investments sold under repurchase agreements (US\$1,057 million at December 31, 2009).

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

	2010	2009
	(Thousands of bolivars)	
<b>Type of portfolio</b>		
Investments in available-for-sale securities	326,084	15,258
Investments in held-to-maturity securities reclassified to investments in available-for-sale securities	43,545	(4,325)
Share trading portfolio	9,865	14,439
Restricted investments	2,806	1,156
Affiliates shown under the equity method	16	(220)
Net increase from adjustment of spot contracts to market value	<u>-</u>	<u>15</u>
	<u>382,316</u>	<u>26,323</u>

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At December 31, 2010, the market value of securities of the Bolivarian Republic of Venezuela owned by MERCANTIL and its subsidiaries is lower than cost by Bs 108,105,000. This loss is included in equity as an unrealized gain on investments in 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 during 2010, the high volatility of international oil prices and the offer on the primary market of fixed income securities issued by the Bolivarian Republic of Venezuela and State companies in local and foreign currencies, 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.

In addition to securities of the Bolivarian Republic of Venezuela, at December 31, 2010, MERCANTIL has other securities with values lower than cost by Bs 76,009,000. MERCANTIL believes that these losses arise from normal stock market fluctuations and, consequently, are temporary. MERCANTIL does not expect to realize these securities at a price below their book value.

	December 31, 2010			December 31, 2009		
	Amortized cost	Unrealized loss	Market value	Amortized cost	Unrealized loss	Market value
	(Thousands of bolivars)					
<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)	<u>320,123</u>	<u>(31,797)</u>	<u>288,326</u>	<u>317,867</u>	<u>8,060</u>	<u>325,927</u>
Investments in securities issued by entities in the United States of America in U.S. dollars						
Other investments	<u>33,930</u>	<u>(66)</u>	<u>33,864</u>	<u>23,323</u>	<u>104</u>	<u>23,427</u>
Investments in other countries	<u>268,987</u>	<u>1,880</u>	<u>270,867</u>	<u>115,183</u>	<u>1,007</u>	<u>116,190</u>
	<u>623,040</u>	<u>(29,983)</u>	<u>593,057</u>	<u>456,373</u>	<u>9,171</u>	<u>465,544</u>

(1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$153,282,592 at December 31, 2010 payable in bolivars at the official exchange rate (Note 23).

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, 2010				December 31, 2009			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
	(Thousands of bolivars)							
<b>Share trading portfolio</b>								
Shares issued by Venezuelan companies	5,947	10,900	(1,037)	15,810	5,522	15,497	(1,058)	19,961
Shares issued by foreign companies	<u>20</u>	<u>1</u>	<u>-</u>	<u>21</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
	<u>5,967</u>	<u>10,901</u>	<u>(1,037)</u>	<u>15,831</u>	<u>5,532</u>	<u>15,497</u>	<u>(1,058)</u>	<u>19,971</u>

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During the year ended December 31, 2009, MERCANTIL recorded a gain of US\$267,919, equivalent to Bs 575,000, in connection with the sale of 1,930 Class “B” MasterCard shares, shown within gain on sale of investment securities.

In July 2009, MERCANTIL sold 273,025 Visa Inc. shares at a gain of US\$16,558,000, equivalent to Bs 35,510,000, included under gain on sale of investment securities.

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<b>Cost</b>	<b>Market value</b>	<b>Cost</b>	<b>Market value</b>
	(Thousands of bolivars)			
<b>Investments in time deposits and placements</b>				
Investments in securities issued by Venezuelan entities				
Time deposits				
Central Bank of Venezuela (BCV)	1,439,000	1,439,000	1,831,000	1,831,000
Financial institutions	324,589	324,589	69,000	69,000
Overnight deposits	-	-	3,000	3,000
	<u>1,763,589</u>	<u>1,763,589</u>	<u>1,903,000</u>	<u>1,903,000</u>
Investments in securities issued by financial institutions in the United States of America				
Time deposits	50,184	50,184	51,899	51,899
Overnight deposits	<u>1,036</u>	<u>1,036</u>	<u>518</u>	<u>518</u>
	<u>51,220</u>	<u>51,220</u>	<u>52,417</u>	<u>52,417</u>
Investments in securities issued by entities in other countries				
	<u>127,190</u>	<u>127,190</u>	<u>73,716</u>	<u>73,716</u>
	<u>1,941,999</u>	<u>1,941,999</u>	<u>2,029,133</u>	<u>2,029,133</u>

Time deposits and placements include investments for Bs 1,904,002,000 maturing within 90 days (Bs 2,019,814,000 at December 31, 2009).

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<b>Cost</b>	<b>Market value</b>	<b>Cost</b>	<b>Market value</b>
	(Thousands of bolivars)			
<b>Restricted investments and repurchase agreements</b>				
Securities issued by the Bolivarian Republic of Venezuela				
In local currency	1,612,544	1,612,429	1,288,093	1,288,156
In foreign currency	<u>78</u>	<u>78</u>	<u>33</u>	<u>33</u>
	<u>1,612,622</u>	<u>1,612,507</u>	<u>1,288,126</u>	<u>1,288,189</u>
Securities issued or guaranteed by the government of the United States of America				
	<u>72,459</u>	<u>75,380</u>	<u>38,703</u>	<u>39,796</u>
Investments in other countries				
	<u>3,053</u>	<u>3,053</u>	<u>2,148</u>	<u>2,148</u>
	<u>1,688,134</u>	<u>1,690,940</u>	<u>1,328,977</u>	<u>1,330,133</u>

At December 31, 2010, restricted investments include securities of the Coral Gables agency of the subsidiary Mercantil, C.A. Banco Universal with a market value of US\$10,623,123 (US\$13,919,000 at December 31, 2009), pledged to regulatory entities in compliance with state requirements in the United States of America.

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Below is a classification of investments by maturity at December 31, 2010:

	<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)
	(Thousands of bolivars)					
<b>In bolivars</b>						
Less than 1 year	968,352	972,080	9.01	-	-	-
From 1 to 5 years	3,764,167	3,738,879	15.90	-	-	-
Over 5 years	492,135	748,132	15.90	318,061	320,123	18.41
<b>In U.S. dollars</b>						
Less than 1 year	368,648	369,819	5.76	64,879	62,947	1.6
From 1 to 5 years	2,206,683	2,179,269	4.06	222,796	219,518	2.8
Over 5 years	<u>8,961,302</u>	<u>9,079,191</u>	5.01	<u>17,541</u>	<u>20,452</u>	10.00
	<u>16,761,287</u>	<u>17,087,370</u>		<u>623,277</u>	<u>623,040</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 impairment 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, 2010, a net gain of Bs 576,073,000 (Bs 168,077,000 during the year ended December 31, 2009) was recorded on the sale of securities, included under gain on sale of investment securities.

During the year ended December 31, 2010, 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 Bs 3,627,000 (gain of Bs 30,870,000 at December 31, 2009), 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, 2010, MERCANTIL has investment securities issued or guaranteed by the Venezuelan government and investment securities with BCV, which represent 24.66% and 14.13%, respectively, of its investment securities portfolio (29.43% and 21.77%, respectively, at December 31, 2009). Furthermore, MERCANTIL has investments in bonds issued by the government and other government agencies of the United States of America representing 45.14% of its investment portfolio (39.64% at December 31, 2009).

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**5. Direct financial assets**

At December 31, 2009, MERCANTIL had mutuum or 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, yields between 8.24% and 12.97%, and maturities as follows:

	(Thousands of bolivars)
Up to 30 days	282,750
31 to 60 days	<u>11,130</u>
	<u>293,880</u>

**6. Loan portfolio**

The loan portfolio is classified as follows:

	<u>December 31, 2010</u>						<u>December 31, 2009</u>	
	<u>Current</u>	<u>Rescheduled</u>	<u>Overdue</u>	<u>In litigation</u>	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>
	(Thousands of bolivars)							
<b>Economic activity</b>								
Commercial	15,664,470	350,458	296,749	139,235	16,450,912	37	9,483,364	34
Credit cards	4,661,769	-	2,548	-	4,664,317	11	3,220,782	12
Agriculture	4,218,887	68,790	88,039	15,651	4,391,367	10	2,939,591	11
Foreign trade	3,597,643	-	14,234	-	3,611,877	8	2,280,916	8
Services	3,220,385	9,784	3,084	-	3,233,253	7	800,776	3
Industrial	3,040,185	13,022	15,916	-	3,069,123	7	2,339,015	8
Construction	2,252,862	129,602	331,290	80,248	2,794,002	6	2,363,904	8
Home purchase	2,571,423	1,883	59,769	15,055	2,648,130	6	2,067,687	7
Car loans	1,354,769	-	2,373	-	1,357,142	3	1,219,366	4
Other	<u>1,802,300</u>	<u>109,468</u>	<u>197,524</u>	<u>32,651</u>	<u>2,141,943</u>	<u>5</u>	<u>1,315,047</u>	<u>5</u>
	<u>42,384,693</u>	<u>683,007</u>	<u>1,011,526</u>	<u>282,840</u>	<u>44,362,066</u>	<u>100</u>	<u>28,030,448</u>	<u>100</u>

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

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
<b>Geographic location</b>				
Venezuela	28,404,334	64	21,045,321	76
United States of America	9,263,027	21	4,388,635	16
Brazil	1,589,890	4	590,209	2
Peru	837,918	2	270,223	1
Mexico	664,265	1	255,722	1
Panama	365,512	1	46,565	-
Colombia	361,983	1	126,614	-
Switzerland	218,571	-	65,425	-
Other countries	<u>2,656,566</u>	<u>6</u>	<u>1,241,734</u>	<u>4</u>
	<u>44,362,066</u>	<u>100</u>	<u>28,030,448</u>	<u>100</u>

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

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
Balance at the beginning of the year	892,725	626,329
Provided in the year	962,364	759,658
Effect of translating allowances in foreign currency	204,806	(854)
Decrease in allowance (Note 19)	(1,344)	(7,699)
Write-off of uncollectible loans	(624,591)	(481,409)
Transfers to other reserves	-	(3,300)
Balance at the end of the year	<u>1,433,960</u>	<u>892,725</u>

At December 31, 2010, the loan portfolio no longer earning interest amounts to Bs 1,575,694,000 and includes US\$311,513,000 (Bs 1,083,096,000 including US\$415,788,000 at December 31, 2009).

