Financial Statement - Balance Sheet

Assets	31.12.2019 CHF	31.12.2018 CHF
Liquid assets	1'634'284	1'882'157
Amounts due from banks	11'819'382	9'249'448
Amounts due from costumers	65'847'859	81'957'389
Positive replacement values of derivative financial instruments	7'472'948	7'694'133
Financial investments	52'410'529	58'406'651
Accrued income and prepaid expenses	883'202	775'452
Participations	2	2
Fixed assets	1'165'467	1'027'488
Other assets	356'807	361'102
Total assets	**141'590'480**	**161'353'822**
Total subordinated claims	-	789'003
of which subject to mandatory conversion and/or debt waiver	-	-

Liabilities and shareholder's equity	CHF	CHF
Amounts due to banks	2'202'228	9'257'554
Amounts due in respect of costumer deposits	103'148'419	118'281'585
Negative replacement values of derivative financial instruments	766'312	398'572
Accrued expenses and deferred income	1'484'606	1'080'798
Other liabilities	489'376	388'956
Provisions	439	220
Bank's capital	16'000'075	16'000'075
Statutory retained earnings reserve	822'000	755'000
Profit carried forward	15'124'062	13'859'482
Profit / loss for the period	1'552'963	1'331'580
Total liabilities and shareholder's equity	**141'590'480**	**161'353'822**
Total subordinated liabilities	-	-
of which subject to mandatory conversion and/or debt waiver	-	-

Off-Balance Sheet Transactions	CHF	CHF
Contingent liabilities	737'059	749'674
Irrevocable commitments	1'365'250	770'000

Income Statement

	01.01.2019 - 31.12.2019 CHF	01.01.2018 - 31.12.2018 CHF
Result from interest operations		
Interest and discount income	2'010'485	2'319'088
Interest and discount income from financial investments	1'717'821	1'422'237
Interest expense	-126'846	-94'723
Gross result from interest operations	**3'601'460**	**3'646'602**
Changes in value adjustments for default risks and losses from interest operations	31'993	-60'965
Subtotal net result from interest operations	**3'633'453**	**3'585'637**
Result from commission business and services		
Commission income from securities trading and investment activities	5'021'192	4'543'020
Commission income from lending activities	11'474	12'750
Commission income from other service	363'619	349'834
Commission expense	-317'428	-372'335
Subtotal result from commission business and services	**5'078'857**	**4'533'269**
Result from trading activities and the fair value option	**1'428'774**	**1'154'940**
Other result from ordinary activities		
Result from the disposal of financial investments	49	-
Income from participations	-	-
Other ordinary income	6'814	5'566
Other ordinary expenses	-1'594	-
Subtotal other result from ordinary activities	**5'269**	**5'566**
Operating expenses		
Personnel expenses	-4'869'296	-4'531'476
General and administrative expenses	-2'850'662	-2'725'276
Subtotal operating expenses	**-7'719'958**	**-7'256'752**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-396'871	-278'543
Changes to provisions and other value adjustments and losses	-2'524	-548
Operating result	**2'027'000**	**1'743'569**
Extraordinary income	-	-
Extraordinary expenses	-	-
Taxes	-474'037	-411'989
Profit/loss for the period	**1'552'963**	**1'331'580**

Regulatory disclosures related to capital and liquidity standards

Being a global private bank with more than 30 years of experience in the Swiss Market, Mercantil Bank (Schweiz) AG is considering a professional and diligent risk management one of the key drivers for the Bank's long-term success and its sustainable growth. This includes the effective management of a strong capital basis as well as a proactive liquidity planning and management.

As a category 5 bank, Mercantil Bank (Schweiz) AG must comply with the extended supervisory disclosure obligations defined in circular 16/01 “Disclosure – banks” by the Swiss Financial Market Authority FINMA.

