

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

**Report of Independent Accountants
and Consolidated Financial Statements
June 30, 2008 and December 31, 2007**

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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June 30, 2008 and December 31, 2007

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Report of Independent Accountants

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

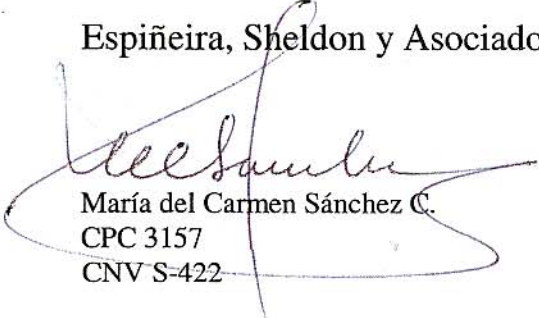
We have audited the consolidated balance sheets of Mercantil Servicios Financieros, C.A. and its subsidiaries at June 30, 2008 and December 31, 2007, and the related consolidated statements of income, shareholders' equity and cash flows for the six-month periods then ended. The preparation of these financial statements and their notes is the responsibility of the management of Mercantil Servicios Financieros, C.A. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of Mercantil Servicios Financieros, C.A. and its subsidiaries at June 30, 2008 and December 31, 2007, and the results of their operations and their cash flows for the six-month periods then ended, in conformity with the rules and instructions of the CNV.

Espiñeira, Sheldon y Asociados



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Caracas, Venezuela
August 29, 2008

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Balance Sheet
June 30, 2008 and December 31, 2007

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007 (•)
Assets		
Cash and due from banks (Note 3)		
Cash	430,630	422,006
Banco Central de Venezuela	4,894,520	5,213,551
Venezuelan banks and other financial institutions	11,712	4,238
Foreign banks and other financial institutions	250,597	110,590
Pending cash items	749,344	378,624
Provision for cash and due from banks	<u>(447)</u>	<u>(315)</u>
	<u>6,336,356</u>	<u>6,128,694</u>
Investment portfolio (Note 4)		
Investments in trading securities	596,586	260,393
Investments in available-for-sale securities	5,676,045	5,910,348
Investments in held-to-maturity securities	1,130,666	1,096,678
Share trading portfolio	21,872	33,520
Investments in time deposits and placements	3,759,187	3,995,194
Restricted investments and repurchase agreements	<u>154,012</u>	<u>176,074</u>
	<u>11,338,368</u>	<u>11,472,207</u>
Direct financial assets (Note 5)	<u>248,451</u>	<u>324,579</u>
Loan portfolio (Note 6)		
Current	22,064,317	19,545,543
Rescheduled	37,302	24,644
Overdue	278,959	116,978
In litigation	<u>7,025</u>	<u>7,779</u>
	22,387,603	19,694,944
Allowance for losses on loan portfolio	<u>(483,937)</u>	<u>(356,452)</u>
	<u>21,903,666</u>	<u>19,338,492</u>
Interest and commissions receivable (Note 7)	<u>281,054</u>	<u>245,939</u>
Long-term investments (Note 8)	<u>49,995</u>	<u>57,318</u>
Available-for-sale assets (Note 9)	<u>24,309</u>	<u>22,462</u>
Property and equipment (Note 10)	<u>482,034</u>	<u>426,255</u>
Other assets (Note 11)	<u>1,511,663</u>	<u>1,033,606</u>
Total assets	<u>42,175,896</u>	<u>39,049,552</u>
Memorandum accounts (Note 24)	<u>50,395,176</u>	<u>48,732,490</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Balance Sheet
June 30, 2008 and December 31, 2007

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007 (•)
Liabilities and Shareholders' Equity		
Liabilities		
Deposits (Note 12)		
Non-interest bearing checking accounts	6,633,152	6,644,492
Interest-bearing checking accounts	9,331,647	8,188,269
Savings deposits	8,951,001	8,777,472
Time deposits	<u>8,022,662</u>	<u>7,677,380</u>
	<u>32,938,462</u>	<u>31,287,613</u>
Debt authorized by the Venezuelan Securities and Exchange Commission (Note 13)		
Publicly traded debt securities issued by MERCANTIL	<u>418,975</u>	<u>356,144</u>
Financial liabilities (Note 14)		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	97,829	161,279
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	-	72,000
Liabilities to foreign banks and savings and loan institutions, up to one year	3,304	64,597
Liabilities to foreign banks and savings and loan institutions, more than one year	79,859	80,081
Direct financial liabilities	887,825	588,320
Liabilities under repurchase agreements	679,838	681,983
Other liabilities, up to one year	59,849	115,049
Other liabilities, more than one year	<u>3,160</u>	<u>3,488</u>
	<u>1,811,664</u>	<u>1,766,797</u>
Interest and commissions payable	<u>55,382</u>	<u>47,771</u>
Other liabilities (Note 15)	<u>2,810,852</u>	<u>1,936,796</u>
Subordinated debt (Note 16)	<u>244,656</u>	<u>244,656</u>
Total liabilities	<u>38,279,991</u>	<u>35,639,777</u>
Minority interests in consolidated subsidiaries	<u>2,533</u>	<u>2,161</u>
Shareholders' Equity (Note 21)		
Capital stock	155,976	156,479
Capital inflation adjustment	191,709	191,709
Share premium	200,019	201,668
Capital reserves	166,715	166,715
Translation adjustment of net assets of subsidiaries abroad	278,344	273,672
Retained earnings	2,895,848	2,447,230
Repurchased shares held by subsidiaries	(9,092)	(12,900)
Repurchased shares reserved for employee stock option plan	(30,188)	(29,127)
Unrealized gain from adjustment to market value of investments	<u>44,041</u>	<u>12,168</u>
Total shareholders' equity	<u>3,893,372</u>	<u>3,407,614</u>
Total liabilities and shareholders' equity	<u>42,175,896</u>	<u>39,049,552</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Income
Six-month periods ended June 30, 2008 and December 31, 2007

<i>(Thousands of bolivars, except net income per share)</i>	June 30, 2008	December 31, 2007 (•)
Interest income (Note 2)		
Income from cash and due from banks	11,148	7,394
Income from investment portfolio (Note 4)	457,484	417,975
Income from loan portfolio (Note 6)	1,690,900	1,359,720
Income from financial assets	<u>12,789</u>	<u>23,425</u>
Total interest income	<u>2,172,321</u>	<u>1,808,514</u>
Interest expense (Note 2)		
Interest on demand and savings deposits	(453,453)	(307,928)
Interest on time deposits	(219,820)	(208,856)
Interest on securities issued by MERCANTIL (Note 13)	(81,297)	(57,963)
Interest on financial liabilities	<u>(59,088)</u>	<u>(74,586)</u>
Total interest expense	<u>(813,658)</u>	<u>(649,333)</u>
Gross financial margin	1,358,663	1,159,181
Allowance for losses on loan portfolio (Notes 2 and 6)	<u>(179,106)</u>	<u>(57,129)</u>
Net financial margin	<u>1,179,557</u>	<u>1,102,052</u>
Commissions and other income		
Trust fund operations	19,238	20,193
Foreign currency operations (Note 23)	5,239	2,389
Commissions on customer account transactions	76,059	89,088
Commissions on letters of credit and guarantees granted	15,167	16,484
Equity in long-term investments (Note 8)	24,847	18,854
Exchange loss (Note 23)	(3,188)	(3,655)
Gain on sale of investment securities (Note 4)	176,438	201,522
Other income (Note 19)	<u>214,211</u>	<u>211,363</u>
Total commissions and other income	<u>528,011</u>	<u>556,238</u>
Insurance premiums, net of claims (Note 2)		
Premiums	736,069	568,707
Claims	<u>(618,674)</u>	<u>(467,529)</u>
Total insurance premiums, net of claims	<u>117,395</u>	<u>101,178</u>
	<u>1,824,963</u>	<u>1,759,468</u>
Operating expenses		
Salaries and employee benefits	(568,492)	(477,598)
Depreciation, property and equipment expenses, amortization of intangibles and other (Notes 10 and 11)	(134,317)	(122,151)
Fees paid to regulatory agencies	(69,876)	(62,073)
Other operating expenses (Note 20)	<u>(464,241)</u>	<u>(451,542)</u>
Total operating expenses	<u>(1,236,926)</u>	<u>(1,113,364)</u>
Operating income before tax and minority interests	<u>588,037</u>	<u>646,104</u>
Income tax (Note 17)		
Current	(106,433)	(107,223)
Deferred	<u>5,458</u>	<u>5,734</u>
Total tax	<u>(100,975)</u>	<u>(101,489)</u>
Net income before minority interests	487,062	544,615
Minority interests	<u>(319)</u>	<u>(240)</u>
Net income	<u>486,743</u>	<u>544,375</u>
Net income per share (Note 22)		
Basic	4,83	5,43
Diluted	4,83	5,42
Weighted average of outstanding common shares	100,721,100	100,298,358
Weighted average of outstanding diluted common shares	100,820,561	100,388,226

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Shareholders' Equity
Six-month periods ended June 30, 2008 and December 31, 2007

<i>(Thousands of bolivars)</i>	Capital stock	Capital inflation adjustment (Note 2)	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad (Note 2)	Retained earnings	Repurchased shares held by subsidiaries (Note 21)	Repurchased shares reserved for employee stock option plan	Unrealized gain (loss) from adjustment to market value of investments (Note 2)	Total shareholders' equity
Balances at June 30, 2007 (•)	150,497	191,709	54,766	166,715	267,576	1,972,737	(21,294)	(26,972)	(26,611)	2,729,123
Net income for the period	-	-	-	-	-	544,375	-	-	-	544,375
Repurchased shares	-	-	-	-	-	-	(13,684)	-	-	(13,684)
Repurchased shares reserved for employee stock option plan	-	-	2,902	-	-	-	-	(2,155)	-	747
Cash dividends (Note 21)	-	-	-	-	-	(24,456)	-	-	-	(24,456)
Unrealized gain on investments	-	-	-	-	-	-	-	-	38,779	38,779
Capital increase	6,750	-	144,000	-	-	-	-	-	-	150,750
Redemption of repurchased shares	(768)	-	-	-	-	(21,310)	22,078	-	-	-
Minimum dividend payable (Note 2)	-	-	-	-	-	(24,116)	-	-	-	(24,116)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	6,096	-	-	-	-	6,096
Balances at December 31, 2007 (•)	156,479	191,709	201,668	166,715	273,672	2,447,230	(12,900)	(29,127)	12,168	3,407,614
Net income for the period	-	-	-	-	-	486,743	-	-	-	486,743
Repurchased shares reserved for employee stock option plan	-	-	(1,649)	-	-	-	-	(1,061)	-	(2,710)
Cash dividends (Note 21)	-	-	-	-	-	(27,246)	-	-	-	(27,246)
Redemption of repurchased shares	(503)	-	-	-	-	(10,879)	11,382	-	-	-
Repurchased shares	-	-	-	-	-	-	(7,574)	-	-	(7,574)
Unrealized gain on investments	-	-	-	-	-	-	-	-	31,873	31,873
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	4,672	-	-	-	-	4,672
Balances at June 30, 2008	<u>155,976</u>	<u>191,709</u>	<u>200,019</u>	<u>166,715</u>	<u>278,344</u>	<u>2,895,848</u>	<u>(9,092)</u>	<u>(30,188)</u>	<u>44,041</u>	<u>3,893,372</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Consolidated Statement of Cash Flows
Six-month periods ended June 30, 2008 and December 31, 2007

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007 (•)
Cash flows from operating activities		
Net income for the period	486,743	544,375
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	57,870	47,189
Allowance for losses on loan portfolio	179,106	57,129
Decrease in allowance for losses on loan portfolio	(1,221)	(1,272)
Amortization of available-for-sale assets	2,589	31
Provision for interest receivable and other assets	11,861	11,635
Gain on equity in long-term investments	(24,847)	(18,854)
Deferred income tax	(5,458)	(5,734)
Minority interests	319	240
Accrual for employee termination benefits	60,907	35,989
Payment of employee termination benefits	(50,408)	(38,912)
Net change in operating assets and liabilities		
Interest and commissions receivable	(35,115)	(56,425)
Interest and commissions payable	7,611	4,835
Available-for-sale and other assets	(433,703)	124,983
Other liabilities	863,607	(383,778)
Net cash provided by operating activities	<u>1,119,861</u>	<u>321,431</u>
Cash flows from investing activities		
Net change in investment portfolio	74,317	825,798
Loans granted	(47,539,383)	(31,770,292)
Loans collected	44,796,325	29,475,559
Additions to property and equipment, net	(92,716)	(78,591)
Net cash used in investing activities	<u>(2,761,457)</u>	<u>(1,547,526)</u>
Cash flows from financing activities		
Net change in		
Deposits	1,650,849	2,354,850
Short-term financial liabilities	(241,403)	176,583
Debt securities issued by MERCANTIL	62,831	15,124
Subordinated debt	-	(23,591)
New long-term financial liabilities	358,778	125,136
Long-term financial liabilities repaid	(72,508)	(81,244)
Minimum dividend payable	-	(24,116)
Cash dividends	(27,246)	(24,456)
Capital increase	-	6,750
Share premium	(1,649)	146,902
Repurchased shares	(7,574)	(13,684)
Repurchased shares reserved for employee stock option plan	(1,061)	(2,155)
Net cash provided by financing activities	<u>1,721,017</u>	<u>2,656,099</u>
Cash and cash equivalents		
Net increase for the period	79,421	1,430,004
At the beginning of the period	<u>10,012,775</u>	<u>8,582,771</u>
At the end of the period	<u>10,092,196</u>	<u>10,012,775</u>
Supplementary information		
Taxes paid	<u>121,237</u>	<u>33,976</u>
Interest paid	<u>746,959</u>	<u>569,912</u>
Translation adjustment of net assets of subsidiaries abroad	<u>4,672</u>	<u>6,096</u>
Unrealized gain from adjustment to market value of investments	<u>31,873</u>	<u>38,779</u>

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries

Notes to the Consolidated Financial Statements

June 30, 2008 and December 31, 2007

1. Reporting Entity and Regulatory Environment

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

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

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

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

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

In December 2007 the Superintendency of Banks of Panama granted the subsidiary Mercantil Bank (Panamá) S.A. a general license to conduct local financial activities in addition to its international activities.

The financial statements of MERCANTIL at June 30, 2008 and December 31, 2007 were approved by the Board of Directors on July 10, 2008 and January 14, 2008, respectively.