During the year ended December 31, 2010, interest accrued but not recorded as income on loans overdue and in-litigation amounts to Bs 369,752,000 and includes US\$14.7 million (Bs 457,121,000 including US\$24.1 million during the year ended December 31, 2009). Interest on the loan portfolio for the year ended December 31, 2010 includes Bs 278,774,000 (Bs 399,717,000 during the year ended December 31, 2009) for interest collected on loans overdue and in-litigation deferred in previous years.

During the year ended December 31, 2010, uncollectible loans written off in previous years for Bs 87,207,000 (Bs 100,465,000 during the year ended December 31, 2009) were collected and 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, 2010 and 2009, MERCANTIL does not have significant risk concentrations in its consolidated loan portfolio.

**7. Interest and commissions receivable**

Interest and commissions receivable at December 31 comprise the following:

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Interest on</b>		
Loan portfolio	310,172	215,910
Investment securities	<u>150,381</u>	<u>74,344</u>
	460,553	290,254
Commissions receivable	34,252	26,899
Provision for contingent losses	<u>(11,887)</u>	<u>(15,307)</u>
	<u>482,918</u>	<u>301,846</u>



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During the year ended December 31, 2010, MERCANTIL recorded amortization expense of available-for-sale assets of Bs 53,685,000 (Bs 35,799,000 during the year ended December 31, 2009). Fully depreciated personal and real property are shown under memorandum accounts (Note 2).

During the year ended December 31, 2010, MERCANTIL sold assets received as payment and idle assets at a gain of Bs 24,891,000 and a loss of Bs 1,536,000 (gain of Bs 12,046,000 and loss of Bs 1,772,000 during the year ended December 31, 2009), shown in the consolidated income statement under other income and other operating expenses, respectively (Notes 19 and 20).

**10. Property and equipment**

Property and equipment comprises the following:

	Cost							Balances at December 31, 2010
	Balances at December 31, 2009	Additions	Withdrawals	Fully depreciated assets written off	Other	Loss from asset write-down	Translation adjustment	
	(Thousands of bolivars)							
Furniture and equipment	401,235	60,279	(9,509)	(4)	(1,900)	-	67,553	517,654
Buildings and facilities	384,708	64,152	(159)	(292)	(6,405)	-	92,592	534,596
Vehicles	9,002	1,156	(356)	-	(47)	-	225	9,980
Land	18,212	11,581	(248)	-	(145)	-	8,138	37,538
Construction in progress	30,274	29,923	(16,394)	-	-	-	6,010	49,813
Equipment for Chip project	-	11,220	(9)	-	-	-	-	11,211
Other property	<u>55,943</u>	<u>67</u>	<u>(281)</u>	<u>-</u>	<u>96</u>	<u>-</u>	<u>41,564</u>	<u>97,389</u>
Total	<u>899,374</u>	<u>178,378</u>	<u>(26,956)</u>	<u>(296)</u>	<u>(8,401)</u>	<u>-</u>	<u>216,082</u>	<u>1,258,181</u>

  

	Accumulated depreciation							Balances at December 31, 2010
	Balances at December 31, 2009	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment		
	(Thousands of bolivars)							
Buildings and facilities	(134,870)	(20,130)	82	292	6,480	(22,162)	(170,308)	
Furniture and equipment	(262,342)	(57,040)	5,910	4	1,861	(53,677)	(365,284)	
Equipment for Chip project	-	(1,917)	-	-	(1,417)	-	(3,334)	
Vehicles	(4,184)	(1,630)	134	-	45	(208)	(5,843)	
Other property	<u>(7,939)</u>	<u>(6,922)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,305)</u>	<u>(24,166)</u>	
Total	<u>(409,335)</u>	<u>(87,639)</u>	<u>6,126</u>	<u>296</u>	<u>6,969</u>	<u>(85,352)</u>	<u>(568,935)</u>	
Net	<u>490,039</u>	<u>90,739</u>	<u>(20,830)</u>	<u>-</u>	<u>(1,432)</u>	<u>130,730</u>	<u>689,246</u>	

At December 31, 2010, property and equipment includes Bs 83,109,000 related to a corporate airplane (Bs 41,428,000 at December 31, 2009). 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. 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, 2010, MERCANTIL recorded depreciation expense of Bs 6,922,000 (Bs 6,131,000 during the year ended December 31, 2009).

During the year ended December 31, 2010, MERCANTIL recorded depreciation expense of Bs 87,639,000 (Bs 77,342,000 during the year ended December 31, 2009), shown in the consolidated income statement under operating expenses.

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At December 31, 2010, buildings, facilities and land carried at Bs 401,826,000 have an estimated market value of Bs 2,075,065,000, based on valuations performed by independent appraisers between April and June 2009.

At December 31, 2010, construction in progress is mainly in respect of construction or remodeling of offices to be used by MERCANTIL.

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

	Useful life (Years)	Remaining useful life (Years)
Buildings and facilities	40	22
Office furniture and equipment	4-10	3
Other property	10	7

**11. Other assets**

Other assets at December 31 comprise the following:

	2010	2009
	(Thousands of bolivars)	
Insurance premiums receivable	471,884	325,135
Deferred expenses, net of accumulated amortization of Bs 182,023,000 (Bs 132,318,000 at December 31, 2009)	137,608	149,797
Prepaid expenses	146,501	97,259
Goodwill	141,019	119,164
Guarantee deposits to reinsurers	116,729	48,857
Sale of securities in process of collection	45,502	32,742
Prepaid taxes, insurance and other prepaid expenses	96,696	58,672
Cross Currency Swap valuation (Notes 15 and 24)	84,055	380
Deferred income tax (Note 17)	54,257	39,951
Stationery and office supplies	43,227	20,377
Guarantee deposits and advances for acquisition of personal and real property (Note 10)	43,123	16,568
Sambil La Candelaria shopping mall rights (Note 9)	39,191	39,191
Systems development, net of accumulated amortization of Bs 161,123,000 (Bs 118,905,000 at December 31, 2009)	33,355	36,664
Pending items	25,925	23,633
Accounts receivable from other credit card companies	10,464	6,509
Currency redenomination expenses (Note 2)	3,303	4,811
Prepaid advertising	3,223	4,507
Adjustment of spot and forward contracts to market value (Note 24)	13,033	4,087
Other	<u>139,855</u>	<u>123,962</u>
	1,648,950	1,152,266
Provision for estimated losses on other assets	<u>(66,637)</u>	<u>(29,883)</u>
	<u>1,582,313</u>	<u>1,122,383</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

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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, 2010 and 2009, MERCANTIL has recorded Bs 1,518,803, including US\$273,541, in connection with this settlement.

Below is the movement of goodwill:

	<b>Cost</b>		
	<b>December 31, 2009</b>	<b>Translation adjustment</b>	<b>December 31, 2010</b>
	(Thousands of bolivars)		
Interbank, C.A.	131,222	-	131,222
Florida Savings Bank	41,162	41,164	82,326
C.A. Seguros Orinoco	19,602	-	19,602
Mercantil Seguros, C.A.	3,989	-	3,989
Todo 1 Services, Inc.	<u>3,291</u>	<u>-</u>	<u>3,291</u>
	<u>199,266</u>	<u>41,164</u>	<u>240,430</u>

  

	<b>Accumulated amortization</b>			
	<b>December 31, 2009</b>	<b>Additions</b>	<b>Translation adjustment</b>	<b>December 31, 2010</b>
	(Thousands of bolivars)			
Interbank, C.A.	59,052	6,560	-	65,612
Florida Savings Bank	7,375	3,438	8,053	18,866
C.A. Seguros Orinoco	8,488	1,060	-	9,548
Mercantil Seguros, C.A.	1,896	198	-	2,094
Todo 1 Services, Inc.	<u>3,291</u>	<u>-</u>	<u>-</u>	<u>3,291</u>
	<u>80,102</u>	<u>11,256</u>	<u>8,053</u>	<u>99,411</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, 2010, MERCANTIL's consolidated financial statements include Bs 42 million (Bs 49 million at December 31, 2009) for the aforementioned rights, as well as idle assets. In January 2010, the Venezuelan National Assembly declared this property of public and social interest, and urged the Capital District government to proceed with its expropriation, which was effected on February 24, 2010. The terms of the expropriation are unknown to date. 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).

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During the year ended December 31, 2010, MERCANTIL recorded amortization expense of Bs 67,453,000 (Bs 60,279,000 during the year ended December 31, 2009), shown in the consolidated income statement under depreciation, property and equipment expenses, amortization of intangibles and other.

