Regulatory disclosures related to interest rate risks as of 30 June 2019

As of January 1, 2019, the FINMA circular 2019/02 on interest rate risks for banks has become effective. It is based on the Basel Committee's minimum standards (IRRBB) and extends the current disclosure requirements. The Bank decided to disclose the tables IRRBBA, IRRBBA1 and IRRBB1 extraordinarily as of June 30, 2019.

Table IRRBBA: Objectives and guidelines for interest rate risk management in the banking book – qualitative disclosure requirements

a)		Interest rate risk in the banking book arises from maturity mismatches between assets and liabilities which are sensitive to changes in interest rates. The interest rate risk associated with products which do not have a contractual maturity, referred to as non-maturing products, is estimated using the methodology of replicating portfolios: Based on the historical behaviour of volumes of these products it assigns the position balance associated with a non-maturing banking product to time bands that are presumed to reflect their empirical maturities.
b)		The measurement and management of the resulting risks is essential and is part of the asset and liability management (ALM) performed by the ALM Committee (ALCO) of the bank, which comprises members of the executive management, and the responsible person for treasury and research. The Risk Management function provides information to the ALM system operated by the risk management unit of the bank's parent company (MSF), which reports to the ALCO on a monthly basis.
c)		All IRRBB measures (EVE, NII – according FINMA circular 2019/2 and BIS "Interest Rate Risk in the Banking Book") are calculated as part of the monthly closing process. Subsequently, these measures are referred to as "Standard Scenarios". In addition, a Mercantil Bank Switzerland (MBS) specific ΔEVE scenario is calculated, which also serves as measure against the interest rate risk limit determined by the Board of Directors. The ALM system measures the potential impact of market risks on the net interest income and the equity of the bank by means of value at risk, repricing gap and duration calculations. The analysis of the economic situation and the derivation of interest rate forecasts from it include a regular analysis of the income and value effects. Further, a mark-to-market analysis is used to assess the impact of a stress scenario to the free available equity.
d)		The change in the economic value (ΔEVE) is calculated according to the standard scenarios as described in the FINMA circular 2019/2. In Addition, MBS measures the change in economic value with an institute specific scenario, which is based on an instantaneous, parallel interest rate shock of +/- 100bp and +/- 200bp for all currencies. For the calculation of the change in net interest income (ΔNII), MBS takes the following assumptions: - Static balance sheet - Constant client margins on roll over - Immediate, parallel interest rate shock of +-/150bp for CHF and +/- 200bp for EUR/USD according to the standard scenarios as described in the FINMA circular 2019/2
e)		The Bank applies the model assumptions prescribed for disclosure. There are no deviations.
f)		The Bank manages the interest rate risks arising from its customer business through conservative risk limits approved by the Board of Directors and by actively managing the fixed-interest periods on its assets side. By entering into limited interest rate risks, the Bank does not currently enter into any additional hedges such as interest rate swaps.
g)		Main modelling assumptions and calculation parameters for table IRRBBA1 and IRRBB1
	1	A risk-free interest rate without surcharges such as potential client margin or spread components is used to determine the calculation of ΔEVE.
	2	The cash flows are allocated to the maturity band midpoints in accordance with Appendix 2 of FINMA Circular 19/2 Interest rate risks Banks while maintaining the maturity of the nominal revaluation cash flows.
	3	For the discounting of all cash flows a risk-free interest rate curve is used.
	4	The following procedures and assumptions were used to determine the changes in future net interest income: - income simulation for the one-year horizon - a constant balance sheet structure assumed - The base scenario is determined using on the basis of forward rates. - Due interest-bearing transactions are renewed (several times if necessary) with their original maturity and constant customer margin until the end of the observation period - Assumptions are made regarding minimum/maximum interest rates, duration and elasticities
	5	Positions with an undetermined repricing maturity are replicated with different maturity profiles. The procedure for determining replication is based on the specifications of the IRRBB (Interest rate risk in the banking book) issued by the Bank for International Settlements in 2016: - Segmentation Retail/Wholesale - Breakdown between stable and unstable portion

		- Split in Core and Non-Core positions - Calculation of the weighted shares and allocation to the maturity bands - Allocation of positions in maturity bands, whereby nonstable and non-core shares are allocated to the maturity band limit of up to 1 month. Assumptions are made for the allocation to the maturity bands of the core units and allocated to maturity bands 7, 8 and 9.
	6	Positions with early repayment options are not material.
	7	Behavioural withdrawal options in the banking book are not material. If they were, they would not be part of the ΔEVE / ΔNII calculations.
	8	There are no interest rate options in the banking book.
	9	The bank has no interest derivative financial instruments in the banking book.
	10	The total in each scenario is a simple addition of the results for each currency. There are no correlation assumptions.
h)		n/a

Table IRRBBA1: Interest rate risk: Quantitative information on the structure of positions and resetting of interest rates

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30.06.2019	Amounts in 1000 CHF			Average time to resetting of interest rates (in years)	
	Total	of which CHF	of which other currencies, representing more than 10% of total balance sheet	Total	of which CHF
Defined interest rate repricing maturity					
Amounts due from banks	1'578	-	1'578	0.20	-
Amounts due from customers	64'126	26'027	38'099	0.55	0.54
Financial investments	48'408	-	48'408	1.91	-
Amounts due to banks	1'002	1'002	-	0.15	0.15
Amounts due in respect of customer deposits	629	-	629	0.27	-
Non-defined interest rate repricing maturity					
Amounts due from banks	10'593	250	9'929	0.00	0.00
Amounts due from customers	6'709	110	6'599	0.23	0.23
Other assets at sight	-	-	-	-	-
Sight liabilities in personal and current accounts	81'886	1'462	79'862	0.52	0.52
Other liabilities at sight	3'617	1	3'616	0.00	0.00
Liabilities from client deposits, callable but not transferable (savings accounts, call deposits)	14'563	-	14'563	0.23	-
Total	**233'110**	**28'851**	**203'283**		

Table IRRBB1: Interest rate risk: Quantitative information on economic value of equity and net interest income

(1'000 CHF)

	ΔEVE (change in the economic value)	ΔNII (change in net interest income)
Period	30.06.2019	30.06.2019
Parallel shift up	-1'442	-202
Parallel shift down	1'558	-519
Steepener shock (short rates down and long rates up);	192	
Flattener shock (short rates up and long rates down)	-497	
Short rates shock up	-1'006	
Short rates shock down	1'061	
Maximum	-1'442	-519
Period	30.06.2019	30.06.2019
Tier 1 Capital	31'946	31'946

Interest rate risk in the banking book is not underpinned for capital purposes but is subject to a regulatory threshold. As at 30 June 2019, the maximum economic value effect according to the standard scenarios described in FINMA Circular 2019/2 on the Bank's interest rate risk positions in the banking book is significantly lower than the threshold of 15% of eligible capital set by the supervisory authority for which inappropriately high interest rate risks are assumed.