Below is a summary of the operating locations and the main regulations governing MERCANTIL's subsidiaries:

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

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

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
June 30, 2008 and December 31, 2007

Regulations require the Bank to earmark at least 23% of its gross loan portfolio at June 30, 2008 to finance loans for agriculture, small businesses and tourism (37% at December 31, 2007, including mortgage loans). In addition, BCV requires loans for manufacturing to make up at least 10% of the Bank's loan portfolio at December 31, 2008. A compliance review of loan percentages earmarked for the mortgage and manufacturing sectors will be conducted at December 31, 2008 (Note 6). The total minimum regulatory percentage of the loan portfolio to be earmarked for all sectors is 43%.

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 28% and 33% for credit card operations. Financial institutions may only charge an additional 3% per annum on amounts overdue from clients. Annual interest rates for savings deposits may not fall below 15% (10% at December 31, 2007). Annual interest rates on time deposits for 28 or more days may not fall below 17% (11% at December 31, 2007). During the six-month period ended June 30, 2008, BCV established a 15% and 19% maximum interest rate for the agricultural and manufacturing loan portfolio, respectively, and between 17.01% and 19.56% for tourism.

b) Mercantil Commercebank, N.A.

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

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

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

c) Mercantil Bank (Schweiz) AG

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

d) Mercantil Seguros, C.A.

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

e) Mercantil Merinvest, C.A.

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

New regulations

In July 2008 the Venezuelan government enacted 26 decree laws, some of which affected the banking and financial sectors by: (i) amending the General Law of Banks and other Financial Institutions to allow the direct transfer, without public bidding, of FOGADE's assets with prior authorization from the Venezuelan president; (ii) passing the Law on Agricultural Debt Payment Benefits to define

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
June 30, 2008 and December 31, 2007

procedures for rescheduling loans overdue at May 31, 2008 and possibly impaired outstanding loans; (iii) creating the Agricultural Bank and modifying the powers and functions of the Venezuelan Economic and Social Development Bank (BANDES); (iv) replacing the Law for Consumer Protection with that for the Defense of People's Access to Goods and Services; and (v) maintaining the minimum percentages of loans currently granted to the tourism and agricultural sectors. The aforementioned decree laws also govern activities within other sectors of the Venezuelan economy and establish the regulations applicable to social security, housing loans and the public financial system, among others. MERCANTIL management is evaluating the impact of these decree laws.

Currency redenomination

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

2. Accounting Principles in Use

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

In April 2008 the Venezuelan Federation of Public Accountants (FCCPV) approved the adoption of VEN-NIF as the accounting principles of mandatory application in Venezuela as from January 1, 2008. These standards are mainly based on International Financial Reporting Standards issued by the International Accounting Standards Board, except for certain criteria concerning adjustments for inflation, among others. The CNV has yet to issue a statement on VEN-NIF application by investment companies. MERCANTIL management is analyzing the differences between CNV accounting rules and VEN-NIF.

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

1) Financial statements adjusted for the effects of inflation

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

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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.

2) Transactions with derivative financial instruments

Presentation of contracted amounts in transactions with derivative financial instruments. In accordance with CNV rules, these transactions are presented as memorandum accounts instead of on the balance sheet as required by VEN-NIF. In addition, differences between the fair value of spot contracts and the agreed-upon price are recorded as deferred charges with a credit to unrealized gain (loss) from adjustment to market value of investments in the statement of shareholders' equity, 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, a global risk percentage for loans not assessed individually, and a generic provision of 1% over loan balances at month end, except for microcredits, which are subject to a generic provision of 2%. 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 generic provision, which would have to be accounted for as a reduction of retained earnings in the statement of shareholders' equity under VEN-NIF.

4) Assets received as payment and idle assets

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

5) Commissions

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

6) Deferred income tax

MERCANTIL computes a deferred income tax asset or liability in respect of temporary differences between income and expenses arising in different periods for accounting and tax purposes, provided that there is a reasonable expectation of realization or recovery over time. In addition, the amount by which the deferred income tax asset exceeds tax expense for the period is not recognized. In accordance with VEN-NIF, a deferred income tax asset or liability is recognized in respect of all temporary differences between the tax balance sheet and the accounting balance sheet, provided that there is reasonable expectation of recovery.

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7) Currency redenomination

Expenses incurred during the currency redenomination process (Note 1) to adapt the technological equipment or for advisory, training, travel and other personnel expenses, publicity, software and security are deferred and will be amortized, according to their nature, using the straight-line method over one to six years. According to VEN-NIF, expenses incurred during the currency redenomination process should be recognized during the period in which they are incurred.

8) Goodwill

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

9) Foreign currency

CNV rules require foreign currency transactions to be recognized at the official exchange rate in effect at the transaction date. Foreign currency balances at June 30, 2008 and December 31, 2007 are shown at the official exchange rates of Bs 2.14/US\$1, Bs 0.001/Ps1 and Bs 2.099/CHF1 (Bs 2.14/US\$1, Bs 0.001/Ps1 and Bs 1.90/CHF1 at December 31, 2007). Exchange gains and losses are included in the consolidated statement of income for the period, except for those resulting from investments in available-for-sale debt securities, restricted investments or investments in publicly traded shares denominated in foreign currency, which are recorded in shareholders' equity (Note 23). In accordance with VEN-NIF, foreign currency balances of operations conducted under the exchange control regime currently effective in Venezuela (CADIVI operations) are valued at the official exchange rate at period end and all other operations are valued based on the future cash flows in bolivars expected to be derived from the sale of assets or to be required for settlement of liabilities.

10) 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. The effect from translation is recorded in shareholders' equity. In accordance with VEN-NIF, all accounts must be translated at the value of the future cash flows in bolivars at which the investment is expected to be realized.

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 end is November 30. Subsidiaries whose accounting year end is November 30 are consolidated with the financial statements of MERCANTIL at December 31. There are no significant matters arising from differences in year ends which, in the opinion of management, could have a significant impact on the financial position or results of operations of MERCANTIL.

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

b) Use of estimates in the preparation of financial statements

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

c) Investment portfolio

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

Trading securities

These investments are recorded at fair value and comprise investments in debt securities acquired for short-term trading. These debt securities may remain in this category for up to 90 days from their acquisition. Unrealized gains or losses resulting from fluctuations in fair values are included in the consolidated results for the period.

Available-for-sale securities

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

Held-to-maturity securities

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

Share trading portfolio

These consist of investments in shares to be publicly traded.

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

Decreases in the estimated fair value of held-to-maturity and available-for-sale securities are recorded in the results for the period when management considers that decreases are other than temporary. Permanent impairment in the value of securities is determined by considering the financial condition of the issuing entity and the period during which the fair value has remained below cost. During the six-month periods ended June 30, 2008 and December 31, 2007, MERCANTIL has identified no permanent impairment.

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Time deposits and placements

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

Restricted investments and repurchase agreements

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

Long-term investments

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

d) Investments in securities acquired under resale agreements

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

e) Direct financial assets and liabilities

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

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

MERCANTIL assesses possible impairment in the value of its long-lived assets when events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability of an asset to be held and used is measured by comparing the carrying amount with future undiscounted

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net cash flows expected to be generated by the asset. If an asset is impaired, the amount to be recognized as impairment is the amount by which the carrying amount of the asset exceeds fair value.

h) Available-for-sale and other assets

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

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

i) Deferred and systems development expenses

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

j) Deferred income tax

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

k) Liabilities under repurchase agreements

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

l) Reserves for insurance operations

The reserve for unearned premiums represents the unmatured portion of insurance premiums. Reserves for insurance claims include the estimated cost of claims reported and related expenses in addition to the estimated provisions for claims incurred but not yet reported.

Since reserves are based on estimates, the actual amounts may be greater or smaller than those reserves. The effects of changes in estimated reserves are included in the results for the period in which they occur. Reserves for insurance operations are shown under other liabilities (Note 15).

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

m) Employee benefits

Accrual for employee termination benefits

MERCANTIL and its Venezuelan subsidiaries accrue for their liabilities in respect of employee termination benefits, which are a vested right of employees, based on the provisions of the Venezuelan Labor Law, and deposit amounts accrued on a monthly basis in a trust fund on behalf of each employee. Under certain circumstances, the Law provides for an additional indemnity for unjustified

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dismissals. Based on experience, MERCANTIL and its Venezuelan subsidiaries have set aside an additional provision to cover this contingent liability.

Profit-sharing bonus and vacation leave

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

n) Employee benefit plans

Retirement pension plan

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

MERCANTIL makes annual contributions to the plan, except when the DBO is already covered by plan assets.

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

Defined contribution scheme

MERCANTIL maintains a defined contribution scheme called the MERCANTIL Supplementary Savings Plan to replace the Supplementary Retirement Pension Plan. Contributions to the Plan are recorded in the results for the period. 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, mainly medical insurance. The related costs and liabilities are determined based on actuarial methods and their effect is expensed over 10 years.

Stock option plan

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

o) Recognition of revenue and expenses

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

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

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

p) Fair value of financial instruments

MERCANTIL recognizes transactions with financial instruments at their transaction date. Financial instruments are recorded in the balance sheet as either assets or liabilities at their respective fair values. The carrying value of cash and due from banks, the investment portfolio and interest and commissions receivable approximates their fair value due to the short-term maturities of these instruments. Since most loans, commercial paper and other financial liabilities of MERCANTIL 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 period by the weighted average of outstanding shares, excluding repurchased shares reserved for the employee stock option plan. Diluted net income per share is determined by applying the Treasury Stock Method, by which the net income per share is determined as if employee stock options had been exercised, and benefits provided upon award, representing funds from exercised options and the amount of the compensation cost attributable to unrecognized future periods, had been used to acquire MERCANTIL shares.

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

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) Legal dividends

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

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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 foreign and local currencies as required by regulatory entities. These balances are determined based on deposits and other borrowings by subsidiaries.

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

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Demand deposits	81,309	287,526
Legal reserve in local currency	4,805,494	4,895,556
Legal reserve in U.S. dollars	<u>7,717</u>	<u>30,469</u>
	<u>4,894,520</u>	<u>5,213,551</u>

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

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

4. Investment Portfolio

The investment portfolio comprises the following:

<i>(Thousands of bolivars)</i>	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Cost	Book value (equivalent to market value)	Cost	Book value (equivalent to market value)
Investments in trading securities				
Investments in securities issued by Venezuelan entities				
Securities issued or guaranteed by the Bolivarian Republic of Venezuela				
In local currency	-	-	23,547	23,547
In foreign currency	<u>304</u>	<u>304</u>	<u>6,496</u>	<u>6,514</u>
	<u>304</u>	<u>304</u>	<u>30,043</u>	<u>30,061</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	505,657	505,657	59,672	59,672
Securities issued by the National Treasury of the United States of America	214	214	4,172	4,172
Other investments	<u>90,060</u>	<u>90,063</u>	<u>166,119</u>	<u>166,108</u>
	<u>595,931</u>	<u>595,934</u>	<u>229,963</u>	<u>229,952</u>
Investments in securities issued by foreign entities				
Other investments	<u>348</u>	<u>348</u>	<u>380</u>	<u>380</u>
	<u>596,583</u>	<u>596,586</u>	<u>260,386</u>	<u>260,393</u>

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<i>(Thousands of bolivars)</i>	June 30, 2008				December 31, 2007			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Available-for-sale investments								
Investments in securities issued by Venezuelan entities								
Securities issued or guaranteed by the government of the Bolivarian Republic of Venezuela								
In local currency (1)	899,225	31,674	(8,667)	922,232	1,142,982	25,226	(17,849)	1,150,359
In foreign currency	<u>207,061</u>	<u>4,258</u>	<u>(33,027)</u>	<u>178,292</u>	<u>247,833</u>	<u>4,987</u>	<u>(31,369)</u>	<u>221,451</u>
	<u>1,106,286</u>	<u>35,932</u>	<u>(41,694)</u>	<u>1,100,524</u>	<u>1,390,815</u>	<u>30,213</u>	<u>(49,218)</u>	<u>1,371,810</u>
Other investments								
In local currency	115,915	5,645	(5,840)	115,720	67,751	3,011	(3,663)	67,099
In foreign currency	<u>5,183</u>	<u>465</u>	<u>(133)</u>	<u>5,515</u>	<u>5,016</u>	<u>320</u>	<u>(133)</u>	<u>5,203</u>
	<u>121,098</u>	<u>6,110</u>	<u>(5,973)</u>	<u>121,235</u>	<u>72,767</u>	<u>3,331</u>	<u>(3,796)</u>	<u>72,302</u>
	<u>1,227,384</u>	<u>42,042</u>	<u>(47,667)</u>	<u>1,221,759</u>	<u>1,463,582</u>	<u>33,544</u>	<u>(53,014)</u>	<u>1,444,112</u>
Investments in securities issued by entities in the United States of America								
Securities issued or guaranteed by the government of the United States of America (2)	2,288,701	28,254	(3,459)	2,313,496	2,447,790	25,185	(5,220)	2,467,755
Debt in companies sponsored and supervised by the government of the United States of America (3)	610,285	5,002	(2,784)	612,503	962,080	7,296	(2,739)	966,637
Securities issued by the National Treasury of the United States of America	93,463	78	(362)	93,179	80,426	580	(5)	81,001
Other investments	<u>1,224,961</u>	<u>2,456</u>	<u>(12,279)</u>	<u>1,215,138</u>	<u>673,949</u>	<u>3,037</u>	<u>(10,310)</u>	<u>666,676</u>
	<u>4,217,410</u>	<u>35,790</u>	<u>(18,884)</u>	<u>4,234,316</u>	<u>4,164,245</u>	<u>36,098</u>	<u>(18,274)</u>	<u>4,182,069</u>
Investments in other countries	<u>220,227</u>	<u>370</u>	<u>(627)</u>	<u>219,970</u>	<u>290,295</u>	<u>21</u>	<u>(6,149)</u>	<u>284,167</u>
	<u>5,665,021</u>	<u>78,202</u>	<u>(67,178)</u>	<u>5,676,045</u>	<u>5,918,122</u>	<u>69,663</u>	<u>(77,437)</u>	<u>5,910,348</u>

(1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$60,000 payable in bolivars at the official exchange rate.

(2) Includes securities of the Government National Mortgage Association and the Small Business Administration.

(3) Includes shares of the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and the Federal Farm Credit Bank.

At June 30, 2008, investments in available-for-sale securities with a market value of US\$958 million were pledged to guarantee deposits and investments sold under repurchase agreements. These investments include US\$299 million as collateral for advances received from the Federal Home Loan Bank.

At June 30, 2008, investments in available-for-sale securities include securities of the Coral Gables agency with a market value of US\$25,351,974 (US\$19,377,610 at December 31, 2007), pledged to regulatory entities in compliance with state requirements in the United States of America.