**12. Deposits**

Deposits comprise the following:

**Type of deposit**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Non-interest-bearing checking accounts	16,222,179	26	10,398,275	24
Interest-bearing checking accounts	19,929,002	32	12,232,187	29
Savings deposits	20,004,694	32	13,902,051	32
Time deposits	<u>6,211,038</u>	<u>10</u>	<u>6,315,191</u>	<u>15</u>
	<u>62,366,913</u>	<u>100</u>	<u>42,847,704</u>	<u>100</u>

**Time deposits by maturity**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Up to 30 days	1,952,479	31	1,234,489	20
31 to 60 days	824,206	13	648,503	10
61 to 90 days	692,959	11	393,998	6
91 to 180 days	803,669	13	567,304	9
181 to 360 days	793,525	13	466,460	7
Over 360 days	<u>1,144,200</u>	<u>19</u>	<u>3,004,437</u>	<u>48</u>
	<u>6,211,038</u>	<u>100</u>	<u>6,315,191</u>	<u>100</u>

Deposits bear interest at the rates shown below:

	<u>December 31, 2010</u>				<u>Deposits 31, 2009</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	3.50	0.03	1.20	0.50	3.00	0.03	1.20
Savings deposits	12.50	12.50	0.03	2.00	12.50	12.50	0.03	2.00
Time deposits	14.50	14.50	0.10	5.70	14.50	17.00	0.10	6.10

At December 31, 2010, deposits include Bs 893,912,000 (Bs 957,342,000 at December 31, 2009) from the Venezuelan government and other government entities, equivalent to 1.4% of total deposits (2.2% at December 31, 2009).

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**13. Debt authorized by the SNV**

At December 31, 2010, MERCANTIL has issued by public offering debenture bonds and commercial paper with the following characteristics:

**Debenture bonds**

	Amount issued and placed (Note 24)	Date of issue	Term (Years)	Percentage of return compared to TAM (*)
	(Thousands of bolivars)			
Issue 2007-I	20,000	May 2007	4	72.5
Issue 2008-I	40,000	February and March 2009	2	85.0
Issue 2009-I	<u>20,000</u>	August 2009	1.6	83.0
	<u>80,000</u>			
Bonds acquired by subsidiaries	<u>12,957</u>			
	<u>67,043</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.

**14. Financial liabilities**

Financial liabilities are classified by type and maturity as follows:

	December 31, 2010			December 31, 2009		
	Up to one year	More than one year	Total	Up to one year	More than one year	Total
	(Thousands of bolivars)					
<b>Liabilities with Venezuelan banks and savings and loan institutions</b>						
Credit balances with correspondent banks	132,861	-	132,861	120,309	-	120,309
Loans granted by Venezuelan financial institutions, with annual interest at between 15% and 24%	120,000	140,000	260,000	-	-	-
Deposits and other liabilities with BANAVIH	<u>13</u>	<u>-</u>	<u>13</u>	<u>10</u>	<u>-</u>	<u>10</u>
	<u>252,874</u>	<u>140,000</u>	<u>392,874</u>	<u>120,319</u>	<u>-</u>	<u>120,319</u>
<b>Liabilities with foreign banks and savings and loan institutions</b>						
Federal Home Loan Bank, with a par value of US\$429,750,000, with annual interest at between 0.2% and 5.8% (US\$201,754,359 at December 31, 2009, with annual interest at between 2.0% and 5.9%)	546,887	1,296,441	1,843,328	9	432,673	432,682
Credit balances with foreign correspondent banks	-	-	-	447	-	447
Other	<u>1,665</u>	<u>-</u>	<u>1,665</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>548,552</u>	<u>1,296,441</u>	<u>1,844,993</u>	<u>456</u>	<u>432,673</u>	<u>433,129</u>
<b>Direct financial liabilities</b>						
Mutuum or securities loan agreements	<u>-</u>	<u>-</u>	<u>-</u>	<u>364,146</u>	<u>-</u>	<u>364,146</u>

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	<u>December 31, 2010</u>			<u>December 31, 2009</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>
	(Thousands of bolivars)					
<b>Liabilities under repurchase agreements</b>						
Liabilities under repurchase agreements with a par value of US\$202,000,000, with annual interest at between 3.8% and 5.5% (US\$337,000,000, with annual interest at between 3.85% and 5.51% at December 31, 2009)	300,251	566,188	866,439	-	722,730	722,730
<b>Other liabilities</b>						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	2,107	2,107	-	2,111	2,111
Liabilities with credit card merchants	1,262	-	1,262	-	-	-
Liabilities in respect of letters of credit	25,864	-	25,864	21,892	-	21,892
Other	75	13	88	1,107	26	1,133
	<u>27,201</u>	<u>2,120</u>	<u>29,321</u>	<u>22,999</u>	<u>2,137</u>	<u>25,136</u>
	<u>1,128,878</u>	<u>2,004,749</u>	<u>3,133,627</u>	<u>507,920</u>	<u>1,157,540</u>	<u>1,665,460</u>

Maturities of financial liabilities are as follows:

**Up to one year**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Up to 30 days	729,358	65	498,771	99
Between 31 and 60 days	8,524	1	6,585	1
Between 61 and 90 days	148,288	13	1,030	-
Between 91 and 360 days	<u>242,708</u>	<u>21</u>	<u>1,534</u>	<u>-</u>
Total	<u>1,128,878</u>	<u>100</u>	<u>507,920</u>	<u>100</u>

**More than one year**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
2011	2,113	-	-	-
2012	733,427	37	387,086	33
2013	809,181	40	122,249	12
2014 and beyond	-	-	375,305	32
2015 and beyond	128,679	6	272,900	23
2016 and beyond	<u>331,349</u>	<u>17</u>	<u>-</u>	<u>-</u>
Total	<u>2,004,749</u>	<u>100</u>	<u>1,157,540</u>	<u>100</u>

**Direct financial liabilities**

At December 31, 2009, MERCANTIL had mutuum or securities loan agreements of Bs 364,146,000 represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela with annual yields at between 11.98% and 16.13%. Of these amounts, Bs 1,014,000 related to the subsidiary Mercantil Merinvest Casa de Bolsa, C.A.

In January 2010, the SNV 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 December 31, 2010, MERCANTIL has no current mutuum.

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**Liabilities under repurchase agreements**

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

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
Balance at year end	866,439	722,730
Fair value of financial instruments (1)	866,439	722,730
Total maximum balance outstanding at the end of any month of the year	1,434,762	829,960
Average balance for the year	1,162,083	754,899

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

	%	%
<b>Weighted average interest rate</b>		
For the year		
In foreign currency	4.38	4.58
Interest rate at year end		
In foreign currency	4.69	4.62

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

**15. Other liabilities**

Other liabilities at December 31 comprise the following:

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
Reserves for insurance operations (Note 2)	1,840,806	1,303,605
Cashier's checks issued to clients	585,920	320,641
Other demand liabilities	387,575	275,438
Provision for contingencies and other (Notes 17 and 32)	347,433	168,808
Accrued expenses	320,948	143,487
Provisions for taxes payable (Note 17)	295,446	93,158
Deferred income and interest (Note 8)	208,096	171,120
Employee profit sharing and bonuses	186,564	133,552
Accounts payable to suppliers	147,792	70,108
Taxes collected and withheld	76,467	62,098
Pending items	46,861	74,075
Deferred income tax	40,011	-
Labor contributions	27,194	18,593
Law on Narcotic and Psychotropic Substances	15,598	14,365
Provision for operating risks	11,785	25,285
Cross Currency Swap valuation (Notes 11 and 24)	2,837	7,275
Dividends payable	1,139	55,667
Supplementary Savings Plan (Note 18-a)	768	4,211
Law for the Advancement of Science, Technology and Innovation	-	-
Deposits or advances received for leasing and sale of premises in Sambil La Candelaria shopping mall	-	5,702
Other	<u>246,574</u>	<u>147,616</u>
	<u>4,789,814</u>	<u>3,094,804</u>

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At December 31, 2010, MERCANTIL maintains provisions for operating risks of Bs 11,785,000, determined on the basis of methodologies for risk management assessment, measurement and control (Bs 25,285,000 at December 31, 2009). Provisions for contingencies and other operating risks are recorded in the consolidated income statement under other operating expenses (Note 20).

At December 31, 2010, 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, during the year ended December 31, 2010, MERCANTIL made contributions to companies included under the aforementioned Law.

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 July 2010 and January 2011, respectively.

**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, 2010		Balances at December 31, 2009	
				Equivalent in millions of US\$	Equivalent in millions of bolivars	Equivalent in millions of US\$	Equivalent in millions of bolivars
June 1998	June 2028	8.90	40	27	104,348	27	57,539
September 2000	September 2030	10.6	15	15	64,340	15	32,169
March 2001	June 2031	10.18	10	10	42,893	10	21,446
December 2002	January 2033	LIBOR + 3.35	9	9	39,676	9	19,838
April 2003	April 2033	LIBOR + 3.25	8	8	34,314	8	17,157
March 2004	April 2034	LIBOR + 2.85	5	5	21,447	5	10,723
September 2006	September 2038	LIBOR + 1.75	25	25	107,233	25	53,615
December 2006	December 2036	LIBOR + 1.78	15	15	64,340	15	32,169
					<u>478,591</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.