Key Metrics (KM1)

(in 1000 CHF)

Nr.	Key Metric				31.12.2019	31.12.2018
Eligible capital						
1	Common Equity Tier 1 (CET1)				31'946	30'615
2	Regulatory capital (T1)				31'946	30'615
3	Total eligible capital				31'946	30'615
RWA & Regulatory Capital (amounts)						
4	Total risk-weighted assets (RWA)				71'447	72'575
4a	Minimum regulatory capital				10'000	10'000
Risk-based capital ratios (% of RWA)						
5	Common Equity Tier 1 (CET1) ratio				44.71%	42.18%
6	Regulatory capital (T1) ratio				44.71%	42.18%
7	Eligible capital ratio				44.71%	42.18%
CET1 buffer requirements according to Basel III framework (as % of RWA)						
8	Capital conservation buffer requirement (2.5% from 2019)				2.50%	1.88%
9	Countercyclical buffer requirement (§ 44a ERV)				0%	0%
10	Bank G-SIB and/or D-SIB additional requirements according to Basel framework				0%	0%
11	Total of bank CET1 specific buffer requirements				2.50%	1.88%
12	CET1 available to meet buffer requirements (after meeting the bank’s minimum capital requirements)				36.71%	34.18%
Capital target ratios according to appendix 8 ERV (as % of RWA)						
12a	Capital conservation buffer requirement				2.50%	2.50%
12b	Countercyclical buffer requirement (§ 44/44a ERV)				0%	0%
12c	CET1 target + countercyclical buffer (§ 44/44a ERV)				7.00%	7.00%
12d	T1 capital target + countercyclical buffer (§ 44/44a ERV)				8.50%	8.50%
12e	Total capital target + countercyclical buffer (§ 44/44a ERV)				10.50%	10.50%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure				143'605	163'305
14	Basel III leverage ratio (%)				22.25%	18.75%
Liquidity Coverage Ratio (LCR)						
Nr.		**Ø Q4 2019**	**Ø Q3 2019**	**Ø Q2 2019**	**Ø Q1 2019**	**Ø Q4 2018**
15	Total HQLA	17'044	16'554	16'874	20'363	25'469
16	Total net cash outflow	11'656	11'219	11'742	16'995	23'774
17	LCR ratio (%)	149.71%	127.24%	143.64%	119.08%	107.1%

Remarks:

The Bank is disclosing in line 4a the amount of CHF 10 million instead of the minimum capital required of 8% of RWA because of the absolute minimum requirements in accordance with Articles 15 and 16 of the Banking Ordinance.

Overview of Risk-weighted Assets (OV1)

(in 1000 CHF)

Nr.	Risk Type	RWA		Minimum capital requirement	Deviation of RWA
		31.12.2019	31.12.2018	31.12.2019	in %
1	Credit Risk	45'586	54'501	3'647	-16.36%
20	Market Risk	1'356	1'033	108	31.23%
24	Operational Risk	16'543	16'014	1'323	3.30%
25	Items not deducted in application of threshold 3, but risk-weighted with 250% minimum capital requirements	0	0	0	0.0%
27	**Total**	**63'485**	**71'548**	**5'079**	**11.27%**

Remarks:
The decrease in assets exposed to credit risks (-16.36%) originated from the reduction of the participated syndicated loan portfolio. The increased exposure to market risks (+ 31.23%) was driven by the higher net long exposure in foreign exchange forward positions.

Applied approaches to calculate the required regulatory capital:

- Credit Risks: International Standard approach (SA-BIZ)
- Market Risks: De-Minimis approach
- Operational Risk: Basic-Indicator approach

Liquidity: Management of Liquidity Risks (LIQA)

For qualitative information on the Bank's liquidity management strategy, its objectives as well as the emergency liquidity, please refer to the "Risk Management" section of the notes to the financial statement.

Credit Risks -Credit Quality of Assets (CR1)

(in 1000 CHF)

Nr.	Risk Type	Gross carrying values of		Allowances/ impairments	Net Values
		defaulted assets	not defaulted assets		
1	Loans (excl. Debt instruments)	0	77'771	0	77'771
2	Debt Securities	0	52'409	0	52'409
3	Off-Balance sheet exposures	0	2'102	0	2'102
4	**Total (1 + 20 + 24 + 25)**	**0**	**132'282**	**0**	**132'282**

Remarks:
The definition of defaulted items corresponds to that of impaired receivables, i.e. for these receivables it is unlikely that the debtor will be able to meet his future obligation. Impaired claims and any collateral must be valued at their liquidation value whereby the value must be adjusted according to the debtor's creditworthiness.