At June 30, 2008, the unrealized gain of Bs 44,041,000 recorded in shareholders' equity includes net unrealized gains of Bs 13,730,000 in respect of the share trading portfolio; Bs 25,358,000 on restricted investments; Bs 11,024,000 on investments in available-for-sale securities; Bs 6,117,000 of unamortized net losses on investments in available-for-sale securities that were reclassified as

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investments in held-to-maturity securities; net losses of Bs 62,000 from unconsolidated subsidiaries; and a net increase of Bs 108,000 from adjustments to market value of spot contracts.

<i>(Thousands of bolivars)</i>	<u>June 30, 2008</u>			<u>December 31, 2007</u>		
	Amortized cost	Unrealized gain (loss)	Market value	Amortized cost	Unrealized gain (loss)	Market value
Investments in held-to-maturity securities						
Investments in securities issued by Venezuelan entities						
Securities issued or guaranteed by the Bolivarian Republic of Venezuela						
In local currency (1)	673,693	(6,115)	667,578	685,083	(20,532)	664,551
In foreign currency	225,772	(6,389)	219,383	222,610	(2,559)	220,051
Other investments	<u>106,484</u>	<u>1,315</u>	<u>107,799</u>	<u>67,099</u>	<u>(7,040)</u>	<u>60,059</u>
	<u>1,005,949</u>	<u>(11,189)</u>	<u>994,760</u>	<u>974,792</u>	<u>(30,131)</u>	<u>944,661</u>
Investments in securities issued by entities in the United States of America in U.S. dollars						
Debt in companies sponsored and supervised by the government of the United States of America (2)						
Other investments	21,490	-	21,490	23,819	-	23,819
	<u>88,335</u>	<u>10</u>	<u>88,345</u>	<u>82,887</u>	<u>-</u>	<u>82,887</u>
	<u>109,825</u>	<u>10</u>	<u>109,835</u>	<u>106,706</u>	<u>-</u>	<u>106,706</u>
Investments in other countries	<u>14,892</u>	<u>-</u>	<u>14,892</u>	<u>15,180</u>	<u>-</u>	<u>15,180</u>
	<u>1,130,666</u>	<u>(11,179)</u>	<u>1,119,487</u>	<u>1,096,678</u>	<u>(30,131)</u>	<u>1,066,547</u>

(1) Includes Principal and Interest Covered Bonds (TICC) with a reference par value of US\$51,000 payable in bolivars at the official exchange rate.

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

<i>(Thousands of bolivars)</i>	<u>June 30, 2008</u>				<u>December 31, 2007</u>			
	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Share trading portfolio								
Shares issued by Venezuelan companies	8,071	15,043	(3,044)	20,070	8,166	19,257	(3,746)	23,677
Shares issued by foreign companies	<u>71</u>	<u>1,731</u>	<u>-</u>	<u>1,802</u>	<u>1,607</u>	<u>8,236</u>	<u>-</u>	<u>9,843</u>
	<u>8,142</u>	<u>16,774</u>	<u>(3,044)</u>	<u>21,872</u>	<u>9,773</u>	<u>27,493</u>	<u>(3,746)</u>	<u>33,520</u>

During the six-month period ended June 30, 2008, MERCANTIL recorded a gain of US\$6,456,674, equivalent to Bs 13,847,000, on the sale of 23,301 Class "B" MasterCard shares (22,000 shares for US\$3,763,901, equivalent to Bs 8,072,000, during the six-month period ended December 31, 2007), shown under gain on sale of investment securities. At June 30, 2008, other assets include pending items from this transaction of approximately Bs 15,384,000, collected in July 2008 (Note 11).

In March 2008 Visa Inc. made a public offer of shares, assigning the subsidiary Mercantil, C.A. Banco Universal 623,163 Class "C" Series I shares. During the six-month period ended June 30, 2008, the Bank recorded a gain of US\$14,974,239, equivalent to Bs 32,114,000, on the sale of 350,128 of these shares, shown under gain on sale of investment securities. The remaining 273,025 shares were accounted for as investment securities, resulting in an unrealized gain of Bs 25 million.

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<i>(Thousands of bolivars)</i>	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Cost	Market value	Cost	Market value
Investments in time deposits and placements				
Investments in securities issued by Venezuelan entities				
Time deposits				
Banco Central de Venezuela	3,000,000	3,000,000	3,275,000	3,275,000
Financial institutions	287,950	287,950	22,500	22,500
Overnight deposits	-	-	133,330	133,330
	<u>3,287,950</u>	<u>3,287,950</u>	<u>3,430,830</u>	<u>3,430,830</u>
Investments in securities issued by financial institutions in the United States of America				
Time deposits	18,120	18,120	88,075	88,075
Overnight deposits	308,101	308,101	288,242	288,242
	<u>326,221</u>	<u>326,221</u>	<u>376,317</u>	<u>376,317</u>
Investments in securities issued by foreign entities				
	<u>145,016</u>	<u>145,016</u>	<u>188,047</u>	<u>188,047</u>
	<u>3,759,187</u>	<u>3,759,187</u>	<u>3,995,194</u>	<u>3,995,194</u>

Time deposits and placements include investments for Bs 3,755,840,000 maturing within 90 days (Bs 3,884,081,000 at December 31, 2007).

<i>(Thousands of bolivars)</i>	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Cost	Market value	Cost	Market value
Restricted investments and repurchase agreements				
Securities issued by the Bolivarian Republic of Venezuela				
In local currency	68,084	67,447	41,053	41,102
Securities issued or guaranteed by the government of the United States of America				
	56,679	57,630	129,692	131,341
Investments in other countries				
	3,891	28,935	3,631	3,631
	<u>128,654</u>	<u>154,012</u>	<u>174,376</u>	<u>176,074</u>

Below is a classification of investments by maturity at June 30, 2008:

<i>(Thousands of bolivars)</i>	<u>Available-for-sale investments</u>			<u>Held-to-maturity investments</u>		
	Cost	Book value (equivalent to market value)	Yield	Cost	Amortized cost	Yield (1)
In bolivars						
Less than 1 year	401,898	395,992	13.13	362,558	358,454	11.61
From 1 to 5 years	411,778	423,900	13.57	319,179	315,239	10.87
Over 5 years	227,583	244,531	10.09	106,406	106,485	6.07
In U.S. dollars						
Less than 1 year	1,036,344	1,035,681	6.64	15,771	15,593	5.72
From 1 to 5 years	246,895	248,794	5.21	180,418	189,848	5.33
Over 5 years	3,340,523	3,327,147	5.36	143,424	145,047	6.12
	<u>5,665,021</u>	<u>5,676,045</u>		<u>1,127,756</u>	<u>1,130,666</u>	

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

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During the six-month period ended June 30, 2008, a net gain of Bs 103,417,000 (net loss of Bs 60,852,000 during the six-month period ended December 31, 2007) was recorded on the sale of securities, included under gain on sale of investment securities.

During the six-month period ended June 30, 2008, MERCANTIL swapped debt securities issued by the Bolivarian Republic of Venezuela denominated in foreign currency for debt securities issued by the Bolivarian Republic of Venezuela denominated in bolivars, which were subsequently sold at a gain of approximately Bs 73,021,000 (Bs 262,374,000 at December 31, 2007), included under gain on sale of investment securities.

The control environment of MERCANTIL includes policies and procedures to determine investment risks by entity and economic sector. At June 30, 2008, MERCANTIL has investment securities issued or guaranteed by the Venezuelan government and investment securities with Banco Central de Venezuela (BCV), which represent 17.10% and 26.46%, respectively, of its investment securities portfolio (18.95% and 28.46%, respectively, at December 31, 2007). Furthermore, MERCANTIL has investments in bonds issued by the government and other government agencies of the United States of America representing 35.98% of its investment portfolio (34.06% at December 31, 2007).

5. Direct Financial Assets

At June 30, 2008, MERCANTIL has securities loan agreements with third parties, represented by Treasury Notes of the Bolivarian Republic of Venezuela and National Public Debt Bonds for Bs 248,451,000, with a par value of Bs 244,038,000 and yields between 13% and 14.11% (with a par value of Bs 327,449,000 and yields between 7.82% and 10.27% at December 31, 2007) and maturities as follows:

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Up to 30 days	160,543	123,064
31 to 60 days	87,908	186,255
61 and 90 days	-	<u>15,260</u>
Total	<u>248,451</u>	<u>324,579</u>

6. Loan Portfolio

The loan portfolio is classified as follows:

<i>(Thousands of bolivars)</i>	June 30, 2008						December 31, 2007	
	Current	Rescheduled	Overdue	In litigation	Total	%	Total	%
Economic activity								
Commercial	7,116,547	4,061	75,378	2,894	7,198,880	32	6,171,417	31
Construction	2,824,010	-	130,058	95	2,954,163	13	2,675,750	14
Agriculture	2,002,555	22,502	23,006	115	2,048,178	9	1,855,008	9
Foreign trade	1,832,319	5,187	10,477	-	1,847,983	8	1,757,795	9
Industrial	1,792,753	660	2,657	219	1,796,289	8	1,657,448	8
Credit cards	1,687,476	-	1,902	-	1,689,378	8	1,510,265	8
Car loans	1,649,491	-	9,654	-	1,659,145	8	1,554,979	8
Home purchase	1,140,992	2,769	10,244	1,673	1,155,678	5	1,024,464	5
Services	575,757	2,123	4,913	528	583,321	3	549,010	3
Other	<u>1,442,417</u>	-	<u>10,670</u>	<u>1,501</u>	<u>1,454,588</u>	<u>6</u>	<u>938,808</u>	<u>5</u>
	<u>22,064,317</u>	<u>37,302</u>	<u>278,959</u>	<u>7,025</u>	<u>22,387,603</u>	<u>100</u>	<u>19,694,944</u>	<u>100</u>

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

<i>(Thousands of bolivars)</i>	<u>Six-month periods ended</u>	
	June 30, 2008	December 31, 2007
Balance at the beginning of the period	356,452	320,986
Allowance for the period	179,106	57,129
Effect of translation of allowances in foreign currency	258	185
Decrease in allowance (Note 19)	(1,221)	(1,272)
Write-off of uncollectible loans	(52,522)	(23,898)
Transfers from other reserves	<u>1,864</u>	<u>3,322</u>
Balance at the end of the period	<u>483,937</u>	<u>356,452</u>

At June 30, 2008, the loan portfolio no longer earning interest amounts to Bs 285,984,000 and includes US\$70,578,000.

During the six-month period ended June 30, 2008, interest accrued but not recorded as income on loans overdue and in-litigation amounts to Bs 53,955,000 (Bs 20,136,000 during the six-month period ended December 31, 2007). Interest on the loan portfolio for the six-month period ended June 30, 2008 includes Bs 12,108,000 (Bs 14,720,000 during the six-month period ended December 31, 2007) for interest collected on loans overdue and in-litigation deferred in previous six-month periods.

During the six-month period ended June 30, 2008, uncollectible loans written off in previous six-month periods for Bs 17,958,000 were collected (Bs 16,505,000 during the six-month period ended December 31, 2007) and are included in the consolidated statement of income under other income (Note 19).

The control environment of MERCANTIL includes policies and procedures to determine credit risks by client and economic sector. Concentration of risk is limited since loans are granted to a variety of economic sectors and a large number of clients. At June 30, 2008 and December 31, 2007, MERCANTIL does not have significant risk concentrations in its consolidated loan portfolio.

7. Interest and Commissions Receivable

Interest and commissions receivable comprise the following:

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Interest on		
Loan portfolio	184,550	154,129
Investment securities	<u>79,178</u>	<u>88,592</u>
	263,728	242,721
Commissions receivable	22,677	5,695
Provision for contingent losses	<u>(5,351)</u>	<u>(2,477)</u>
	<u>281,054</u>	<u>245,939</u>

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8. Long-term Investments

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

	June 30, 2008				December 31, 2007		
	Par value Bs	Number of shares	Equity %	Thousands of bolivars	Number of shares	Equity %	Thousands of bolivars
Todo 1 Services, Inc. (Note 11)	2.14 (1)	26,187	47.04	15,641	26,187	47.04	14,542
Cestaticket Accor Services, C.A.	1.00	2,580,000	43.00	27,021	2,580,000	43.00	35,481
Inversiones Platco, C.A.	100.00	30,000	50.00	3,000	30,000	50.00	3,000
Proyectos Conexus	0.10	343,334	33.00	2,056	343,334	33.00	2,003
Other				<u>2,277</u>			<u>2,292</u>
				<u>49,995</u>			<u>57,318</u>

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

During the six-month period ended June 30, 2008, MERCANTIL recorded income from equity participation of approximately Bs 24,847,000 (Bs 18,854,000 during the six-month period ended December 31, 2007), including Bs 23,712,000 from Cestaticket Accor Services, C.A. and Bs 1,099,000 from Todo 1 Services, Inc. (Bs 17,018,000 and Bs 2,491,000, respectively, during the six-month period ended December 31, 2007) and received dividends of Bs 32,173,000 during the six-month period ended June 30, 2008.

9. Available-for-sale Assets

Available-for-sale assets comprise the following:

(Thousands of bolivars)	December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	June 30, 2008
Real property received as payment	76	3,873	(506)	-	19,426	-	22,869
Idle assets	-	337	-	-	-	-	337
Other available-for-sale assets	22,438	8,959	(8,222)	-	(19,426)	-	3,749
Accumulated amortization	<u>(52)</u>	<u>(2,589)</u>	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>(2,646)</u>
	<u>22,462</u>	<u>10,580</u>	<u>(8,728)</u>	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>24,309</u>

During the six-month period ended June 30, 2008, MERCANTIL recorded amortization expense in respect of available-for-sale assets of Bs 2,589,000 (Bs 31,000 during the six-month period ended December 31, 2007). Personal and real property fully depreciated after 24 months is shown under memorandum accounts (Note 2).

MERCANTIL sold assets received as payment and idle assets at a gain of Bs 2,765,000 and a loss of Bs 311,000 (gain of Bs 1,082,000 and loss of Bs 229,000 during the six-month period ended December 31, 2007), shown in the consolidated statement of income under other income and other operating expenses, respectively (Notes 19 and 20).