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**17. Taxes**

**a) Tax expense**

The tax expense comprises the following:

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Taxes</b>		
Current		
In Venezuela	266,571	89,902
Abroad	<u>8,529</u>	<u>6,988</u>
	<u>275,100</u>	<u>96,890</u>
Deferred		
In Venezuela	<u>56,676</u>	<u>—</u>

**Taxes in Venezuela**

***Venezuelan Income Tax Law***

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

MERCANTIL's tax year ends on December 31. 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, 2010, MERCANTIL and its subsidiaries have tax loss carryforwards of Bs 166,304,707 with sources and maturities as shown below:

	<b>Territorial</b>	<b>Extraterritorial</b>	<b>Total global</b>
	(Thousands of bolivars)		
Tax losses	159,779	6,526	166,305
<b>Maturities</b>			
2011	112,430	1,796	114,226
2012	41,890	4,645	46,535
2013	5,458	86	5,544

The aforementioned amount mainly comprises tax loss carryforwards of Mercantil Servicios Financieros, C.A. (Bs 113,245,000), Mercantil Merinvest Casa de Bolsa, C.A. (Bs 15,476,000), Mercantil Inversiones y Valores, C.A. (Bs 13,996,000) and Inversiones y Valores Mercantil V, C.A. (Bs 10,408,000).

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The subsidiary Mercantil, C.A. Banco Universal computed estimated taxable income for the year ended December 31, 2010, giving rise to an estimated tax expense of Bs 245,154,000 (Bs 62,064,000 for the year ended December 31, 2009). 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, 2010:

Statutory tax rate	<u>34%</u>
	(Thousands of bolivars )
Notional tax expense based on book income in Venezuela computed at the effective tax rate	547,959
<b>Difference between notional tax expense and actual tax expense</b>	
Net effect of equity participation	(19,161)
Effect of the annual inflation adjustment	(421,101)
Net effect of exemption of securities issued or guaranteed by the Venezuelan government	(214,111)
Nondeductible provisions	
Loan portfolio, net	151,821
Other provisions	25,649
Other effects, net	<u>99,289</u>
Effect of applying tax rate to net income in Venezuela	170,345
Effect of applying tax rate to foreign-earned net income	<u>74,805</u>
Effect of applying tax rate to net income in Venezuela and foreign-earned net income	<u>245,150</u>

**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 2009 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.

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**b) Deferred income tax**

The deferred tax asset at December 31 comprises the following:

	2010	2009
	(Thousands of bolivars)	
Unrealized loss on valuation of available-for-sale investments	(31,797)	(11,407)
Provision for operating and labor expenses	38,937	28,105
Allowance for losses on loan portfolio	44,591	21,990
Property and equipment, office setup expenses and other	<u>2,526</u>	<u>1,263</u>
Deferred tax asset (Note 11)	<u>54,257</u>	<u>39,951</u>
Investments in subsidiaries	(40,011)	-
Deferred tax liability (Note 15)	<u>(40,011)</u>	<u>-</u>

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, 2010, MERCANTIL, based on its assessment, estimates that the net deferred tax asset of Bs 54,257,000 at December 31, 2010 is realizable.

**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, 2010 amount to Bs 29 million (Bs 31 million during the year ended December 31, 2009).

**b) Supplementary Defined Benefit Plan**

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

**c) Post-retirement benefits**

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

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For the year ended December 31, 2010, MERCANTIL and its subsidiaries recorded an expense of Bs 23 million (Bs 15 million during the year ended December 31, 2009) in connection with the Supplementary Defined Benefit Plan and post-retirement benefits.

At December 31, 2010, date of the last actuarial study, the assets, obligations and results of the Supplementary Defined Benefit Plan and post-retirement benefits for both plans, as well as the long-term assumptions used, are as follows:

	<u>Supplementary Defined Benefit Plan</u>		<u>Post-retirement benefits</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(Thousands of bolivars)			
<b>Variation in projected benefit obligation</b>				
Benefit obligation at the beginning of the plan	41,380	28,514	26,529	32,594
Service cost	80	116	2,204	2,600
Interest cost	6,344	5,702	6,037	6,310
Actuarial (gain) loss	13,240	1,572	4,806	(12,396)
Benefits paid	(7,316)	(6,208)	(3,353)	(2,579)
Plan modification and other	<u>18,590</u>	<u>11,684</u>	-	-
Projected benefit obligation	<u>72,318</u>	<u>41,380</u>	<u>36,223</u>	<u>26,529</u>
<b>Variation in restricted plan assets</b>				
Opening fair value of assets	41,380	36,465	19,101	16,035
Yield on assets, includes variation in the exchange rate	14,900	1,322	(3,063)	159
MERCANTIL contribution	20,000	5,000	-	1,500
Transfer of obligations	<u>(3,962)</u>	<u>(1,407)</u>	<u>3,962</u>	<u>1,407</u>
Closing fair value of assets	<u>72,318</u>	<u>41,380</u>	<u>20,000</u>	<u>19,101</u>
<b>Financial position at year end</b>				
Present value of obligations (DBO)	(72,318)	(41,380)	(36,223)	(26,529)
Assets of external fund supporting the plan	<u>72,318</u>	<u>41,380</u>	<u>20,000</u>	<u>19,101</u>
Excess (deficit) of assets over projected Obligation	-	-	(16,223)	(7,428)
Unrecognized past service cost	-	-	5,662	6,550
Unrecognized actuarial (gain) loss	-	-	701	(4,333)
	<u>-</u>	<u>-</u>	<u>(9,860)</u>	<u>(5,211)</u>
<b>Components of net benefit cost for the year</b>				
Service cost	80	116	2,204	2,600
Interest cost	6,345	5,702	6,037	6,310
Expected yield from plan assets	(14,900)	(1,322)	3,063	(159)
Amortization of unrecognized past service cost	-	-	888	888
Amortization of actuarial (gain) loss	<u>13,240</u>	<u>(1,572)</u>	<u>(228)</u>	<u>651</u>
Net benefit cost for the year	<u>4,765</u>	<u>2,924</u>	<u>11,964</u>	<u>10,290</u>

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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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Discount rate	22.50	24.00	22.50	24.00
Salary increase	22.50	24.00	22.50	24.00
Yield on assets				
Bolivars	17.00	20.00	17.00	20.00
U.S. dollars	6.00	6.00	6.00	6.00
Increase in medical expenses	-	-	26.50	27.00

The estimated cost of plans for 2011 is Bs 6,691,000.

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

MERCANTIL and certain subsidiaries in Venezuela and abroad offer a long-term stock option plan to eligible officers approved by the Board of Directors' Compensation Committee. These shares are allotted over three-year periods and awarded annually. Fundación BMA manages the plan and sets up trust funds with the shares on behalf of members once these shares have been assigned and subsequently awarded to eligible officers based on individual allotments approved in accordance with plan regulations. During each administrative phase and until the shares are actually acquired by officers, cash dividends declared in respect of these shares are received by Fundación BMA and stock dividends by the participants. According to the long-term 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, 2010, 32 employees are participating in this plan.

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

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

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

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

(3) Includes stock dividends.

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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.

Below is the movement of shares awarded in Phase IV:

	<u>Shares awarded</u>		
	Class “A”	Class “B”	Total
<b>Balances 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>Balances at December 31, 2009</b>	588,469	490,252	1,078,721
Options exercised	(429,412)	(358,492)	(787,904)
Options recovered	<u>(47,066)</u>	<u>(38,425)</u>	<u>(85,491)</u>
<b>Balances at December 31, 2010</b>	<u>111,991</u>	<u>93,335</u>	<u>205,326</u>

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

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

	Share volatility %	Risk free rate %	Time (Years)	Option value (In bolivars)
Phase IV	37.52	11.02	1.06	13.33

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.

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**19. Other income**

Other income at December 31 comprises the following:

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
Credit card commissions	275,752	189,084
Income from repurchase agreements	117,881	-
Interest on insurance policies financed	111,928	66,143
Commissions on banking services	95,137	83,244
Recovery of loans recorded as uncollectible (Note 6)	87,207	100,465
Decrease in allowances	77,919	85,820
Income from transactions with derivative instruments (Note 24)	55,041	66,813
Commission for foreign currency administration	41,787	21,016
Commissions on drafts and transfers	38,422	18,975
Commissions on placement of Sovereign Bonds 2022	35,854	-
Commissions on sale of securities	20,196	-
Gain on sale of available-for-sale assets (Note 9)	19,545	12,046
Income from other accounts receivable	19,125	18,523
Commissions on administration of housing savings funds	15,652	25,559
Decrease in provision for deferred income tax (Notes 11 and 17)	14,440	14,440
Commissions on advisory services	13,343	7,748
Commissions on sale of insurance policies	8,287	-
Amortization of deferred income (Inversiones Platco)	5,937	-
Cross Currency Swap valuation (Note 24)	4,807	5,498
Income from interest on financial lease contracts	3,594	-
Decrease in allowance for losses on loan portfolio (Note 6)	1,396	7,699
Other	<u>126,932</u>	<u>91,238</u>
	<u><b>1,190,182</b></u>	<u><b>814,311</b></u>

**20. Other operating expenses**

Other operating expenses at December 31 comprise the following:

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
Professional fees and other external services	242,854	175,862
Taxes and contributions (Note 17)	160,437	130,842
Service commissions	152,987	93,286
Communications	144,480	116,120
Provisions for available-for-sale and other assets	104,222	44,512
Provision for operating risks and other contingencies	80,715	19,915
Robbery, assault and fraud	50,218	58,661
Advertising and marketing	49,874	40,262
Office supplies	48,131	42,217
Transportation and security	28,713	23,575
Credit card franchises	28,099	-
Provision for the Law for the Advancement of Science, Technology and Innovation (Note 15)	22,777	16,545
Insurance expenses	15,953	6,938
Public relations and representation expenses	14,615	11,882
Donations	14,432	9,964
Cross Currency Swap valuation (Note 24)	3,170	1,938
Other	<u>142,074</u>	<u>120,286</u>
	<u><b>1,303,751</b></u>	<u><b>912,805</b></u>

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**21. Equity**

**a) Capital stock and authorized capital**

At December 31, 2010 and 2009, MERCANTIL's subscribed and paid-in capital amounts to Bs 154,406,000, represented by 102,937,240 shares divided into 59,847,222 Class "A" common shares and 43,090,018 Class "B" common shares, with limited voting rights regarding approval of financial statements and appointment of statutory auditors, with a par value of Bs 1.5 each. Of these shares, at December 31, 2009, 351,046 Class "A" and 229,706 Class "B" common shares constitute treasury stock in connection with the current repurchase program of MERCANTIL shares. Outstanding shares amount to 102,356,488 shares, 59,496,176 Class "A" and 42,860,312 Class "B" common shares.