Credit Risk: Overview of Risk Mitigation Techniques (CR3)

(in 1000 CHF)

Nr.	Risk Type	Exposures unsecured: Carrying amount	Exposures secured by collateral: secured amount	Exposures secured by financial guarantees or credit derivatives: secured amount
1	Loans (incl. Debt instruments)	58'539	66'716	4'924
2	Off-Balance sheet exposures	710	1'392	0
3	**Total:**	**59'249**	**68'109**	**4'924**
3a	of which defaulted	0	0	0

Remarks:
Eligible collaterals are handled according to the comprehensive approach, which means that the credit position is netted against the provided collateral by applying the regulatory standard haircuts.

Operational Risk: General Information (ORA)

Qualitative information on the Bank's strategy, processes and organization to manage operational risks are published in the "Risk Management" section of the notes to the financial statement.
To calculate the required capital for operational risk, Mercantil Bank (Schweiz) applies the "Basic-Indicator" approach.

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

a. Risk management and risk assessment purposes

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 behavior 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. Risk management and risk assessment strategies

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 also provides information to the ALM system operated by the risk management unit of the bank's parent company for consolidated supervision.

c. Risk assessment frequency and key indicators

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. Interest rate shocks and stress scenarios

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. Model assumptions deviations

The Bank applies the model assumptions prescribed by FINMA for disclosure. There are no deviations.

f. Hedging strategies and accounting treatment

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. 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

Changes in the present value of capital (ΔEVE)

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.

Changes in the expected income (ΔNII)

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 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

Non maturing exposures

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.

Exposures with early repayment options

6 Positions with early repayment options are not material.

Term deposits

7 Behavioral withdrawal options in the banking book are not material. If they were, they would not be part of the ΔEVE / ΔNII calculations.

Interest rate options

8 There are no interest rate options in the banking book.

Derivative exposure

9 The bank has no interest derivative financial instruments in the banking book.

Quantitative information on the structure of positions and resetting of interest rates (IRRBBA1)

(1'000 CHF)

31.12.2019	Volumes in CHF 1'000			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	1'172	-	1'172	0.20	-
Amounts due from customers	60'635	26'678	33'957	0.48	0.43
Financial investments	58'464	-	58'464	2.20	-
Amounts due to banks	-1'087	-	-1'087	0.16	-
Amounts due in respect of customer deposits	-4'261	-	-4'261	0.22	-
Non-defined interest rate repricing maturity					
Amounts due from banks	6'838	146	6'693	0.00	0.00
Amounts due from customers	6'457	118	6'339	0.23	0.23
Other assets at sight	-	-	-	-	-
Sight liabilities in personal and current accounts	86'840	1'534	85'306	0.52	0.52
Other liabilities at sight	1'117	510	607	0.00	0.00
Liabilities from client deposits, callable but not transferable (savings accounts, call deposits)	7'855	-	7'855	0.23	-
Total	**224'032**	**28'986**	**195'046**		

Quantitative information on economic value of equity and net interest income (IRRBB1)

(1'000 CHF)

	ΔEVE (change in the economic value)		ΔNII (change in net interest income)	
Period	**31.12.2019**	**30.06.2019**	**31.12.2019**	**30.06.2019**
Parallel shift up	-1'892	-1'442	-130	-202
Parallel shift down	2'098	1'558	-763	-519
Steepener shock (short rates down and long rates up)	-33	192		
Flattener shock (short rates up and long rates down)	-384	-497		
Short rates shock up	-1'114	-1'006		
Short rates shock down	1'179	1'061		
Maximum	-1'892	-1'442	-763	-519
Period		**31.12.2019**		**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 December 31st 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.