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10. Property and Equipment

Property and equipment comprises the following:

<i>(Thousands of bolivars)</i>	Costs						Balances at June 30, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Office furniture and equipment	322,553	52,027	-	(255)	(10,115)	222	364,432
Buildings and facilities	244,589	67,694	-	-	7,691	-	319,974
Construction in progress	104,895	47,117	-	-	(118,631)	-	33,381
Land	17,125	17	-	-	-	-	17,142
Vehicles	5,149	317	(69)	(111)	-	8	5,294
Other property	<u>48,509</u>	<u>41,616</u>	<u>-</u>	<u>-</u>	<u>28</u>	<u>10</u>	<u>90,163</u>
Total	<u>742,820</u>	<u>208,788</u>	<u>(69)</u>	<u>(366)</u>	<u>(121,027)</u>	<u>240</u>	<u>830,386</u>

<i>(Thousands of bolivars)</i>	Accumulated depreciation						Balances at June 30, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Buildings and facilities	(112,611)	(6,539)	-	-	3,409	-	(115,741)
Office furniture and equipment	(199,264)	(27,874)	-	255	1,360	(152)	(225,675)
Vehicles	(2,562)	(511)	28	111	148	(8)	(2,794)
Other property	<u>(2,128)</u>	<u>(2,014)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,142)</u>
Total	<u>(316,565)</u>	<u>(36,938)</u>	<u>28</u>	<u>366</u>	<u>4,917</u>	<u>(160)</u>	<u>(348,352)</u>

At June 30, 2008, property and equipment includes Bs 72,953,000 (Bs 31,525,000 at December 31, 2007) related to two corporate airplanes, one of which is being sold. The useful life assigned to these assets is 10 years.

During the six-month period ended June 30, 2008, MERCANTIL recorded depreciation expense of Bs 36,938,000 (Bs 29,047,000 during the six-month period ended December 31, 2007), shown in the consolidated statement of income under operating expenses.

At June 30, 2008, buildings, facilities and land for Bs 221,375,000 have an estimated market value of Bs 669,842,000 based on valuations performed by independent appraisers in December 2005.

At June 30, 2008 and December 31, 2007, construction in progress is mainly in respect of construction or remodeling of offices to be used by MERCANTIL.

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

	Useful life (Years)	Remaining useful life (Years)
Buildings and facilities	40	25
Office furniture and equipment	4-10	3
Other property	10	9

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11. Other Assets

Other assets comprise the following:

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Sale of securities in process of collection	546,218	209,680
Insurance premiums receivable	198,788	194,812
Pending items	178,438	75,592
Goodwill	133,990	138,927
Deferred expenses, net of accumulated amortization of Bs 88,883,000 (Bs 80,121,000 at December 31, 2007)	112,807	105,165
Prepaid expenses	75,485	52,658
Deferred income tax (Note 17)	48,968	32,233
Shopping mall rights	39,191	39,191
Advances for acquisition of personal and real property (Note 10)	20,619	36,293
Systems development, net of accumulated amortization of Bs 94,417,000 (Bs 88,821,000 at December 31, 2007)	26,584	26,274
Prepaid taxes, insurance and other prepaid expenses	25,426	51,630
Accounts receivable from other credit card institutions	19,167	7,404
Prepaid advertising	15,737	8,886
Currency redenomination expenses (Notes 1 and 2)	9,872	9,222
Adjustment to market value of spot and forward contracts (Note 24)	2,727	3,215
Cross Currency Swap valuation (Notes 15 and 24)	1,938	905
Other (Note 4)	<u>84,217</u>	<u>58,920</u>
	1,540,172	1,051,007
Provision for estimated losses and other assets	<u>(28,509)</u>	<u>(17,401)</u>
	<u>1,511,663</u>	<u>1,033,606</u>

In 2000, 2001 and 2006, MERCANTIL acquired a majority shareholding in a commercial bank in Venezuela (Interbank, C.A.), an insurance company (C.A. Seguros Orinoco) and a bank in Florida, U.S.A. (Florida Savings Bank), giving rise to goodwill of Bs 131,223,000, Bs 19,600,000 and Bs 40,170,000, respectively. These three companies were later merged into Mercantil, C.A. Banco Universal, Mercantil Seguros C.A. and Mercantil Commercebank N.A., respectively. To acquire Seguros Orinoco, former shareholders provided guarantees covering a 10-year period for recovery of certain assets and resolution of certain contingencies. In November 2007 an agreement was signed between the subsidiary Inversiones y Valores Mercantil VI, C.A. and certain former shareholders of C.A. Seguros Orinoco, whereby the parties agreed to close the trust fund consisting of guarantees granted for acquisition of C.A. Seguros Orinoco. The settlement amounted to Bs 1,293,000 including US\$273,541.

The balance of deferred expenses mainly includes expenses for office setup, leasehold improvements and projects to be capitalized, which include technology updates, equipment and software.

In June 2006 the subsidiary Mercantil, C.A. Banco Universal sold land to a third party at market value of Bs 39,191,000. This land will be developed into a shopping mall within approximately three years. MERCANTIL simultaneously acquired 20% of the premises to be used as its main office and other facilities.

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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). At June 30, 2008, pending items mainly comprise in-transit transfers to other banks and checks not yet cleared of Bs 70,281,000 and Bs 15,247,000, respectively, which cleared in the first few days of July 2008.

During the six-month period ended June 30, 2008, MERCANTIL recorded amortization expense of Bs 20,932,000 (Bs 18,142,000 during the six-month period ended December 31, 2007), shown in the consolidated statement of income under operating expenses.

Below is the movement of goodwill for the six-month period ended June 30, 2008:

	<u>Cost</u>	
	<u>Balances at December 31, 2007</u>	<u>Balances at June 30, 2008</u>
<i>(Thousands of bolivars)</i>		
Interbank, C.A.	131,222	131,222
Florida Savings Bank	41,162	41,162
C.A. Seguros Orinoco	19,602	19,602
Mercantil Seguros, C.A.	3,989	3,989
Todo 1 Service, Inc.	<u>3,291</u>	<u>3,291</u>
	<u>199,266</u>	<u>199,266</u>

	<u>Accumulated amortization</u>		
	<u>Balances at December 31, 2007</u>	<u>Additions</u>	<u>Balances at June 30, 2008</u>
<i>(Thousands of bolivars)</i>			
Interbank, C.A.	45,928	3,278	49,206
Florida Savings Bank	3,259	1,029	4,288
C.A. Seguros Orinoco	6,365	530	6,895
Mercantil Seguros, C.A.	1,496	100	1,596
Todo 1 Service, Inc.	<u>3,291</u>	<u>-</u>	<u>3,291</u>
	<u>60,339</u>	<u>4,937</u>	<u>65,276</u>

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12. Deposits

Deposits comprise the following:

Type of deposit

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Non-interest-bearing checking accounts	6,633,152	20	6,644,492	21
Interest-bearing checking accounts	9,331,647	28	8,188,269	26
Savings accounts	8,951,001	27	8,777,472	28
Time deposits	<u>8,022,662</u>	<u>25</u>	<u>7,677,380</u>	<u>25</u>
	<u>32,938,462</u>	<u>100</u>	<u>31,287,613</u>	<u>100</u>

Time deposits by maturity

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Up to 30 days	3,462,927	43	3,204,948	42
31 to 60 days	1,239,814	15	839,323	11
61 to 90 days	788,282	10	674,802	9
91 to 180 days	523,255	7	793,748	10
181 to 360 days	383,770	5	435,421	6
Over 360 days	<u>1,624,614</u>	<u>20</u>	<u>1,729,138</u>	<u>22</u>
	<u>8,022,662</u>	<u>100</u>	<u>7,677,380</u>	<u>100</u>

Deposits bear interest at the rates shown below:

	<u>June 30, 2008</u>				<u>December 31, 2007</u>			
	<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>		<u>Deposits in bolivars</u>		<u>Deposits in U.S. dollars</u>	
	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate	Minimum rate	Maximum rate
		%		%		%		%
Interest-bearing checking accounts	0.50	4.50	0.15	3.00	0.50	5.25	0.10	3.90
Savings deposits	15.00	15.00	0.20	3.00	9.87	10.00	0.10	4.10
Time deposits	11.00	19.00	0.40	6.10	10.00	11.25	0.50	6.57

At June 30, 2008, deposits include Bs 1,318,646,000 (Bs 1,091,002,000 at December 31, 2007) from the Venezuelan government and other government entities, equivalent to 4.0% of total deposits (3.5% at December 31, 2007).

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13. Debt Authorized by the Venezuelan Securities and Exchange Commission

At June 30, 2008, MERCANTIL has issued by public offering debenture bonds and commercial paper with the following characteristics:

a) Debenture bonds

<i>(Thousands of bolivars)</i>	Amount of issue	Pending issue (Note 24)	Amount placed	Date of issue	Term (Years)	Percentage of return compared to TAM (*) %
Issue 2005-I (1)	35,000	-	35,000	November and December 2005	3	88
Issue 2006-I	60,000	-	60,000	November 2006	2	Fixed rate of 8.25%
Issue 2006-II	40,000	-	40,000	November 2006	4	76
Issue 2007-I	100,000	-	100,000	May and June 2007	4	72.50
Issue 2007-II	<u>172,589</u>	<u>1,445</u>	<u>171,144</u>	October 2007 and March 2008	1-2-3	74 -75 -76-80-85-87
	<u>407,589</u>	<u>1,445</u>	406,144			
Bonds acquired by subsidiaries			<u>(47,747)</u>			
			<u>358,397</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.

(1) Redeemed early with a value date of July 3, 2008.

b) Commercial paper

<i>(Thousands of bolivars)</i>	Amount of issue	Pending issue (Note 24)	Amount placed	Date of issue	Term (Days)	Discount %
Issue 2007-II						
Series II	14,457	-	14,457	September 2007	360	11.75
Series III	11,005	-	11,005	September 2007	354	11.75
Series IV	15,130	-	15,130	September 2007	353	11.75
Series VII	20,000	-	20,000	March 2008	170	17.00
Pending issue	<u>39,408</u>	<u>39,408</u>	-			
	<u>100,000</u>	<u>39,408</u>	60,592			
Paper acquired by subsidiaries			<u>(14)</u>			
			<u>60,578</u>			

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.

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14. Financial Liabilities

Financial liabilities are classified by type and maturity as follows:

	<u>June 30, 2008</u>			<u>December 31, 2007</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>
<i>(Thousands of bolivars)</i>						
Liabilities with Venezuelan banks and savings and loan institutions						
Credit balances with correspondent banks	87,630	-	87,630	102,180	-	102,180
Deposits and liabilities with BANAVIH	10,199	-	10,199	-	-	-
Loans granted by Venezuelan financial institutions, with annual interest at between 10.5% and 26%	-	-	-	<u>59,099</u>	<u>72,000</u>	<u>131,099</u>
	<u>97,829</u>	<u>-</u>	<u>97,829</u>	<u>161,279</u>	<u>72,000</u>	<u>233,279</u>
Liabilities with foreign banks and savings and loan institutions						
New York office mortgage loan of US\$5,487,075, with 9.63% fixed annual interest (US\$5,590,697, with 9.63% fixed annual interest at December 31, 2007)	-	11,768	11,768	-	11,990	11,990
Federal Home Loan Bank, with a par value of US\$33,273,975, with annual interest at between 4.7% and 5.9% (US\$33,280,513, with annual interest at between 3.1% and 5.9% at December 31, 2007)	3,268	68,091	71,359	3,282	68,091	71,373
Loans granted by foreign financial institutions with annual interest at between 0.4% and 7.13%	-	-	-	60,063	-	60,063
Other	<u>36</u>	<u>-</u>	<u>36</u>	<u>1,252</u>	<u>-</u>	<u>1,252</u>
	<u>3,304</u>	<u>79,859</u>	<u>83,163</u>	<u>64,597</u>	<u>80,081</u>	<u>144,678</u>
Direct financial liabilities						
Short sale of securities at par value of US\$245,388,500 with annual interest at between 3.5% and 6% (par value of US\$88,075,340, with annual interest at between 3.52% and 6.27% at December 31, 2007)	-	526,260	526,260	-	188,886	188,886
Securities loan agreements	<u>361,565</u>	<u>-</u>	<u>361,565</u>	<u>399,434</u>	<u>-</u>	<u>399,434</u>
	<u>361,565</u>	<u>526,260</u>	<u>887,825</u>	<u>399,434</u>	<u>188,886</u>	<u>588,320</u>
Liabilities under repurchase agreements						
Liabilities under repurchase agreements with a par value of US\$317,000,000, with annual interest at between 3.66% and 5.51% (US\$318,000,000, with annual interest at between 3.51% and 5.51% at December 31, 2007)	-	679,838	679,838	23,591	658,392	681,983
Other liabilities						
Funds received for special financing programs, with annual interest at between 18% and 22.29%	-	3,086	3,086	-	3,358	3,358
Liabilities in respect of letters of credit	59,106	-	59,106	114,808	-	114,808
Other	<u>743</u>	<u>74</u>	<u>817</u>	<u>241</u>	<u>130</u>	<u>371</u>
	<u>59,849</u>	<u>3,160</u>	<u>63,009</u>	<u>115,049</u>	<u>3,488</u>	<u>118,537</u>
	<u>522,547</u>	<u>1,289,117</u>	<u>1,811,664</u>	<u>763,950</u>	<u>1,002,847</u>	<u>1,766,797</u>

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Maturities of financial liabilities are as follows:

Up to one year

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
Up to 30 days	423,641	81	621,219	81
Between 31 and 60 days	75,471	15	58,126	8
Between 61 and 90 days	3,080	1	8,785	1
Between 91 and 180 days	6,090	1	2,085	-
Between 181 and 270 days	2,425	-	-	-
Between 271 and 360 days	<u>11,840</u>	<u>2</u>	<u>73,735</u>	<u>10</u>
Total	<u>522,547</u>	<u>100</u>	<u>763,950</u>	<u>100</u>

More than one year

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Thousands of bolivars	%	Thousands of bolivars	%
2009	98,940	8	96,207	12
2010	337,374	26	337,374	33
2011	102,960	8	103,183	10
2012	36,465	3	466,083	45
2013 and beyond	<u>713,378</u>	<u>55</u>	<u>-</u>	<u>-</u>
Total	<u>1,289,117</u>	<u>100</u>	<u>1,002,847</u>	<u>100</u>

At June 30, 2008, MERCANTIL has securities loan agreements represented by Treasury Notes and National Public Debt Bonds of the Bolivarian Republic of Venezuela with annual yields between 13% and 14.11% (Treasury Notes of the Bolivarian Republic of Venezuela with annual yields between 1% and 12.43% at December 31, 2007).