MERCANTIL's authorized capital stock at December 31, 2010 is Bs 308,811,720 (Note 24).

**b) Stock repurchase program**

In May 2000, a repurchase program of MERCANTIL shares was approved within the limits set out by the Stock Market 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.

The repurchase program has been implemented in 22 six-month phases. Below is a summary of the applicable conditions for the current phases:

<b>Phase</b>	<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>
		(In bolivars)		
Nineteenth	March 2009	90	22.28	96,466
Twentieth	September 2009	90	20.47	183,758
Twenty-first	March 2010	90	28.49	113,403
Twenty-second	September 2010	90	29.77	<u>187,125</u>
Repurchased and unredeemed shares (0,56% of capital stock)				<u>580,752</u>

In January 2010, 1,046,487 shares that had been approved in October 2009 were redeemed. They were acquired in the sixteenth, seventeenth, eighteenth and nineteenth phases of the aforementioned repurchase program, which resulted in a decrease in MERCANTIL's paid-in capital by Bs 1,570,000.

At December 31, 2010, 81,767,180 shares for Bs 221,732,000 were redeemed (80,720,693 shares at December 31, 2009). They were acquired up to the nineteenth phase of the aforementioned repurchase program and were held as treasury stock in conformity with the Stock Market Law.

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**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 2009	0.50	February 2010
Ordinary	March 2010	0.15	May 2010
Special	March 2010	0.90	May 2010
Ordinary	March 2010	0.30	October 2010

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

Below is the calculation method used to determine the basis for dividend distribution to shareholders for the year ended December 31, 2010:

	(Thousands of bolivars)
Consolidated net income	2,176,313
<b>Less</b>	
Equity in the results of subsidiaries	(2,240,641)
<b>Add</b>	
Dividends collected	<u>525,137</u>
Base income for dividend distribution	<u>460,809</u>

Retained earnings at December 31, 2010 include Bs 1,279,357,000 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) Trust agreement on shares of 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 SNV and the Federal Reserve of the United States of America for consideration, contemplates establishing a trust 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 trust 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

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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 trust 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 final beneficial owners and, consequently, shall record the related financial effect.

At December 31, 2010 and 2009, 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, 2010, the Foundation has net equity of US\$691,783 (US\$736,402 at December 31, 2009), represented by securities at market value (Note 4).

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**22. Income per share**

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

	2010	2009
	(Thousands of bolivars, except for number of shares)	
<b>Net income per common share</b>		
Net income	2,176,314	795,692
Common shares issued	102,937,240	103,983,727
Weighted average of outstanding common shares	99,758,978	100,117,194
Basic net income per share	21.82	7.95
<b>Net income per diluted common share</b>		
Net income	2,176,314	795,692
Weighted average of outstanding common shares	99,758,978	100,117,194
Potentially diluted common shares	17,036	-
Total weighted average of outstanding diluted common shares	99,776,014	100,117,194
Diluted net income per share	21.81	7.95

**23. Financial assets and liabilities in foreign currency**

**a) Exchange control regime**

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

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

**b) Applicable exchange rates**

On March 2, 2005, the Ministry of Finance and BCV changed the official exchange rates, effective as from that date, from Bs 1.915/US\$1 to Bs 2.145/US\$1 (purchase) and from Bs 1.92/US\$1 to Bs 2.15/US\$1 (sale). In January 2010, the Venezuelan government and BCV introduced a two-tiered exchange rate of Bs 2.5935/US\$1 or Bs 4.2893/US\$1 (purchase) and Bs 2.60/US\$1 or Bs 4.30/US\$1 (sale), thereby modifying the official exchange rates that had remained in effect since March 2005. The rate applicable to imports for priority sectors such as food, health, education, machinery and equipment, and science and technology, as well as for external public debt servicing, among others, is Bs 2.60/US\$1; whereas Bs 4.30/US\$1 shall apply to imports for all other sectors.

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

**c) Measurement and recording of assets and liabilities in foreign currency**

For the year ended December 31, 2010, the effect of measuring foreign currency balances, including TICCs, of MERCANTIL and its subsidiaries in accordance with current currency exchange regulations resulted in:

- Exchange gains of Bs 1,063 million included in the consolidated income statement.
- Increase in the translation adjustment of net assets of subsidiaries abroad of Bs 1,270 million, shown in equity.
- Increase in the unrealized gain from adjustment of investments to market value of Bs 440 million, shown in equity.

**d) Applications to CADIVI to obtain foreign currency for dividend payment**

MERCANTIL applies to CADIVI to obtain currency at the official exchange rate for conversion into U.S. dollars of dividends payable to ADR holders. 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.

**e) Net global position in foreign currency**

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

	2010	2009
	(Thousands of U.S. dollars)	
<b>Assets</b>		
Cash and due from banks	297,252	270,010
Investment portfolio	2,906,854	3,001,959
Loan portfolio	3,818,834	3,343,940
Other assets	<u>112,203</u>	<u>67,645</u>
	<u>7,135,143</u>	<u>6,683,554</u>
<b>Liabilities</b>		
Deposits	5,434,503	5,073,011
Financial liabilities	638,173	549,167
Other liabilities	10,359	30,171
Subordinated debt	<u>111,578</u>	<u>114,080</u>
	<u>6,194,613</u>	<u>5,766,429</u>

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During the year ended December 31, 2010, net exchange gains resulting from foreign currency positions amounted to Bs 1,063,278,000 (net loss of Bs 2,350,000 during the year ended December 31, 2009). Furthermore, during the year ended December 31, 2010, net losses from intermediation in foreign currency trading amounted to Bs 7,612,000 (net gain of Bs 2,106,000 during the year ended December 31, 2009).

The estimated effect of every Bs 0.10/US\$1 increase in the exchange rate of Bs 4.2983/US\$1 at December 31, 2010 would be an increase in assets of Bs 713,514,000 and an increase in equity of Bs 94,053,000.

**24. Memorandum accounts**

Memorandum accounts at December 31 comprise the following:

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Contingent debtor accounts</b>		
Transactions with derivative instruments (Note 19)	2,657,679	2,213,892
Investment securities under resale agreements	1,611,000	1,226,000
Lines of credit (Note 25)	2,310,254	756,051
Letters of credit	716,319	368,419
Guarantees granted	472,826	341,152
Cross Currency Swap Contract (Notes 11, 15, 19 and 20)	65,534	61,997
Tourism loan commitments	33,048	25,059
Other contingencies	<u>843,612</u>	<u>778,922</u>
	<u>8,710,272</u>	<u>5,771,492</u>
Assets received in trust	<u>9,638,196</u>	<u>9,699,922</u>
Special trust services	<u>632,821</u>	<u>851,839</u>
<b>Other debtor memorandum accounts</b>		
Guarantees received	51,197,983	34,337,786
Valuables received in custody	17,353,613	9,561,001
Unused lines of credit	7,378,644	5,040,479
Collections	142,329	110,006
Publicly traded shares (Note 21)	154,406	158,517
Commercial paper pending issue (Notes 2-u and 13)	-	70,000
Other control accounts	<u>13,793,160</u>	<u>8,594,908</u>
	<u>90,020,135</u>	<u>57,872,697</u>
	<u>109,001,424</u>	<u>74,195,950</u>

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**a) Assets received in trust**

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

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Assets</b>		
Cash and due from banks	534,828	352,218
Investment portfolio	4,383,876	5,559,151
Loan portfolio	4,253,800	3,291,949
Interest and commissions receivable	58,192	53,045
Assets received for administration	9,977	10,959
Other assets	<u>397,523</u>	<u>432,600</u>
Total assets	<u>9,638,196</u>	<u>9,699,922</u>
<b>Liabilities</b>		
Other accounts payable	26,682	24,263
Other liabilities	<u>691</u>	<u>1,229</u>
Total liabilities	27,373	25,492
Equity	<u>9,610,823</u>	<u>9,674,430</u>
Total liabilities and equity	<u>9,638,196</u>	<u>9,699,922</u>

**b) Securities under spot contracts**

MERCANTIL purchases and sells securities under spot contracts at an established price. During the year ended December 31, 2010, MERCANTIL recorded net losses from adjustment to market value of Bs 982,000 (Bs 1,656,000 during the year ended December 31, 2009). Spot transactions were settled within seven business days of the date of origin (Note 11). Securities under spot contracts comprise the following:

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Securities</b>		
Purchase rights	1,713,371	1,365,996
Sale rights	<u>52,933</u>	<u>17,193</u>
	<u>1,766,304</u>	<u>1,383,189</u>

**c) Transactions with derivative instruments**

MERCANTIL enters into 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, 2010 amounted to Bs 51,525,000 (Bs 66,813,000 at December 31, 2009), shown under other income (Note 19).

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

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

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Thousands of bolivars	Maturity	Thousands of bolivars	Maturity
<b>Futures contracts</b>				
<b>Exchange rates (currency)</b>				
Purchases	213,028	February - May 2011	117,676	January and September 2010
<b>Securities</b>				
Purchases	678,348	January 2011	364,772	January 2010
Sales	<u>-</u>		<u>294,640</u>	January 2010
	<u>891,376</u>		<u>777,088</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, 2010, the contract's fair value is US\$12 million (US\$11 million at December 31, 2009) and it resulted in a gain of Bs 3,669,000, shown under other income (gains and losses of Bs 5,498,000 and Bs 1,939,000, respectively, shown under other income and other operating expenses, respectively, at December 31, 2009).

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, 2010, these agreements were cancelled (nominal value and market value of US\$25 million and US\$1 million (liability), respectively, at December 31, 2009).

**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 1% and 2% (0.25% and 3% at December 31, 2009) 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% (0.125% and 2% at December 31, 2009) 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.

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**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.

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

Financial assets and liabilities at December 31, 2010 are classified according to maturity as follows:

	30 days	60 days	90 days	180 days	360 days	Over 360 days	Total
	(Thousands of bolivars)						
<b>Assets</b>							
Cash and due from banks	11,824,946	-	-	-	-	-	11,824,946
Investment portfolio	3,743,961	258,215	169,585	614,576	388,016	16,417,377	21,591,730
Loan portfolio	8,991,883	4,500,198	3,627,999	3,655,538	3,290,536	20,295,912	44,362,066
Interest and commissions receivable	482,918	-	-	-	-	-	482,918
Long-term investments	-	-	-	-	-	188,824	188,824
Total financial assets	<u>25,043,708</u>	<u>4,758,413</u>	<u>3,797,584</u>	<u>4,270,114</u>	<u>3,678,552</u>	<u>36,902,113</u>	<u>78,450,484</u>
<b>Liabilities</b>							
Deposits	58,108,354	824,206	692,959	803,669	793,525	1,144,200	62,366,913
Debt authorized by the SNV	67,043	-	-	-	-	-	67,043
Financial liabilities	729,358	8,523	148,288	167,646	75,063	2,004,749	3,133,627
Interest and commissions payable	29,475	-	-	-	-	-	29,475
Subordinated debt	-	-	-	-	-	478,591	478,591
Total financial liabilities	<u>58,934,230</u>	<u>832,729</u>	<u>841,247</u>	<u>971,315</u>	<u>868,588</u>	<u>3,627,540</u>	<u>66,075,649</u>

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**27. Fair value of financial instruments**

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

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
	(Thousands of bolivars)			
<b>Assets</b>				
Cash and due from banks	11,824,946	11,824,946	9,480,058	9,480,058
Investment portfolio	21,591,730	21,447,757	14,044,092	14,053,263
Direct financial assets	-	-	293,880	293,880
Loan portfolio, net of allowance	42,928,106	42,928,106	27,137,723	27,137,723
Interest and commissions receivable, net of provision	482,918	482,918	301,846	301,846
	<u>76,827,700</u>	<u>76,683,727</u>	<u>51,257,599</u>	<u>51,266,770</u>
<b>Liabilities</b>				
Deposits	62,366,913	62,366,913	42,847,704	42,847,704
Debt authorized by the SNV	67,043	67,043	312,394	312,394
Financial liabilities	3,133,627	3,133,627	1,665,460	1,665,460
Subordinated debt	478,591	478,591	244,656	244,656
Interest and commissions payable	29,475	29,475	27,138	27,138
	<u>66,075,649</u>	<u>66,075,649</u>	<u>45,097,352</u>	<u>45,097,352</u>
<b>Memorandum accounts</b>				
Contingent debtor accounts	<u>6,400,015</u>	<u>6,400,015</u>	<u>5,015,441</u>	<u>5,015,441</u>

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

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

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

**Short-term financial instruments**

Short-term financial instruments, both assets and liabilities, are shown in the consolidated 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, 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).

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**Loan portfolio**

Most of the loan portfolio earns interest at variable rates that are revised regularly, generally between 30 and 90 days for most of the short-term portfolio. In addition, 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.

**28. Geographic segment information**

MERCANTIL operations are distributed geographically as follows:

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Gross financial margin</b>		
Venezuela	3,221,043	2,449,911
United States of America	500,678	333,318
Other	<u>51,627</u>	<u>31,316</u>
Total	<u><u>3,773,348</u></u>	<u><u>2,814,545</u></u>
<b>Net financial margin, commissions and other income</b>		
Venezuela	5,341,052	3,124,149
United States of America	464,795	98,145
Other	<u>233,582</u>	<u>78,184</u>
Total	<u><u>6,039,429</u></u>	<u><u>3,400,478</u></u>
<b>Operating income before tax and minority interests</b>		
Venezuela	2,392,126	972,290
United States of America	(42,078)	(116,770)
Other	<u>159,242</u>	<u>37,551</u>
Total	<u><u>2,509,290</u></u>	<u><u>893,071</u></u>

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	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
<b>Assets</b>				
Venezuela	49,038,670	62	39,000,854	74
United States of America	27,714,920	35	12,803,218	24
Other	<u>2,629,372</u>	<u>3</u>	<u>1,270,738</u>	<u>2</u>
Total	<u>79,382,962</u>	<u>100</u>	<u>53,074,810</u>	<u>100</u>
<b>Liabilities</b>				
Venezuela	44,159,143	62	35,775,684	74
United States of America	24,776,844	35	11,479,613	24
Other	<u>1,933,675</u>	<u>3</u>	<u>939,703</u>	<u>2</u>
Total	<u>70,869,662</u>	<u>100</u>	<u>48,195,000</u>	<u>100</u>

**29. Financial information by subsidiary**

Below is a summary of the financial information by subsidiary at December 31, 2010. This information includes the effect of eliminations normally made during consolidation:

	Mercantil, C.A. Banco Universal	Mercantil Commercebanc Holding Corporation (1)	Other foreign banks	Mercantil Seguros, C.A.	Mercantil Merinvest C.A.	Mercantil Inversiones y Valores, C.A. and other	Consolidated total
	(Thousands of bolivars)						
Total assets	46,170,343	27,532,854	2,195,370	3,192,925	69,887	221,583	79,382,962
Investment portfolio	7,703,230	9,897,583	1,525,490	2,306,862	66,465	92,100	21,591,730
Loan portfolio, net	26,703,385	15,877,988	346,733	-	-	-	42,928,106
Deposits	39,218,115	21,362,617	1,786,181	-	-	-	62,366,913
Gross income							
before tax	1,893,088	(33,452)	154,099	410,733	47,660	35,807	2,507,935
Net income	1,630,359	(34,558)	144,285	408,933	42,560	(15,266)	2,176,313
Number of employees	6,685	746	41	1,487	26	49	9,034

(1) Final beneficial owner of Mercantil Commercebanc, N.A.

**30. Risk management**

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

**Credit risk**

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

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

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

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#### **Market risks**

Financial institutions encounter market risks when market conditions show adverse changes that affect the liquidity and value of financial instruments included in investment portfolios or contingent positions 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, foreign exchange and share price risks.

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

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

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

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

#### **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, 2010 and 2009, trust fund assets amount to Bs 9,638,196,000 and Bs 9,699,922,000, 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 measurements of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

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

	<b>2010 Current %</b>	<b>2009 Current %</b>	<b>Minimum required %</b>
<b>Equity to risk-weighted assets and contingent operations</b>			
Mercantil Servicios Financieros, C.A. and its subsidiaries (consolidated)	20.37	18.30	8.00
Mercantil, C.A. Banco Universal and branches abroad	17.62	17.01	12.00
Mercantil Commercebank, N.A.	18.85	22.05	8.00
<b>Tier I equity to risk-weighted assets and contingent operations</b>			
Mercantil Servicios Financieros, C.A. and its subsidiaries (consolidated)	18.06	16.22	4.00
Mercantil Commercebank, N.A.	17.77	20.78	4.00
<b>Equity to total assets</b>			
Mercantil, C.A. Banco Universal and branches abroad	11.91	10.17	8.00
Mercantil Commercebank, N.A.	9.40	10.09	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 at December 31, 2009. 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 27,054,000 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 1,408,393 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 April 2010, the National Integrated Customs and Tax Administration Service (SENIAT) confirmed this tax assessment, which was appealed by the subsidiary in May 2010. In the opinion of management and its legal advisors, this assessment is not well grounded in law.

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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, there are legal grounds to uphold the inadmissibility of the assessment.

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 ruling and ordered that a new ruling be issued. In the opinion of Bank management and its legal advisors, the new ruling will be favorable to the Bank.

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, 2010, the balance of this trust fund is Bs 2,334,000 Bs 1,806,000 at December 31, 2009).