Liabilities under repurchase agreements

Below is a summary of liabilities under repurchase agreements:

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Balance at period end	679,838	681,983
Fair value of financial instruments (1)	679,838	681,983
Total maximum balance outstanding at the end of any month of the period	711,686	681,983
Average balance for the six-month period	685,146	648,027

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

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	%
Weighted average interest rate	
For the six-month period	
In foreign currency	4.70
Interest rate at period end	
In foreign currency	4.75

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

15. Other Liabilities

Other liabilities comprise the following:

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Reserves for insurance operations (Note 2)	851,351	629,542
Cashier's checks issued to clients	528,775	222,906
Personnel profit sharing and bonuses	204,634	86,626
Other demand liabilities	193,150	151,716
Provision for contingencies and other (Note 32)	183,438	168,880
Accrued expenses	154,847	107,304
Pending items	136,619	67,085
Taxes collected and withheld	110,682	111,056
Provisions for taxes payable (Note 17)	103,223	123,484
Deferred interest	88,271	48,395
Provision for operating risks	57,239	49,852
Accounts payable to suppliers	42,162	60,329
Labor contributions	24,363	13,943
Law on Narcotic and Psychotropic Substances	10,569	8,585
Law for the Advancement of Science, Technology and Innovation (Note 20)	8,157	4,621
Supplementary Savings Plan (Note 18-a)	8,082	4,040
Cross Currency Swap valuation (Notes 11 and 24)	5,983	150
Other	<u>99,307</u>	<u>78,282</u>
	<u>2,810,852</u>	<u>1,936,796</u>

Pending items mainly include commitments acquired by Mercantil Commercebank, N.A. in respect of security transactions pending settlement at period end, which clear during the first days of July and January 2008.

At June 30, 2008, MERCANTIL maintains provisions for operating risks of Bs 57,239,000 (Bs 49,852,000 at December 31, 2007) determined on the basis of methodologies for risk management assessment, measurement and control. Provisions for contingencies and other operating risks are recorded in the consolidated statement of income under other operating expenses (Note 20).

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At June 30, 2008, MERCANTIL has set aside a provision in respect of the 0.5% contribution of gross income obtained in the country during the preceding year required by the Law for the Advancement of Science, Technology and Innovation. At June 30, 2008, a provision of Bs 8,157,000 (Bs 4,621,000 at December 31, 2007) is maintained in this connection.

16. Subordinated Debt

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

Issue date	Maturity date	Annual interest %	Original amount in millions of US\$	Balance at June 30, 2008 in millions of US\$	June 30, 2008 and December 31, 2007 equivalent in thousands of bolivars
June 1998	June 2028	8.90	40	27	57,539
September 2000	September 2030	10.60	15	15	32,169
March 2001	June 2031	10.18	10	10	21,446
December 2002	January 2033	LIBOR + 3.35	9	9	19,838
April 2003	April 2033	LIBOR + 3.25	8	8	17,157
March 2004	April 2034	LIBOR + 2.85	5	5	10,723
September 2006	December 2038	LIBOR + 1.75	25	25	53,615
December 2006	December 2036	LIBOR + 1.75	15	15	<u>32,169</u>
					<u>244,656</u>

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

17. Taxes

The tax expense comprises the following:

<i>(Thousands of bolivars)</i>	Six-month periods ended	
	June 30, 2008	December 31, 2007
Taxes		
Current		
In Venezuela	76,602	79,127
Abroad	<u>29,831</u>	<u>28,096</u>
	<u>106,433</u>	<u>107,223</u>
Deferred		
In Venezuela	2,934	4,123
Abroad	<u>2,524</u>	<u>1,611</u>
	<u>5,458</u>	<u>5,734</u>

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Taxes in Venezuela

Venezuelan Income Tax Law

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

MERCANTIL's tax year ends on December 31. For the six-month period ended June 30, 2008, the main differences between book income and taxable income arise from the net effect of the annual inflation adjustment, income from shareholdings, provisions and accruals, nontaxable income and the net effect of tax-exempt income from National Public Debt Bonds and other securities issued by the Bolivarian Republic of Venezuela.

At December 31, 2007, MERCANTIL and its subsidiaries have tax loss carryforwards of Bs 134,621,000 with sources and maturities as shown below:

<i>(Thousands of bolivars)</i>	Territorial	Extraterritorial	Total global
Tax losses	97,502	37,119	134,621
Maturities			
2008	49,284	35,652	84,936
2009	19,190	-	19,190
2010	29,027	1,468	30,495

The aforementioned amount mainly comprises tax losses of Inversiones y Valores Mercantil V, C.A. (Bs 54,573,000), Mercantil Servicios Financieros, C.A. (Bs 34,752,000), Inversiones Veninversa, C.A. (Bs 15,645,000) and Mercantil Merinvest Casa de Bolsa, C.A. (Bs 8,590,000).

The subsidiary Mercantil, C.A. Banco Universal computed estimated taxable income for the six-month period ended June 30, 2008, based on which it recorded a provision for estimated income tax of Bs 65,401,000 (Bs 106,584,000 for the year ended December 31, 2007). The following is a reconciliation between book expense and tax expense for the subsidiary Mercantil, C.A. Banco Universal for the year ended December 31, 2007:

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

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Tax on financial transactions

In October 2007 the Venezuelan government enacted by Decree-Law the tax on financial transactions for incorporated and unincorporated entities. This tax was levied upon debits or withdrawals made from current and savings accounts, custody deposits or any other type of demand deposits, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by incorporated and unincorporated entities with Venezuelan banks and other financial institutions. Debt payments made without the mediation of financial institutions are also subject to this tax. The tax rate was set at 1.5% as from November 1, 2007 and was repealed in June 2008. The tax expense for the six-month period ended June 30, 2008 amounts to approximately Bs 47,748,000 (Bs 28,162,000 for the six-month period ended December 31, 2007) and is included under other operating expenses (Note 20).

Taxes in the United States of America

Federal taxes

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

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

<i>(Thousands of U.S. dollars)</i>	June 30, 2008	December 31, 2007
Assets		
Allowance for losses on loan portfolio	19,563	12,789
Unrealized loss in valuation of available-for-sale securities	(4,622)	(4,418)
Deferred commissions on loans granted	1,067	1,239
Unrecorded interest earned	1,276	566
Depreciation and amortization	1,249	1,263
Core deposit premium amortization	148	131
Other	<u>2,560</u>	<u>2,125</u>
	<u>21,241</u>	<u>13,695</u>

State taxes

Companies in the United States of America must pay taxes in the state where they operate. In 2007 these companies paid taxes in Florida, New York, Texas and Delaware. Tax computation depends on laws in each state. Payments of state tax are considered credits against federal tax.

Transfer pricing

Income tax regulations in Venezuela and the United States of America set out the rules applicable to transfer pricing. According to these rules, taxpayers that conduct transactions with related parties abroad are required to calculate income, costs and deductions applying the methodologies set out in each country's regulations. MERCANTIL and the subsidiaries subject to these regulations filed transfer-pricing returns for information purposes within the established time frames.

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18. Employee Benefit Plans

a) Supplementary Savings Plan

MERCANTIL maintains a plan for its employees and those of its Venezuelan subsidiaries corresponding to a defined contribution plan entitled “Plan de Ahorro Previsional Complementario Mercantil” (Supplementary Savings Plan) which replaced the defined benefit plan entitled “Plan Complementario de Pensiones de Jubilación” (Supplementary Defined Benefit 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 six-month period ended June 30, 2008 amount to Bs 13 million (Bs 12 million for the six-month period ended December 31, 2007).

b) Supplementary Defined Benefit Plan

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

At June 30, 2008, MERCANTIL maintains a provision for an amount equivalent to the present value of the Supplementary Defined Benefit Plan obligations not covered by the assets of the external fund supporting the Plan.

c) Post-retirement benefits

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

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At June 30, 2008 and December 31, 2007, the assets, obligations and results of the supplementary pension and post-retirement plans, as well as the long-term assumptions used, are as follows:

	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
<i>(Thousands of bolivars)</i>				
Variation of projected benefit obligation				
Benefit obligation at January 1	33,644	32,176	25,673	17,915
Service cost	171	207	847	1,091
Interest cost	1,981	3,330	1,551	1,916
Actuarial loss	14,981	1,849	-	6,276
Benefits paid	<u>(2,011)</u>	<u>(3,918)</u>	<u>(881)</u>	<u>(1,525)</u>
Projected benefit obligation	<u>48,766</u>	<u>33,644</u>	<u>27,190</u>	<u>25,673</u>
Variation in Plan assets				
Fair value of assets at the beginning	28,232	32,235	11,456	8,700
Yield on assets	-	2,936	-	(265)
MERCANTIL contribution	10,200	-	-	-
Payment of obligation for transfer of assets	-	(3,021)	-	3,021
Benefits paid	<u>(2,011)</u>	<u>(3,918)</u>	<u>(881)</u>	<u>-</u>
Fair value of Plan assets at the end	<u>36,421</u>	<u>28,232</u>	<u>10,575</u>	<u>11,456</u>
Financial position at period end				
Present value of obligations (DBO)	(48,766)	(33,644)	(27,190)	(25,673)
Assets of external fund supporting the Plan	<u>36,421</u>	<u>28,232</u>	<u>10,575</u>	<u>11,456</u>
Projected obligation (less assets)	(12,345)	(5,412)	(16,615)	(14,217)
Unrecognized past service cost	-	-	7,883	8,326
Unrecognized actuarial loss	<u>26,932</u>	<u>14,620</u>	<u>4,498</u>	<u>4,606</u>
	<u>14,587</u>	<u>9,208</u>	<u>(4,234)</u>	<u>(1,285)</u>
Components of net benefit cost for the period				
Service cost	171	207	847	1,091
Interest cost	1,981	3,330	1,551	1,916
Expected yield from Plan assets	-	(2,936)	-	265
Effect of decrease and payment	-	-	-	888
Amortization of unrecognized past service cost	-	-	444	-
Amortization of actuarial loss	<u>2,669</u>	<u>12,215</u>	<u>108</u>	<u>-</u>
Net benefit cost for the period	<u>4,821</u>	<u>12,816</u>	<u>2,950</u>	<u>4,160</u>

The following are the assumptions used to determine benefit obligations for the six-month periods ended:

	<u>Supplementary pension plan</u>		<u>Post-retirement benefits</u>	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Discount rate	12.50	12.50	12.50	12.50
Salary increase	13.50	13.50	13.50	13.50
Yield on assets				
Bolivars	13.00	13.00	13.00	13.00
U.S. dollars	6.50	6.50	6.50	6.50
Increase in medical expense for the period	15.50	15.50	15.50	15.50

Plan costs for 2008 are estimated at Bs 12,966,000.

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d) Long-term stock option plan

MERCANTIL and certain subsidiaries in Venezuela and abroad offer a long-term stock option plan to eligible officers approved by the Board of Directors' Compensation Committee. These shares are allotted over three-year periods and awarded annually. Fundación BMA manages the plan and sets up trust funds with the shares on behalf of members once these shares have been assigned and subsequently awarded to eligible officers based on individual allotments approved in accordance with plan regulations. During each administrative phase and until the shares are actually acquired by officers, cash dividends declared in respect of these shares are received by Fundación BMA and stock dividends by the participants. According to the long-term incentive nature of the plan, officers must be active employees of MERCANTIL in order to exercise their purchase options within the time periods established. Otherwise, or if the allotted shares are not purchased within the established time periods, the entitlements are cancelled. At June 30, 2008, 207 employees are participating in this plan. For the six-month period ended June 30, 2008, Bs 3,500,000 was contributed to this plan.

Below is a breakdown of shares included in the plan at June 30, 2008, which are deposited in the Mercantil Seguros, C.A. trust fund:

Phase	Approval date	Number of shares (4)		Option price		End of term for option exercise
		Class "A"	Class "B"	Class "A"	Class "B"	
IV	2004	819,237 (1)	683,291 (1)	25,00	25,00	2009 and 2010
V	2007	308,825 (2)	540,834 (2)	47,65	47,65	2010
Available shares		<u>368,591 (3)</u>	<u>75,631 (3)</u>			
Total shares in trust fund		<u>1,496,653 (4)</u>	<u>1,299,756 (4)</u>			

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

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

(3) Available shares.

(4) Includes stock dividends.

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

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

	Shares awarded		
	Class "A"	Class "B"	Total
Balance at June 30, 2007	1,039,802	867,461	1,907,263
Options awarded	(4,815)	(4,031)	(8,846)
Options recovered	(5,462)	(4,554)	(10,016)
Adjustment of awards due to currency redenomination	<u>218</u>	<u>274</u>	<u>492</u>
Balance at December 31, 2007	1,029,743	859,150	1,888,893
Options awarded	<u>(210,506)</u>	<u>(175,859)</u>	<u>(386,365)</u>
Balances at June 30, 2008	<u>819,237</u>	<u>683,291</u>	<u>1,502,528</u>

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Of the options outstanding at June 30, 2008, 1,222,324 options were exercisable (345,785 options at December 31, 2007).

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

	Share volatility %	Risk-free rate %	Time (Years)	Option value (Bs)
Phase I	78.6	28.6	7.8	77.21
Phase II	68.7	21.0	6.0	3.86
Phase III	35.8	26.9	7.5	14.58
Phase IV	31.4	8.3	2.4	30.95

In connection with the options awarded during the six-month period ended June 30, 2008, MERCANTIL recognized expenses of Bs 1,201,000 in the consolidated statement of income based on the market value of options at the award date (Bs 14,743,000 during the six-month period ended December 31, 2007).

19. Other Income

Other income comprises the following:

<i>(Thousands of bolivars)</i>	<u>Six-month periods ended</u>	
	June 30, 2008	December 31, 2007
Decrease in allowances	42,291	39,863
Commissions on banking services	34,781	35,474
Interest on insurance policies financed	20,454	31,106
Recovery of loans recorded as uncollectible (Note 6)	17,958	16,505
Commission for foreign currency administration	17,580	18,520
Income from transactions with derivative instruments, net (Note 24)	13,456	4,083
Commissions on administration of housing savings fund	9,286	9,417
Commissions on drafts and transfers	9,259	9,636
Income from other accounts receivable	4,780	4,494
Gain on sale of available-for-sale assets (Note 9)	2,765	1,082
Commissions on advisory services	2,583	5,003
Decrease in allowance for losses on loan portfolio (Note 6)	1,221	1,272
Cross Currency Swap valuation (Note 24)	-	6,155
Other	<u>37,797</u>	<u>28,753</u>
	<u>214,211</u>	<u>211,363</u>

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20. Other Operating Expenses

Other operating expenses comprise the following:

<i>(Thousands of bolivars)</i>	<u>Six-month periods ended</u>	
	<u>June 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Taxes and contributions (Note 17)	95,650	60,573
Professional fees and other external services	85,387	73,812
Communications	50,462	51,135
Service commissions	40,971	48,881
Advertising and marketing	29,119	63,977
Provision for operating risks and other contingencies	23,100	30,598
Robbery, assault and fraud	22,524	14,172
Provisions for available-for-sale and other assets	14,741	11,666
Office supplies	10,833	14,971
Transportation and security	8,558	8,907
Provision for the Law for the Advancement Science, Technology and Innovation (Note 15)	7,370	5,556
Public relations and representation expenses	6,717	7,194
Cross Currency Swap valuation (Note 24)	6,301	231
Donations	4,507	10,490
Insurance expenses	3,820	3,299
Other	<u>54,181</u>	<u>46,080</u>
	<u>464,241</u>	<u>451,542</u>

21. Shareholders' Equity

a) Capital stock and authorized capital

At June 30, 2008, MERCANTIL's subscribed and paid-in capital amounts to Bs 155,976,000, represented by 103,983,727 shares divided into 60,336,760 Class "A" common shares and 43,646,967 Class "B" common shares, with limited voting rights regarding approval of financial statements and appointment of statutory auditors, with a par value of Bs 1.50 each. Of these shares, 86,115 Class "A" and 178,176 Class "B" common shares constitute treasury stock in connection with the current repurchase program of MERCANTIL shares. Outstanding shares amount to 103,719,436 shares; 60,250,645 Class "A" and 43,468,791 Class "B" common shares (104,319,358 shares divided into 60,519,455 Class "A" and 43,799,903 Class "B" common shares with limited voting rights. Of these shares, 183,428 Class "A" and 153,838 Class "B" common shares constituted treasury stock in connection with the current repurchase program of MERCANTIL. Outstanding shares amounted to 60,336,027 Class "A" and 43,646,065 Class "B" shares, with a par value of Bs 1.50 each at December 31, 2007).