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

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

	<b>2010</b>	<b>2009</b>
	(Thousands of bolivars)	
<b>Assets</b>		
Cash and due from banks	56,577	7,682
Investment portfolio		
Mercantil, C.A. Banco Universal	4,778,700	3,183,659
Mercantil Commercebank Holding Corporation	2,270,940	1,091,572
Inversiones y Valores Mercantil VI, C.A.	-	422,335
Holding Mercantil International	-	231,150
Mercantil Bank (Schweiz) AG	281,548	-
Alvina Corporation, N.V.	268,215	-
Mercantil Merinvest, C.A.	112,317	95,515
Mercantil Inversiones y Valores, C.A.	26,127	57,966
Inversiones y Valores Mercantil VIII, C.A.	870,657	-
Cestaticket Accor Services, C.A.	80,357	74,630
Other	188,746	72,717
Other assets	<u>(21,678)</u>	<u>36,751</u>
Total assets	<u>8,912,506</u>	<u>5,273,977</u>
<b>Liabilities</b>		
Debenture bonds and commercial paper	80,000	326,009
Other liabilities	<u>319,206</u>	<u>68,158</u>
Total liabilities	399,206	394,167
<b>Equity</b>		
Total liabilities and equity	<u>8,513,300</u>	<u>4,879,810</u>
	<u>8,912,506</u>	<u>5,273,977</u>
<b>Income</b>		
Interest income	8,848	4,018
Equity in subsidiaries, affiliates and other entities	2,326,939	967,357
<b>Expenses</b>		
Operating	(115,699)	(132,360)
Interest	<u>(43,775)</u>	<u>(43,323)</u>
Net income	<u>2,176,313</u>	<u>795,692</u>

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

SNV 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, 2010:

**Supplementary consolidated balance sheet**  
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	<b>2010</b>	<b>2009</b>
	(Thousands of constant bolivars at December 31, 2010)	
<b>Assets</b>		
<b>Cash and due from banks</b>		
Cash	1,050,803	1,020,948
Central Bank of Venezuela (BCV)	9,043,256	9,773,300
Venezuelan banks and other financial institutions	5,073	46,895
Foreign banks and other financial institutions	1,213,412	710,075
Pending cash items	<u>512,402</u>	<u>522,972</u>
	<u>11,824,946</u>	<u>12,074,190</u>
<b>Investment portfolio</b>		
Investments in trading securities	232,550	91,411
Investments in available-for-sale securities	17,087,370	12,910,530
Investments in held-to-maturity securities	623,040	581,255
Share trading portfolio	51,381	58,470
Investments in time deposits and placements	1,941,999	2,584,387
Restricted investments and repurchase agreements	<u>1,690,940</u>	<u>1,694,112</u>
	<u>21,627,280</u>	<u>17,920,165</u>
<b>Direct financial assets</b>	-	<u>374,297</u>
<b>Loan portfolio</b>		
Current	42,384,693	34,410,150
Rescheduled	683,007	111,915
Overdue	1,011,526	1,088,165
In litigation	<u>282,840</u>	<u>90,500</u>
	44,362,066	35,700,730
Allowance for losses on loan portfolio	<u>(1,433,960)</u>	<u>(1,137,011)</u>
	<u>42,928,106</u>	<u>34,563,719</u>
<b>Interest and commissions receivable</b>	<u>482,918</u>	<u>384,444</u>
<b>Long-term investments</b>	<u>216,870</u>	<u>218,139</u>
<b>Available-for-sale assets</b>	<u>120,387</u>	<u>79,754</u>
<b>Property and equipment</b>	<u>1,658,709</u>	<u>1,592,794</u>
<b>Other assets</b>	<u>2,254,692</u>	<u>2,087,173</u>
<b>Total assets</b>	<u>81,113,908</u>	<u>69,294,675</u>
<b>Memorandum accounts</b>	<u>109,000,431</u>	<u>94,499,006</u>

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	<b>2010</b>	<b>2009</b>
	(Thousands of constant bolivars at December 31, 2010)	
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Deposits		
Non-interest-bearing checking accounts	16,222,179	13,243,669
Interest-bearing checking accounts	19,929,002	15,579,415
Savings deposits	20,004,694	17,706,222
Time deposits	<u>6,211,038</u>	<u>8,043,286</u>
	<u>62,366,913</u>	<u>54,572,592</u>
<b>Debt authorized by the SNV</b>		
Publicly traded debt securities issued by MERCANTIL	<u>67,043</u>	<u>397,878</u>
<b>Financial liabilities</b>		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	252,874	153,243
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	140,000	-
Liabilities to foreign banks and savings and loan institutions, up to one year	548,552	580
Liabilities to foreign banks and savings and loan institutions, more than one year	1,296,441	551,070
Direct financial liabilities	-	463,792
Liabilities under repurchase agreements	866,439	920,499
Other liabilities, up to one year	27,201	29,293
Other liabilities, more than one year	<u>2,120</u>	<u>2,722</u>
	<u>3,133,627</u>	<u>2,121,199</u>
<b>Interest and commissions payable</b>	<u>29,475</u>	<u>34,564</u>
<b>Other liabilities</b>	<u>4,832,955</u>	<u>3,954,837</u>
<b>Subordinated debt</b>	<u>478,591</u>	<u>311,604</u>
<b>Total liabilities</b>	<u>70,908,604</u>	<u>61,392,674</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>4,715</u>	<u>4,936</u>
<b>Equity</b>		
Capital stock	154,406	155,976
Capital inflation adjustment	2,361,730	2,362,113
Share premium	920,195	920,636
Capital reserves	1,444,508	1,444,508
Translation adjustment of net assets of subsidiaries abroad	(625,620)	(1,532,565)
Retained earnings	5,628,450	4,604,220
Repurchased shares held by subsidiaries	(47,917)	(40,806)
Repurchased shares reserved for employee stock option plan	(17,479)	(52,847)
Unrealized gain from adjustment of investments to market value	<u>382,316</u>	<u>35,830</u>
<b>Total equity</b>	<u>10,200,589</u>	<u>7,897,065</u>
<b>Total liabilities and equity</b>	<u>81,113,908</u>	<u>69,294,675</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2010 and 2009**

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

	<b>2010</b>	<b>2009</b>
	(Thousands of constant bolivars at December 31, 2010)	
<b>Interest income</b>		
Income from cash and due from banks	7,130	16,692
Income from investment portfolio	1,108,305	1,574,292
Income from loan portfolio	4,955,869	4,923,914
Income from financial assets	<u>2,300</u>	<u>60,511</u>
Total interest income	<u>6,073,604</u>	<u>6,575,409</u>
<b>Interest expense</b>		
Interest on demand and savings deposits	(1,661,107)	(1,859,581)
Interest on time deposits	(123,053)	(322,981)
Interest on securities issued by MERCANTIL	(33,600)	(182,551)
Interest on financial liabilities	<u>(141,988)</u>	<u>(243,926)</u>
Total interest expense	<u>(1,959,748)</u>	<u>(2,609,039)</u>
<b>Gross financial margin</b>	4,113,856	3,966,370
Allowance for losses on loan portfolio	(1,019,886)	(1,057,429)
Expenses from write-down of available-for-sale investments	<u>-</u>	<u>(44,068)</u>
<b>Net financial margin</b>	<u>3,093,970</u>	<u>2,864,873</u>
<b>Commissions and other income</b>		
Trust fund operations	62,031	68,153
Foreign currency operations	(7,403)	2,992
Commissions on customer account transactions	296,293	324,650
Commissions on letters of credit and guarantees granted	23,743	26,996
Equity in long-term investments	84,484	75,611
Exchange gain	1,200,799	2,727
Gain on sale of investment securities	607,682	241,574
Other income	<u>1,312,323</u>	<u>1,381,619</u>
Total commissions and other income	<u>3,579,952</u>	<u>2,124,322</u>
<b>Insurance premiums, net of claims</b>		
Premiums	3,588,232	3,207,977
Claims	<u>(3,128,102)</u>	<u>(2,741,343)</u>
Total insurance premiums, net of claims	<u>460,130</u>	<u>466,634</u>
<b>Operating expenses</b>		
Salaries and employee benefits	(1,858,530)	(1,940,159)
Depreciation, property and equipment expenses, amortization of intangibles and other	(675,612)	(788,000)
Fees paid to regulatory agencies	(528,153)	(271,656)
Other operating expenses	<u>(1,488,943)</u>	<u>(1,327,176)</u>
Total operating expenses	<u>(4,551,238)</u>	<u>(4,326,991)</u>
<b>Loss from net monetary position</b>	<u>(997,131)</u>	<u>(913,138)</u>
Operating income before tax and minority interests	<u>1,585,683</u>	<u>215,700</u>
<b>Income tax</b>		
Current	(290,698)	(132,519)
Deferred	<u>(57,991)</u>	<u>-</u>
Total tax	<u>(348,689)</u>	<u>(132,519)</u>
Net income before minority interests	1,236,994	83,181
<b>Minority interests</b>	<u>(563)</u>	<u>(66)</u>
Net income	<u>1,236,431</u>	<u>83,115</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
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**Supplementary consolidated statement of changes in equity**  
**Years ended December 31, 2010 and 2009**

	Capital stock	Capital inflation adjustment (Note 2-a)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad	Retained earnings	Repurchased shares held by subsidiaries	Repurchased shares reserved for employee stock option plan	Unrealized gain from adjustment of investments to market value	Total equity
(Thousands of constant bolivars at December 31, 2010)										
<b>Balances at December 31, 2008</b>	155,976	2,362,113	916,450	1,444,508	(1,109,306)	4,733,884	(30,282)	(51,953)	(271,281)	8,150,109
Net income	-	-	-	-	-	83,115	-	-	-	83,115
Repurchased shares	-	-	-	-	-	-	(10,524)	-	-	(10,524)
Repurchased shares reserved for employee stock option plan	-	-	4,186	-	-	-	-	(894)	-	3,292
Minimum dividend payable	-	-	-	-	-	(164,907)	-	-	-	(164,907)
Cash dividends	-	-	-	-	-	(47,872)	-	-	-	(47,872)
Unrealized loss on investments	-	-	-	-	-	-	-	-	307,111	307,111
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(423,259)	-	-	-	-	(423,259)
<b>Balances at December 31, 2009</b>	155,976	2,362,113	920,636	1,444,508	(1,532,565)	4,604,220	(40,806)	(52,847)	35,830	7,897,065
Net income	-	-	-	-	-	1,236,431	-	-	-	1,236,431
Repurchased shares	-	-	-	-	-	-	(7,111)	-	-	(7,111)
Repurchased shares reserved for employee stock option plan	-	-	(441)	-	-	-	-	(4,873)	-	(5,314)
Minimum dividend payable	-	-	-	-	-	(56,870)	-	-	-	(56,870)
Cash dividends	-	-	-	-	-	(117,043)	-	-	-	(117,043)
Unrealized gain on investments	-	-	-	-	-	-	-	-	346,486	346,486
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	906,945	-	-	-	-	906,945
Redemption of repurchased shares	(1,570)	(383)	-	-	-	(38,288)	-	40,241	-	-
<b>Balances at December 31, 2010</b>	<u>154,406</u>	<u>2,361,730</u>	<u>920,195</u>	<u>1,444,508</u>	<u>(625,620)</u>	<u>5,628,450</u>	<u>(47,917)</u>	<u>(17,479)</u>	<u>382,316</u>	<u>10,200,589</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2010 and 2009**