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

MERCANTIL's authorized capital stock at June 30, 2008 is Bs 314,493,000 (Note 24).

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b) Public offer of MERCANTIL shares

At a Shareholders' Meeting held in March 2007, it was resolved to increase subscribed and paid-in capital stock to Bs 215,434,000 through the issue of a maximum of 718 million Class "A" or "B" common shares with a par value of Bs 1.50 each. During 2007 MERCANTIL made a public offer of up to 45 million shares (4.5% of its capital stock) at Bs 3.35 each, which were fully placed. Funds obtained were used to expand the banking, insurance and investment banking businesses.

c) Stock repurchase program

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

The repurchase program has been implemented in 17 six-month phases. Below is a summary of the applicable conditions for the current phases:

<i>(In bolivars)</i>	Date of approval at Shareholders' Meetings	Maximum authorized purchase price per share	Average purchase price	Repurchased and unredeemed shares
Phases				
Sixteenth	September 2007	75	31.14	187,336
Seventeenth	March 2008	90	23.29	<u>76,955</u>
Repurchased and unredeemed shares (0.25% of capital stock)				<u>264,291</u>

In October 2001, January 2003, February 2004, October 2005, and September and December 2007, approval was given to redeem 80,720,693 shares for Bs 187,370,000, which were acquired up to the sixteenth phase of the aforementioned repurchase program and were held in treasury stock in conformity with the Capital Markets Law. These shares were redeemed in December 2001, February 2003, June 2004, February 2006, December 2007 and March 2008. The redemption performed in March 2008 and December 2007 resulted in a reduction of MERCANTIL's paid-in capital of Bs 503,000 and Bs 768,000, respectively. As a result, all of the treasury stock acquired during the first, second, third, fourth, fifth, sixth, seventh, eighth, ninth, tenth, eleventh, twelfth, thirteenth, fourteenth and fifteenth phases of the program, and the sixteenth phase up to December 20, 2007 has been redeemed.

d) Dividends declared

In cash

Type of dividend	Date of approval at Shareholders' Meeting	Amount per share Bs	Frequency or payment date
Ordinary	March 2007	0.12	August 2007
Ordinary	March 2007	0.12	November 2007
Ordinary	September 2007	0.13	February 2008
Special	March 2008	0.25	April 2008
Ordinary	March 2008	0.13	May 2008

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

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

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

Retained earnings at June 30, 2008 include Bs 580,629,000 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.

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 case of a non-negotiated purchase offer and thus, strengthen their negotiating position in an event of this nature.

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

A Foundation was incorporated abroad in 1986 with MERCANTIL and its shareholders as beneficiaries. The Foundation's Board of Directors decides, at its convenience, whether to transfer all or part of the Foundation's equity to MERCANTIL or its shareholders. At June 30, 2008, the Foundation has net equity of US\$754,994 (US\$745,474 at December 31, 2007), 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 is shown below for the six-month periods ended:

<i>(Thousands of bolivars, except for number of shares)</i>	June 30, 2008	December 31, 2007
Net income per common share		
Net income	486,743	544,375
Common shares issued	103,983,727	104,319,358
Weighted average of outstanding common shares	100,721,100	100,298,358
Basic net income per share	4.83	5.43
Net income per diluted common share		
Net income	486,743	544,375
Weighted average of outstanding common shares	100,721,100	100,298,358
Potentially diluted common shares	99,461	89,868
Total weighted average of outstanding diluted common shares	100,820,561	100,388,226
Diluted net income per share	4.83	5.42

23. Financial Assets and Liabilities in Foreign Currency

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

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

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

MERCANTIL is currently applying to CADIVI to obtain currency at the official exchange rate for conversion into U.S. dollars of dividends payable to ADR holders. At June 30, 2008 and December 31, 2007, Bs 16,852,000 has been received in respect of 2007, shown under other liabilities (Note 15). Foreign currency in respect of dividends for 2006 was received in July 2007.

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

<i>(Thousands of U.S. dollars)</i>	June 30, 2008	December 31, 2007
Assets		
Cash and due from banks	128,013	147,280
Investment portfolio	2,986,880	2,827,633
Loan portfolio	3,812,466	3,484,333
Other assets	<u>330,504</u>	<u>169,756</u>
	<u>7,257,863</u>	<u>6,629,002</u>
Liabilities		
Deposits	5,134,293	4,796,639
Financial liabilities	628,731	527,072
Other liabilities	57,218	31,422
Subordinated debt	<u>114,080</u>	<u>114,080</u>
	<u>5,934,322</u>	<u>5,469,213</u>

During the six-month period ended June 30, 2008, net exchange losses resulting from foreign currency positions amounted to Bs 3,188,000 (Bs 3,655,000 during the six-month period ended December 31, 2007). Furthermore, during the six-month period ended June 30, 2008, gains from intermediation in foreign currency trading amounted to Bs 5,239,000 (Bs 2,389,000 during the six-month period ended December 31, 2007).

The estimated effect of the increase of every Bs 0.10/US\$1 in the exchange rate of Bs 2.14/US\$1 at June 30, 2008 would be an increase in assets of Bs 725,786,000 and an increase in shareholders' equity of Bs 132,354,000.

24. Memorandum Accounts

Memorandum accounts comprise the following:

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Contingent debtor accounts		
Guarantees granted	353,360	476,342
Letters of credit	867,602	498,747
Lines of credit (Note 25)	1,383,449	1,575,616
Transactions with derivative instruments	1,120,367	879,322
Cross Currency Swap Contract (Notes 11 and 15)	67,071	58,377
Tourist industry sector loan commitments	76,508	111,945
Other contingencies	<u>629,534</u>	<u>570,192</u>
	<u>4,497,891</u>	<u>4,170,541</u>
Assets received in trust	<u>7,934,485</u>	<u>8,006,657</u>
Special trust services	<u>984,711</u>	<u>1,031,101</u>
Debtor accounts for other special trust services (Housing Mutual Fund)	-	<u>1,324,034</u>
Other debtor memorandum accounts		
Custody of values received	4,248,599	4,136,179
Collections	158,857	156,661
Guarantees received	19,640,899	18,810,952
Unused lines of credit	5,883,796	3,753,313
Publicly traded shares (Note 21)	158,518	158,014
Commercial paper pending issue (Note 13-b)	39,408	19,408
Debenture bonds pending issue (Note 13-a)	1,445	135,624
Other control accounts	<u>6,846,567</u>	<u>7,030,006</u>
	<u>36,978,089</u>	<u>34,200,157</u>
	<u>50,395,176</u>	<u>48,732,490</u>

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Assets received in trust

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

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Assets		
Cash and due from banks	955,703	149,363
Investment portfolio	3,947,089	5,009,524
Loan portfolio	2,568,066	2,380,947
Interest and commissions receivable	44,547	35,479
Available-for-sale assets	-	1,554
Assets received for administration	11,210	9,272
Other assets	<u>407,870</u>	<u>420,518</u>
Total assets	<u>7,934,485</u>	<u>8,006,657</u>
Liabilities		
Other accounts payable	15,986	4,613
Other liabilities	<u>9,002</u>	<u>7,092</u>
Total liabilities	24,988	11,705
Shareholders' equity	<u>7,909,497</u>	<u>7,994,952</u>
Total liabilities and shareholders' equity	<u>7,934,485</u>	<u>8,006,657</u>

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

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

Securities under spot contracts

MERCANTIL purchases and sells securities under spot contracts at an established price. For the six-month period ended June 30, 2008, MERCANTIL recorded net income from adjustment to market value of Bs 17,000 (Bs 58,000 during the six-month period ended December 31, 2007). Spot transactions were settled within seven business days of the date of origin (Note 11). Securities under spot contracts comprise the following:

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Securities		
Purchase rights	313,214	265,092
Sale rights	<u>289,757</u>	<u>267,254</u>
	<u>602,971</u>	<u>532,346</u>

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Derivative financial instruments

MERCANTIL enters into non-hedging futures contracts for the purchase and sale of securities at a fixed price. Net gains resulting from these contracts for the six-month period ended June 30, 2008 amounted to Bs 13,456,000 (Bs 10,238,000 during the six-month period ended December 31, 2007), shown under other income (Note 19).

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

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

Futures contracts	June 30, 2008		December 31, 2007	
	Thousands of bolivars	Maturity	Thousands of bolivars	Maturity
Exchange rates (foreign currency)				
Purchases	130,320	July and January 2009	49,539	January and October 2008
Securities				
Purchases	227,425	July and August 2008	162,911	January and July 2008
Sales	<u>67,363</u>	July and August 2008	<u>87,344</u>	January 2008
	<u>425,108</u>		<u>299,794</u>	

During the six-month period ended June 30, 2007, MERCANTIL exchanged securities worth US\$29.7 million denominated in U.S. dollars with a third party for securities denominated in bolivars for Bs 63,750,000. 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 June 30, 2008, the contract's fair market value was US\$20 million (US\$27.2 million at December 31, 2007) and resulted in a loss of Bs 6,301,000, shown under other operating expenses (gain of Bs 6,011,000 for the six-month period ended December 31, 2007, shown under other income) (Notes 19 and 20). In addition, during the six-month period ended December 31, 2007, MERCANTIL entered into a Cross Currency Swap Contract with a third party, which resulted in a gain of Bs 144,000 and a loss of Bs 231,000, shown under other income and other operating expenses, respectively (Notes 19 and 20).

In 1998 Mercantil Commercebank, N.A. entered into a cap contract for a nominal amount of US\$18 million. This contract is for 10 years and requires the counterparty to pay Commercebank, N.A. interest on the basis of the nominal amount of the contract and the difference between the London Interbank Offering Rate (LIBOR) for one month and 6.50% when LIBOR exceeds 6.50% in exchange for a single payment from the bank. At June 30, 2008, the current amount of the contract is US\$7 million (US\$7 million at December 31, 2007), and the fair value is US\$0.

In 2007 Mercantil Commercebank, N.A. entered into certain interest rate swap agreements to cover changes in the fair value of certain financial instruments subject to interest rate risk. At June 30, 2008, the agreements' current nominal value is US\$36 million and the market value is approximately US\$(75,608), resulting in a gain of US\$141,026 during the six-month period ended June 30, 2008.

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

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25. Credit-related Commitments

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

Guarantees granted

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

Letters of credit

Letters of credit usually mature within 90 days and are renewable. They are generally issued to finance a trade agreement for the shipment of goods from a seller to a buyer. MERCANTIL charges a fee of between 0.125% and 2% of the amount of the letter of credit and records the latter under assets once it is used by the customer. Unused letters of credit and other similar liabilities are included under memorandum accounts.

Lines of credit

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

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

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

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

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26. Maturity of Financial Assets and Liabilities

Financial assets and liabilities at June 30, 2008 are classified according to maturity as follows:

<i>(Thousands of bolivars)</i>	30 days	60 days	90 days	180 days	360 days	Over 360 days	Total
Assets							
Cash and due from banks	6,336,356	-	-	-	-	-	6,336,356
Investment portfolio	3,585,699	1,023,537	255,900	604,897	240,452	5,627,883	11,338,368
Direct financial assets	160,543	87,908	-	-	-	-	248,451
Loan portfolio	5,758,989	2,455,369	2,298,112	1,751,609	1,493,566	8,629,958	22,387,603
Interest and commissions receivable	<u>281,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,054</u>
Total financial assets	<u>16,122,641</u>	<u>3,566,814</u>	<u>2,554,012</u>	<u>2,356,506</u>	<u>1,734,018</u>	<u>14,257,841</u>	<u>40,591,832</u>
Liabilities							
Deposits	28,378,727	1,239,814	788,282	523,255	383,770	1,624,614	32,938,462
Debt authorized by the Venezuelan Securities and Exchange Commission	418,975	-	-	-	-	-	418,975
Financial liabilities	423,641	75,471	3,080	6,090	14,265	1,289,117	1,811,664
Interest and commissions payable	55,382	-	-	-	-	-	55,382
Subordinated debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,656</u>	<u>244,656</u>
Total financial liabilities	<u>29,276,725</u>	<u>1,315,285</u>	<u>791,362</u>	<u>529,345</u>	<u>398,035</u>	<u>3,158,387</u>	<u>35,469,139</u>

27. Fair Value of Financial Instruments

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

<i>(Thousands of bolivars)</i>	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and due from banks	6,336,356	6,336,356	6,128,694	6,128,694
Investment portfolio	11,338,368	11,327,189	11,472,207	11,442,076
Direct financial assets	248,451	248,451	324,579	324,579
Loan portfolio, net of provision	21,903,664	21,903,664	19,338,492	19,338,492
Interest and commissions receivable, net of provision	<u>281,054</u>	<u>281,054</u>	<u>245,939</u>	<u>245,939</u>
	<u>40,107,893</u>	<u>40,096,714</u>	<u>37,509,911</u>	<u>37,479,780</u>
Liabilities				
Deposits	32,938,462	32,938,462	31,287,613	31,287,613
Debt authorized by the Venezuelan Securities and Exchange Commission	418,975	418,975	356,144	356,144
Financial liabilities	1,811,664	1,811,664	1,766,797	1,766,797
Interest and commissions payable	55,382	55,382	47,771	47,771
Subordinated debt	<u>244,656</u>	<u>244,656</u>	<u>244,656</u>	<u>244,656</u>
	<u>35,469,139</u>	<u>35,469,139</u>	<u>33,702,981</u>	<u>33,702,981</u>
Memorandum accounts				
Contingent debtor accounts	<u>3,114,442</u>	<u>3,114,442</u>	<u>2,594,925</u>	<u>2,594,925</u>

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

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value of other income-generating activities or future business activities; that is, they do not represent the value of MERCANTIL as a going concern.