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

	<b>2010</b>	<b>2009</b>
	(Thousands of constant bolivars at December 31, 2010)	
<b>Cash flows from operating activities</b>		
Net income	1,236,431	83,115
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	279,176	432,645
Allowance for losses on loan portfolio	1,019,886	1,057,407
Decrease in allowance for losses on loan portfolio	(1,521)	(10,138)
Amortization of available-for-sale assets	71,539	55,848
Provision for interest receivable and other assets	39,188	7,353
Gain on equity in long-term investments	(84,484)	(75,610)
Deferred income tax	58,594	-
Minority interest expenses	563	65
Accrual for employee termination benefits	204,977	229,543
Payment of employee termination benefits	(76,768)	(219,930)
Net change in operating assets and liabilities		
Interest and commissions receivable	(98,475)	136,700
Interest and commissions payable	(5,089)	(26,457)
Available-for-sale and other assets	(107,363)	108,286
Other liabilities	714,389	(727,151)
Net cash provided by operating activities	<u>3,251,043</u>	<u>1,051,676</u>
<b>Cash flows from investing activities</b>		
Net change in investment portfolio	(3,036,444)	(2,244,412)
Loans granted	(175,164,410)	(88,086,780)
Loans collected	165,781,659	88,393,470
Additions to property and equipment, net	(244,347)	(202,994)
Net cash used in investing activities	<u>(12,663,542)</u>	<u>(2,140,716)</u>
<b>Cash flows from financing activities</b>		
Net change in		
Deposits	7,794,320	(3,963,997)
Short-term financial liabilities	489,016	(2,662,468)
Debt securities issued by MERCANTIL	(330,835)	116,722
Subordinated debt	166,987	(83,888)
New long-term financial liabilities	(487,943)	(375,062)
Long-term financial liabilities repaid	1,018,402	63,597
Cash dividends	(139,177)	(259,442)
Repurchased shares	(10,716)	(10,524)
Repurchased shares reserved for employee stock option plan	(4,872)	(894)
Share premium	(441)	4,186
Net cash provided by (used in) financing activities	<u>8,494,741</u>	<u>(7,171,770)</u>
<b>Cash and cash equivalents</b>		
Decrease for the year	(917,758)	(8,260,810)
At the beginning of the year	<u>14,646,706</u>	<u>22,907,516</u>
At the end of the year	<u>13,728,948</u>	<u>14,646,706</u>
<b>Supplementary information</b>		
Taxes paid	<u>131,993</u>	<u>362,091</u>
Interest paid	<u>859,342</u>	<u>1,353,999</u>
Translation adjustment of net assets of subsidiaries abroad	<u>906,945</u>	<u>423,259</u>
Unrealized gain from adjustment of investments to market value	<u>346,486</u>	<u>307,110</u>

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

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

### **December 31, 2010 and 2009**

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

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

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

CPI indices and inflation rates for the years ended December 31, 2010 and 2009, according to information published by BCV, are as follows:

<b>Years ended</b>	<b>Base CPI for 2007=100</b>	<b>Inflation rate %</b>
December 2009	167.40	26.91
December 2010	213.20	24.20

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

Monetary assets and liabilities at December 31, 2010, including amounts in foreign currency are, by their nature, shown in terms of purchasing power at that date. For comparative purposes, monetary assets and liabilities at December 31, 2009 have been restated to express them in terms of purchasing power at December 31, 2010.

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2010 and 2009**

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

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	(Thousands of constant bolivars at December 31, 2010)	
Net monetary asset position at the beginning of the year	<u>5,165,180</u>	<u>5,443,532</u>
<b>Transactions that increased net monetary position</b>		
Income	10,113,679	9,161,863
Translation adjustment of subsidiaries abroad	906,944	(423,259)
Unrealized gain on subsidiaries and affiliates	346,486	336,355
Net change in securities	17,329	22,464
Repurchased shares	4,147	(10,524)
Net change in available-for-sale assets	2,486	(42,188)
Net change in subsidiaries and affiliates	1,273	(58,740)
Share premium	-	4,186
Subtotal	<u>11,392,344</u>	<u>8,990,157</u>
<b>Transactions that decreased net monetary position</b>		
Expenses	(7,364,681)	(7,901,000)
Deferred income tax	(202,241)	-
Cash dividends	(117,043)	(164,908)
Minimum dividend payable	(56,870)	(47,872)
Net additions to property and equipment	(54,919)	(144,464)
Shares sold by employees, net	(8,701)	(894)
Shares purchased by employees, net	(7,917)	-
Net change in other assets	(819)	(61,855)
Net change in other liabilities	-	(34,378)
Subtotal	<u>(7,813,191)</u>	<u>(8,355,371)</u>
Estimated net monetary asset position	8,744,333	6,078,318
Historic net monetary liability position	<u>(7,747,202)</u>	<u>(5,165,180)</u>
Loss from net monetary position	<u>997,131</u>	<u>913,138</u>

**Nonmonetary assets**

Property and equipment, available-for-sale assets and deferred charges are expressed in constant currency at December 31, 2010, 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 affiliates.

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

**Equity**

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

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2010 and 2009**

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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**

	<b>2010</b>	<b>2009</b>
	(Thousands of constant bolivars at December 31, 2010)	
Buildings and facilities	2,181,496	2,094,855
Furniture and equipment	1,426,251	1,342,268
Chip project	14,605	-
Vehicles	21,420	20,756
Land	201,210	185,204
Construction in progress	57,351	41,706
Other assets	<u>198,120</u>	<u>169,488</u>
	4,100,453	3,854,277
Accumulated depreciation	<u>(2,441,744)</u>	<u>(2,261,483)</u>
	<u>1,658,709</u>	<u>1,592,794</u>

At December 31, 2010, buildings, facilities and land amounting to Bs 1,185,942 million have an estimated market value of Bs 2,075,065 million calculated by independent appraisers.

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2010 and 2009**

**b) Other assets**

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
	(Thousands of constant bolivars at December 31, 2010)	
Goodwill	680,908	685,308
Insurance premiums receivable	459,218	414,105
Sale of securities in process of collection	204,657	41,702
Deferred expenses, net of accumulated amortization	183,768	266,884
Prepaid expenses	147,155	123,872
Guarantee deposits to reinsurers	116,729	62,226
Sambil La Candelaria shopping mall rights	114,447	107,532
Prepaid taxes, insurance and other prepaid expenses	96,696	74,727
Cross Currency Swap valuation	84,055	484
Deferred income tax	54,257	50,883
Systems development, net of accumulated amortization	46,420	64,000
Guarantee deposits and advances for acquisition of property	43,095	21,102
Pending items	25,925	30,134
Adjustment of spot contracts to market value	13,033	5,205
Accounts receivable from other credit card companies	10,464	8,290
Currency redenomination	6,701	9,514
Prepaid advertising	2,858	5,740
Other	<u>30,943</u>	<u>153,525</u>
	2,321,329	2,125,233
Provision for estimated losses on other assets	<u>(66,637)</u>	<u>(38,060)</u>
	<u>2,254,692</u>	<u>2,087,173</u>

Below is the movement of goodwill for the year ended December 31, 2010:

	<b>Cost</b>				<b>Balances at December 31, 2010</b>
	<b>Balances at December 31, 2009</b>	<b>Additions</b>	<b>Translation adjustment</b>	<b>Other</b>	
	(Thousands of constant bolivars at December 31, 2010)				
Interbank, C.A.	1,053,309	-	-	27	1,053,336
Florida Savings Bank	56,329	-	32,125	-	88,454
C.A. Seguros Orinoco	114,766	1,464	-	-	116,230
Mercantil Seguros, C.A.	32,425	-	-	-	32,425
Todo 1 Services, Inc.	<u>9,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,921</u>
	<u>1,266,750</u>	<u>1,464</u>	<u>32,125</u>	<u>27</u>	<u>1,300,366</u>

**Mercantil Servicios Financieros, C.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2010 and 2009**

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	<u>Accumulated amortization</u>				<b>Balances at December 31, 2010</b>
	<b>Balances at December 31, 2009</b>	<b>Additions</b>	<b>Translation adjustment</b>	<b>Other</b>	
	(Thousands of constant bolivars at December 31, 2010)				
Interbank, C.A.	(507,105)	(53,000)	-	33,438	(526,667)
Florida Savings Bank	(9,393)	(3,564)	(5,909)	-	(18,866)
C.A. Seguros Orinoco	(39,623)	(7,360)	-	-	(46,983)
Mercantil Seguros, C.A.	(15,400)	(1,621)	-	-	(17,021)
Todo 1 Services, Inc.	<u>(9,921)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,921)</u>
	<u>(581,442)</u>	<u>(65,545)</u>	<u>(5,909)</u>	<u>33,438</u>	<u>(619,458)</u>

**35. Subsequent event**

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

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