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

Short-term financial instruments

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

Investment portfolio

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

Loan portfolio

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

Deposits

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

Financial liabilities

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

Risk-based financial instruments recorded in memorandum accounts

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

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28. Geographic Segment Information

MERCANTIL's operations are distributed geographically as follows:

<i>(Thousands of bolivars)</i>	<u>Six-month periods ended</u>	
	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Gross financial margin		
Venezuela	1,137,107	935,965
United States of America	208,481	212,165
Other	<u>13,075</u>	<u>11,051</u>
Total	<u>1,358,663</u>	<u>1,159,181</u>
Net financial margin, commissions and other income		
Venezuela	1,498,704	1,404,048
United States of America	178,251	220,507
Other	<u>30,613</u>	<u>33,735</u>
Total	<u>1,707,568</u>	<u>1,658,290</u>
Income before tax and minority interests		
Venezuela	561,957	559,687
United States of America	20,798	64,399
Other	<u>5,282</u>	<u>22,018</u>
Total	<u>588,037</u>	<u>646,104</u>

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Thousands of bolivars</u>	<u>%</u>	<u>Thousands of bolivars</u>	<u>%</u>
Assets				
Venezuela	27,684,658	66	25,940,104	66
United States of America	13,285,972	31	12,057,236	31
Other	<u>1,205,266</u>	<u>3</u>	<u>1,052,212</u>	<u>3</u>
Total	<u>42,175,896</u>	<u>100</u>	<u>39,049,552</u>	<u>100</u>
Liabilities				
Venezuela	25,513,285	67	23,994,518	67
United States of America	11,818,136	30	10,796,926	30
Other	<u>951,103</u>	<u>3</u>	<u>850,494</u>	<u>3</u>
Total	<u>38,282,524</u>	<u>100</u>	<u>35,641,938</u>	<u>100</u>

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29. Financial Information by Subsidiary

Below is a summary of the financial information by subsidiary at June 30, 2008. This information includes the effect of eliminations normally made during consolidation:

<i>(Thousands of bolivars)</i>	Mercantil, C.A. Banco Universal	Mercantil Commercebank Holding Corporation	Holding Mercantil Internacional (1)	Mercantil Seguros	Mercantil Merinvest	Mercantil Inversiones y Valores and others	Consolidated total
Total assets	26,259,984	13,150,205	1,003,184	1,312,111	205,602	244,810	42,175,896
Investment portfolio	4,987,578	4,942,125	331,240	882,478	67,762	127,185	11,338,368
Loan portfolio, net	14,019,151	7,268,744	615,771	-	-	-	21,903,666
Deposits	22,091,346	10,023,810	823,306	-	-	-	32,938,462
Net income before taxes	457,440	19,069	1,182	59,988	21,723	28,316	587,718
Net income (loss) for the period	391,337	(15,521)	2,285	51,041	24,938	32,663	486,743
Number of employees	7,598	906	51	1,317	46	81	9,999

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

On August 28, 2008, MERCANTIL's Board of Directors agreed to submit to the Shareholders' Meeting, to be held on September 19, 2008, the approval of a plan that will improve conditions for a foreign subsidiary to access the international capital markets.

30. Risk Management

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

Credit risk

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

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

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

Market risk

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

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

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

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

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

Operational risk

MERCANTIL considers 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 June 30, 2008 and December 31, 2007, trust fund assets amount to Bs 7,934,485,000 and Bs 8,006,657,000, respectively, and are shown under memorandum accounts (Note 24).

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31. Regulatory Capital Requirements

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

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

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	<u>Current</u>	<u>Minimum</u>	<u>Current</u>	<u>Minimum</u>
	<u>%</u>	<u>required</u>	<u>%</u>	<u>required</u>
		<u>%</u>		<u>%</u>
Equity to risk-weighted assets and contingent operations				
Mercantil Servicios Financieros, C.A.	16.74	8	16.71	8
Mercantil, C.A. Banco Universal	14.60	12	14.01	12
Mercantil Commercebank, N.A.	12.08	8	13.59	8
Tier I equity to risk-weighted assets and contingent operations				
Mercantil Servicios Financieros, C.A.	14.55	4	14.39	4
Mercantil Commercebank, N.A.	10.79	4	12.52	4
Equity to total assets				
Mercantil, C.A. Banco Universal	10.34	8	9.63	8
Mercantil Commercebank, N.A.	6.88	4	7.67	4

32. Commitments and Contingencies

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

Various subsidiaries of MERCANTIL in Venezuela and their merged institutions have received additional income tax assessments from the Tax Authorities amounting to approximately Bs 23,066,000, 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.

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

MERCANTIL management identified a maximum risk of Bs 22,613,000 in connection with the aforementioned assessments based on inadmissibility of monetary restatement and compensatory interest; hence, a provision has been set aside to cover this amount (Note 15).

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

In June 2008 the subsidiary Mercantil, C.A. Banco Universal was notified by the People's Power Ministry for Housing of an assessment of Bs 25,363,603 in respect of alleged differences in the contributions made under the Housing Loan Law. In July 2008 the Bank appealed this assessment. In August 2008 the People's Power Ministry for Housing ruled partially in favor of the Bank and reduced the assessment to Bs 11,647,218. However, this decision is still open to appeal by the Bank. In the opinion of Bank management and its legal advisors, there are legal grounds to uphold the inadmissibility of the assessment.

In July 2006 the subsidiary Mercantil, C.A. Banco Universal was notified of an unfavorable ruling in connection with a claim filed by a client. The Bank has been ordered to pay approximately Bs 36,458,000 for general damages and loss of profits, plus monetary indexation. In November 2006 the Bank's legal advisors filed for annulment of the ruling which includes allegations for nonfeasance and law infringement. In December 2006 the plaintiff appealed the legal action taken by the Bank and the substantiation process was completed on February 7, 2007. Bank management and its legal advisors expect this ruling to be annulled to give way to a new ruling since they believe it contains legal vices.

At a Special Shareholders' Meeting of the subsidiary Holding de Inversión Mercantil de Colombia, S.A. held in December 2006, approval was granted to liquidate this subsidiary and distribute the remainder among shareholders. The amount to cover certain administrative and labor contingencies, as well as liquidator fees, was calculated at Bs 3,462,000 to be managed under a fiduciary agreement.

In September 2006 a subsidiary of MERCANTIL was subjected to a special requirement by the Colombian Tax and Customs Administration (DIAN) resulting from its interpretation of the treatment of certain assets for the purpose of tax payment. Although MERCANTIL's legal advisors appealed this decision, in June 2007 DIAN requested official settlement of the tax review, through which the 2005 income tax return was modified involving a higher income tax payment of approximately Ps 33 billion (Bs 37 million) and a penalty of approximately Ps 53 billion (Bs 59 million). This decision was appealed again in August 2007 and in July 2008 DIAN issued a resolution stating that the application of the tax assessment was inadmissible since no income tax payments were omitted.

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

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

<i>(Thousands of bolivars)</i>	June 30, 2008	December 31, 2007
Assets		
Cash and due from banks	6,303	6,543
Investment portfolio		
Mercantil, C.A. Banco Universal	2,504,192	2,118,482
Commercebank Holding Corporation	767,160	782,525
Inversiones y Valores Mercantil VI, C.A.	259,902	216,795
Holding Mercantil Internacional, C.A.	205,841	176,072
Mercantil Inversiones y Valores, C.A.	26,160	33,205
Mercantil Merinvest, C.A.	84,740	74,672
Cestaticket Accor Services, C.A.	27,021	35,481
Other	457,566	444,527
Property and equipment	27,979	29,398
Other assets	<u>41,649</u>	<u>71,122</u>
Total assets	<u>4,408,513</u>	<u>3,988,822</u>
Liabilities		
Debenture bonds and commercial paper	466,736	394,968
Other liabilities	<u>48,405</u>	<u>186,240</u>
Total liabilities	515,141	581,208
Shareholders' equity	<u>3,893,372</u>	<u>3,407,614</u>
Total liabilities and shareholders' equity	<u>4,408,513</u>	<u>3,988,822</u>
Income		
Interest income	10,592	12,164
Equity in subsidiaries, affiliates and other entities	578,780	612,307
Expenses		
Operating	(60,427)	(43,325)
Interest	<u>(42,202)</u>	<u>(36,771)</u>
Net income	<u>486,743</u>	<u>544,375</u>

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

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

Below are the consolidated balance sheet, and the consolidated statements of income, shareholders' equity and cash flows of Mercantil Servicios Financieros, C.A. and its subsidiaries, expressed in constant bolivars at June 30, 2008:

Supplementary Consolidated Balance Sheet
June 30, 2008 and December 31, 2007

<i>(Thousands of constant bolivars at June 30, 2008)</i>	June 30, 2008	December 31, 2007 (•)
Assets		
Cash and due from banks		
Cash	430,630	490,793
Banco Central de Venezuela	4,894,520	6,063,360
Venezuelan banks and other financial institutions	11,712	4,929
Foreign banks and other financial institutions	250,597	128,616
Pending cash items	749,344	440,340
Provision for cash and due from banks	<u>(447)</u>	<u>(366)</u>
	<u>6,336,356</u>	<u>7,127,672</u>
Investment portfolio		
Investments in trading securities	596,586	302,837
Investments in available-for-sale securities	5,676,045	6,873,735
Investments in held-to maturity securities	1,130,666	1,275,437
Share-trading portfolio	43,466	58,423
Investments in time deposits and placements	3,759,187	4,646,411
Restricted investments and repurchase agreements	<u>154,012</u>	<u>204,774</u>
	<u>11,359,962</u>	<u>13,361,617</u>
Direct financial assets	<u>248,451</u>	<u>377,485</u>
Loan portfolio		
Current	22,064,317	22,731,467
Rescheduled	37,302	28,661
Overdue	278,959	136,045
In litigation	<u>7,025</u>	<u>9,047</u>
	22,387,603	22,905,220
Allowance for losses on loan portfolio	<u>(483,937)</u>	<u>(414,554)</u>
	<u>21,903,666</u>	<u>22,490,666</u>
Interest and commissions receivable	<u>281,054</u>	<u>286,027</u>
Long-term investments	<u>57,115</u>	<u>73,469</u>
Available-for-sale assets	<u>25,228</u>	<u>26,123</u>
Property and equipment	<u>897,169</u>	<u>908,777</u>
Other assets	<u>1,866,830</u>	<u>1,562,501</u>
Total assets	<u>42,975,831</u>	<u>46,214,337</u>

(•) Amounts expressed in the new currency unit

Mercantil Servicios Financieros, C.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
June 30, 2008 and December 31, 2007

Supplementary Consolidated Balance Sheet
June 30, 2008 and December 31, 2007

*(Thousands of constant bolivars
at June 30, 2008)*

	June 30, 2008	December 31, 2007 (•)
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Non-interest-bearing checking accounts	6,633,152	7,727,544
Interest-bearing checking accounts	9,331,647	9,522,957
Savings deposits	8,951,001	10,208,200
Time deposits	<u>8,022,662</u>	<u>8,928,793</u>
	<u>32,938,462</u>	<u>36,387,494</u>
Debt authorized by the Venezuelan Securities and Exchange Commission		
Publicly traded debt securities issued by MERCANTIL	<u>418,975</u>	<u>414,195</u>
Financial liabilities		
Liabilities to Venezuelan banks and savings and loan institutions, up to one year	97,829	187,567
Liabilities to Venezuelan banks and savings and loan institutions, more than one year	-	83,736
Liabilities to foreign banks and savings and loan institutions, up to one year	3,304	75,126
Liabilities to foreign banks and savings and loan institutions, more than one year	79,859	93,134
Direct financial liabilities	887,825	684,216
Liabilities under repurchase agreements	679,838	793,146
Other liabilities, up to one year	59,849	133,802
Other liabilities, more than one year	<u>3,160</u>	<u>4,057</u>
	<u>1,811,664</u>	<u>2,054,784</u>
Interest and commissions payable	<u>55,382</u>	<u>55,558</u>
Other liabilities	<u>2,803,996</u>	<u>2,258,297</u>
Subordinated debt	<u>244,656</u>	<u>284,535</u>
Total liabilities	<u>38,273,135</u>	<u>41,454,863</u>
Minority interests in consolidated subsidiaries	<u>3,410</u>	<u>5,256</u>
Shareholders' Equity		
Capital stock	155,976	156,479
Capital inflation adjustment	1,217,548	1,217,586
Share premium	498,712	500,325
Capital reserves	787,926	787,926
Translation adjustment of net assets of subsidiaries abroad	(473,756)	(317,542)
Retained earnings	2,550,810	2,517,243
Repurchased shares held by subsidiaries	(20,096)	(26,522)
Repurchased shares reserved for employee stock option plan	(29,850)	(33,428)
Unrealized gain (loss) from adjustment of investments in available-for sale securities to market value	<u>12,016</u>	<u>(47,849)</u>
Total shareholders' equity	<u>4,699,286</u>	<u>4,754,218</u>
Total liabilities and shareholders' equity	<u>42,975,831</u>	<u>46,214,337</u>

(•) Amounts expressed in the new currency unit

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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Supplementary Consolidated Statement of Income
Six-month periods ended June 30, 2008 and December 31, 2007

*(Thousands of constant bolivars
at June 30, 2008)*

	June 30, 2008	December 31, 2007 (•)
Interest income		
Income from cash and due from banks	11,777	9,281
Income from investment portfolio	472,865	518,847
Income from loan portfolio	1,779,636	1,674,351
Income from financial assets	<u>13,543</u>	<u>29,947</u>
Total interest income	<u>2,277,821</u>	<u>2,232,426</u>
Interest expense		
Interest on demand and savings deposits	(478,305)	(379,025)
Interest on time deposits	(228,844)	(254,082)
Interest on securities issued by MERCANTIL	(86,272)	(72,305)
Interest on financial liabilities	<u>(61,206)</u>	<u>(90,679)</u>
Total interest expense	<u>(854,627)</u>	<u>(796,091)</u>
Gross financial margin	1,423,194	1,436,335
Allowance for losses on loan portfolio	<u>(184,222)</u>	<u>(71,734)</u>
Net financial margin	<u>1,238,972</u>	<u>1,364,601</u>
Commissions and other income		
Trust fund operations	20,377	25,094
Foreign currency operations	5,249	2,802
Commissions on customer account transactions	80,664	110,746
Commissions on letters of credit and guarantees granted	15,949	20,325
Equity in long-term investments	20,382	18,400
Exchange loss	(3,861)	(4,895)
Gain on sale of investment securities	136,689	253,069
Other income	<u>266,068</u>	<u>242,706</u>
Total commissions and other income	<u>541,517</u>	<u>668,247</u>
Insurance premiums, net of claims		
Premiums	777,817	685,566
Claims	<u>(654,876)</u>	<u>(561,031)</u>
Total insurance premiums, net of claims	<u>122,941</u>	<u>124,535</u>
Operating expenses		
Salaries and employee benefits	(596,370)	(591,467)
Depreciation, property and equipment expenses, amortization of intangibles and other	(202,486)	(197,880)
Fees paid to regulatory agencies	(74,031)	(77,380)
Other operating expenses	<u>(496,813)</u>	<u>(556,892)</u>
Total operating expenses	<u>(1,369,700)</u>	<u>(1,423,619)</u>
Loss from net monetary position	<u>(350,853)</u>	<u>(270,792)</u>
Operating income before tax and minority interests	<u>182,877</u>	<u>462,972</u>
Income tax		
Current	(111,819)	(133,828)
Deferred	<u>5,458</u>	<u>6,669</u>
Total tax	<u>(106,361)</u>	<u>(127,159)</u>
Net income before minority interests	76,516	335,813
Minority interests	<u>(46)</u>	<u>(123)</u>
Net income	<u><u>76,470</u></u>	<u><u>335,690</u></u>

(•) Amounts expressed in the new currency unit

Mercantil Servicios Financieros, C.A. and its Subsidiaries
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Supplementary Consolidated Statement of Shareholders' Equity
Six-month periods ended June 30, 2008 and December 31, 2007

<i>(Thousands of constant bolivars at June 30, 2008)</i>	Capital stock	Capital inflation adjustment	Share premium	Capital reserves	Translation adjustment of net assets of subsidiaries abroad	Retained earnings	Repurchased shares held by subsidiaries	Repurchased shares reserved for employee stock option plan	Unrealized gain (loss) from adjustment to market value of investments	Total shareholders' equity
Balances at June 30, 2007 (*)	150,497	1,215,678	289,571	787,926	(182,591)	2,271,801	(42,316)	(55,600)	(78,735)	4,356,231
Net income for the period	-	-	-	-	-	335,690	-	-	-	335,690
Repurchased shares	-	-	-	-	-	-	(16,708)	-	-	(16,708)
Repurchased shares reserved for employee stock option plan	-	-	23,369	-	-	-	-	22,172	-	45,541
Capital increase	6,750	2,033	187,385	-	-	-	-	-	-	196,168
Redemption of repurchased shares	(768)	(125)	-	-	-	(31,609)	32,502	-	-	-
Cash dividends	-	-	-	-	-	(30,592)	-	-	-	(30,592)
Minimum dividend payable	-	-	-	-	-	(28,047)	-	-	-	(28,047)
Unrealized gain on investments	-	-	-	-	-	-	-	-	30,886	30,886
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(134,951)	-	-	-	-	(134,951)
Balances at December 31, 2007 (*)	156,479	1,217,586	500,325	787,926	(317,542)	2,517,243	(26,522)	(33,428)	(47,849)	4,754,218
Net income for the period	-	-	-	-	-	76,470	-	-	-	76,470
Repurchased shares	-	-	-	-	-	-	(8,024)	-	-	(8,024)
Repurchased shares reserved for employee stock option plan	-	-	(1,613)	-	-	-	-	3,578	-	1,965
Redemption of repurchased shares	(503)	(38)	-	-	-	(13,909)	14,450	-	-	-
Cash dividends	-	-	-	-	-	(28,994)	-	-	-	(28,994)
Translation adjustment of net assets of subsidiaries abroad	-	-	-	-	(156,214)	-	-	-	-	(156,214)
Unrealized gain on investments	-	-	-	-	-	-	-	-	59,865	59,865
Balances at June 30, 2008	<u>155,976</u>	<u>1,217,548</u>	<u>498,712</u>	<u>787,926</u>	<u>(473,756)</u>	<u>2,550,810</u>	<u>(20,096)</u>	<u>(29,850)</u>	<u>12,016</u>	<u>4,699,286</u>

(*) Amounts expressed in the new currency unit

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Supplementary Consolidated Statement of Cash Flows
Six-month periods ended June 30, 2008 and December 31, 2007

(Thousands of constant bolivars at
June 30, 2008)

	June 30, 2008	December 31, 2007 (*)
Cash flows from operating activities		
Net income for the period	76,470	335,690
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	120,964	103,351
Allowance for losses on loan portfolio	184,222	71,734
Decrease in allowance for losses on loan portfolio	(1,221)	(1,479)
Provision for available-for-sale assets	2,792	323
Provision for interest receivable and other assets	12,809	9,491
Gain on equity in long-term investments	(20,382)	(18,400)
Deferred income tax	(5,458)	(6,669)
Minority interests	46	123
Accrual for employee termination benefits	(54,737)	(49,886)
Payment of employee termination benefits	64,526	45,329
Net change in operating assets and liabilities		
Interest and commissions receivable	4,973	(35,559)
Interest and commissions payable	(176)	(1,187)
Available-for-sale and other assets	(239,458)	640,657
Other liabilities	<u>550,203</u>	<u>(975,595)</u>
Net cash provided by operating activities	<u>695,573</u>	<u>117,923</u>
Cash flows from investing activities		
Net change in investment portfolio	1,180,697	2,252,072
Loans granted	(44,392,326)	(34,241,565)
Loans collected	44,796,325	34,280,075
Additions to property and equipment, net	<u>(54,441)</u>	<u>(60,100)</u>
Net cash provided by investing activities	<u>1,530,255</u>	<u>2,230,482</u>
Cash flows from financing activities		
Net change in		
Deposits	(3,449,032)	(1,851,798)
Short-term financial liabilities	(382,113)	(1,031,536)
Debt securities issued by MERCANTIL	4,780	(36,508)
Subordinated debt	(39,879)	(69,989)
New long-term financial liabilities	195,314	871,132
Long-term financial liabilities repaid	(72,507)	(94,486)
Minimum dividend payable	-	(30,592)
Cash dividends	(28,994)	(28,047)
Capital increase	-	8,783
Share premium	(1,613)	210,754
Repurchased shares	(8,024)	(16,708)
Repurchased shares reserved for employee stock option plan	<u>3,578</u>	<u>22,172</u>
Net cash used in financing activities	<u>(3,778,490)</u>	<u>(2,046,823)</u>
Cash and cash equivalents		
Net increase for the period	(1,552,662)	301,582
At the beginning of the period	<u>11,644,858</u>	<u>11,343,276</u>
At the end of the period	<u>10,092,196</u>	<u>11,644,858</u>
Supplementary information		
Taxes paid	<u>146,757</u>	<u>30,405</u>
Interest paid	<u>793,596</u>	<u>706,600</u>
Translation adjustment of net assets of subsidiaries abroad	<u>(156,214)</u>	<u>(134,951)</u>
Unrealized gain from adjustment to market value of investments	<u>59,865</u>	<u>30,886</u>

(*) Amounts expressed in the new currency unit

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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 issued by the International Accounting Standards Board, with the exception of certain criteria concerning adjustments for inflation, among others.

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

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

Inflation indices and rates

CPI indices and inflation rates for the six-month periods ended June 30, 2008 and December 31, 2007, according to the information published by BCV, are as follows:

Six-month periods ended	CPI base for 2007=100	Inflation rate
December 2007	100	13.64
June 2008	116.30	16.30

Monetary assets and liabilities and result from monetary position

Monetary assets and liabilities at June 30, 2008, including amounts in foreign currency are, by their nature, shown in terms of purchasing power at that date. For comparative purposes, monetary assets and liabilities at December 31, 2007 have been restated to express them in terms of purchasing power at June 30, 2008.

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

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

<i>(Thousands of constant bolivars at June 30, 2008)</i>	<u>Six-month periods ended</u>	
	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Net monetary asset position at the beginning of the period	<u>3,164,052</u>	<u>2,849,707</u>
Transactions that increased net monetary position		
Net change in securities	14,958	-
Net change in available-for-sale assets	170	2,148
Net change in affiliates	16,354	-
Net change in other liabilities	6,218	85
Net change in property and equipment	5,187	-
Unrealized gain on investments	59,865	30,886
Shares purchased by employees, net	3,578	22,172
Capital increase	-	8,783
Share premium	-	210,754
Deferred income tax	5,458	6,669
Income	<u>2,942,279</u>	<u>3,025,208</u>
Subtotal	<u>3,054,067</u>	<u>3,306,705</u>
Transactions that decreased net monetary position		
Repurchased shares	(8,024)	(16,708)
Translation adjustment of subsidiaries abroad	(156,214)	(134,951)
Net change in securities	-	(20,597)
Net additions to property and equipment	-	(43,779)
Net change in other assets	(8,041)	(82,913)
Net change in affiliates	-	(22,884)
Cash dividends	(28,994)	(30,592)
Minimum dividend payable	-	(28,047)
Share premium	(1,613)	-
Expenses	<u>(2,407,459)</u>	<u>(2,328,503)</u>
Subtotal	<u>(2,610,345)</u>	<u>(2,708,974)</u>
Estimated net monetary asset position	3,607,774	3,447,438
Historic net monetary liability position	<u>(3,256,921)</u>	<u>(3,176,646)</u>
Loss from net monetary position	<u>350,853</u>	<u>270,792</u>

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Nonmonetary assets

Property and equipment is recorded in constant currency at June 30, 2008, according to the CPI at the dates of origin, at amounts which do not exceed recoverable value based on valuations made by independent appraisers in December 2005.

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

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

Deferred income tax

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

Shareholders' equity

All equity accounts are shown in constant currency at June 30, 2008. Dividends are stated in constant currency based on the date they were declared.

Statement of income

Operating income and expenses have been adjusted based on their dates of origin, except for costs and expenses related to nonmonetary items, which have been adjusted based on the previously restated nonmonetary items to which they relate. The adjustment in respect of expenses associated with nonmonetary items, mainly depreciation of property and equipment, of Bs 68,169,000 was charged to income for the six-month period ended June 30, 2008 (Bs 55,818,000 for the six-month period ended December 31, 2007).

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

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

a) Property and equipment

<i>(Thousands of constant bolivars at June 30, 2008)</i>	Costs						Balances at June 30, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Buildings and facilities	957,356	76,777	-	-	(19,985)	(5,929)	1,008,219
Furniture and equipment	751,970	53,809	-	(283)	(13,109)	(7,590)	784,797
Vehicles	9,133	322	(106)	(294)	(151)	(23)	8,881
Land	51,372	24	-	-	-	(1,327)	50,069
Construction in progress	131,698	47,127	-	-	(128,524)	(8,735)	41,566
Other assets	<u>80,907</u>	<u>41,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,515</u>
Total	<u>1,982,436</u>	<u>219,667</u>	<u>(106)</u>	<u>(577)</u>	<u>(161,769)</u>	<u>(23,604)</u>	<u>2,016,047</u>

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<i>(Thousands of constant bolivars at June 30, 2008)</i>	Accumulated depreciation						Balances at June 30, 2008
	Balances at December 31, 2007	Additions	Withdrawals	Fully depreciated assets written off	Other	Translation adjustment	
Buildings and facilities	(491,005)	(22,081)	-	-	4,251	2,129	(506,706)
Furniture and equipment	(574,131)	(40,448)	-	283	7,056	5,633	(601,607)
Vehicles	(5,611)	(867)	33	294	1,012	21	(5,118)
Other assets	<u>(2,912)</u>	<u>(2,535)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,447)</u>
Total	<u>(1,073,659)</u>	<u>(65,931)</u>	<u>33</u>	<u>577</u>	<u>12,319</u>	<u>7,783</u>	<u>(1,118,878)</u>

At June 30, 2008, property and equipment, including buildings, facilities and land amounting to Bs 551,582,000, has an estimated market value of Bs 669,842,000, calculated by independent appraisers in December 2005.

b) Other assets

<i>(Thousands of constant bolivars at June 30, 2008)</i>	June 30, 2008	December 31, 2007
Sale of securities in process of collection	546,218	243,858
Goodwill	434,222	473,325
Insurance premiums receivable	198,788	226,566
Pending items	178,438	90,970
Deferred expenses, net of accumulated amortization	135,711	143,612
Prepaid expenses	76,490	61,806
Shopping mall rights	58,654	58,654
Deferred income tax	48,968	37,487
Systems development, net of accumulated amortization	37,272	38,595
Prepaid taxes, insurance and other prepaid expenses	25,426	60,047
Advances for acquisition of property	20,619	42,384
Accounts receivable from other credit card issuing institutions	19,167	8,611
Prepaid advertising	15,638	10,574
Currency redenomination expenses	10,440	11,433
Adjustment to market value of spot and forward contracts	2,727	3,739
Cross Currency Swap valuation	1,938	1,053
Other	<u>84,623</u>	<u>70,024</u>
	1,895,339	1,582,738
Allowance for estimated losses on other assets	<u>(28,509)</u>	<u>(20,237)</u>
	<u>1,866,830</u>	<u>1,562,501</u>

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Below is the movement of goodwill for the six-month period ended June 30, 2008:

<i>(Thousands of constant bolivars at June 30, 2008)</i>	Costs			Balances at June 30, 2008
	Balances at December 31, 2007	Additions	Translation adjustment	
Interbank, C.A.	574,541	-	-	574,541
Florida Savings Bank	47,872	-	(6,710)	41,162
C.A. Seguros Orinoco	62,601	-	-	62,601
Mercantil Seguros, C.A.	17,685	-	-	17,685
Todo 1 Service, Inc.	<u>5,411</u>	<u>-</u>	<u>-</u>	<u>5,411</u>
Total	<u>708,110</u>	<u>-</u>	<u>(6,710)</u>	<u>701,400</u>

<i>(Thousands of constant bolivars at June 30, 2008)</i>	Accumulated depreciation			Balances at June 30, 2008
	Balances at December 31, 2007	Additions	Translation adjustment	
Interbank, C.A.	(205,372)	(29,445)	-	(234,817)
Florida Savings Bank	(3,790)	(1,029)	531	(4,288)
C.A. Seguros Orinoco	(13,581)	(2,008)	-	(15,589)
Mercantil Seguros, C.A.	(6,631)	(442)	-	(7,073)
Todo 1 Service, Inc.	<u>(5,411)</u>	<u>-</u>	<u>-</u>	<u>(5,411)</u>
Total	<u>(234,785)</u>	<u>(32,924)</u>	<u>531</u>	<u>(267,178)</u>