Mercantil Bank (Schweiz)

Financial Statement - Balance Sheet

Assets	31.12.2020 CHF	31.12.2019 CHF
Liquid assets	3'173'195	1'634'284
Amounts due from banks	9'056'542	11'819'382
Amounts due from costumers	71'797'906	65'847'859
Positive replacement values of derivative financial instruments	9'771'927	7'472'948
Financial investments	56'387'706	52'410'529
Accrued income and prepaid expenses	858'400	883'202
Participations	2	2
Fixed assets	1'445'755	1'165'467
Other assets	150'015	356'807
Total assets	**152'641'448**	**141'590'480**
Total subordinated claims	-	-
of which subject to mandatory conversion and/or debt waiver	-	-

Liabilities and shareholder's equity	CHF	CHF
Amounts due to banks	1'340'059	2'202'228
Amounts due in respect of costumer deposits	114'172'520	103'148'419
Negative replacement values of derivative financial instruments	2'021'515	766'312
Accrued expenses and deferred income	1'496'703	1'484'606
Other liabilities	428'880	489'376
Provisions	209	439
Bank's capital	16'000'075	16'000'075
Statutory retained earnings reserve	900'000	822'000
Profit carried forward	16'599'025	15'124'062
Profit / loss for the period	-317'538	1'552'963
Total liabilities and shareholder's equity	**152'641'448**	**141'590'480**
Total subordinated liabilities	-	-
of which subject to mandatory conversion and/or debt waiver	-	-

Off-Balance Sheet Transactions	CHF	CHF
Contingent liabilities	729'868	737'059
Irrevocable commitments	622'000	1'365'250

Income Statement

	01.01.2020 - 31.12.2020 CHF	01.01.2019 - 31.12.2019 CHF
Result from interest operations		
Interest and discount income	1'491'189	2'010'485
Interest and discount income from financial investments	1'535'111	1'717'821
Interest expense	-79'915	-126'846
Gross result from interest operations	**2'946'385**	**3'601'460**
Changes in value adjustments for default risks and losses from interest operations	-14'292	31'993
Subtotal net result from interest operations	**2'932'093**	**3'633'453**
Result from commission business and services		
Commission income from securities trading and investment activities	4'691'696	5'021'192
Commission income from lending activities	6'344	11'474
Commission income from other service	367'580	363'619
Commission expense	-529'296	-317'428
Subtotal result from commission business and services	**4'536'324**	**5'078'857**
Result from trading activities and the fair value option	**1'054'966**	**1'428'774**
Other result from ordinary activities		
Result from the disposal of financial investments	-	49
Income from participations	-	-
Other ordinary income	7'757	6'814
Other ordinary expenses	-1'552	-1'594
Subtotal other result from ordinary activities	**6'205**	**5'269**
Operating expenses		
Personnel expenses	-5'125'195	-4'869'296
General and administrative expenses	-2'902'474	-2'850'662
Subtotal operating expenses	**-8'027'669**	**-7'719'958**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-471'350	-396'871
Changes to provisions and other value adjustments and losses	-190'944	-2'524
Operating result	**-160'375**	**2'027'000**
Extraordinary income	-	-
Extraordinary expenses	-	-
Taxes	-157'163	-474'037
Profit/loss for the period	**-317'538**	**1'552'963**

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	31.12.2020	31.12.2019
Eligible capital			
1	Common Equity Tier 1 (CET1)	33’182	31’946
2	Regulatory capital (T1)	33’182	31’946
3	Total eligible capital	33’182	31’946
RWA & Regulatory Capital (amounts)			
4	Total risk-weighted assets (RWA)	76'514	71’447
4a	Minimum regulatory capital	10'000	10'000
Risk-based capital ratios (% of RWA)			
5	Common Equity Tier 1 (CET1) ratio	43.37%	44.71%
6	Regulatory capital (T1) ratio	43.37%	44.71%
7	Eligible capital ratio	43.37%	44.71%
CET1 buffer requirements according to Basel III framework (as % of RWA)			
8	Capital conservation buffer requirement	2.50%	2.50%
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%	2.50%
12	CET1 available to meet buffer requirements (after meeting the bank’s minimum capital requirements)	35.37%	36.71%
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	151'394	143'605
14	Basel III leverage ratio (%)	21.92%	22.25%

Liquidity Coverage Ratio (LCR)

Nr.		Ø Q4 2020	Ø Q3 2020	Ø Q2 2020	Ø Q1 2020	Ø Q4 2019
15	Total HQLA	15'105	14'403	21’927	28’740	17'044
16	Total net cash outflow	11'536	12’518	14’284	15’652	11'656
17	LCR ratio (%)	127.22%	114.43%	135.39%	215.21%	149.71%

Overview of Risk-weighted Assets (OV1)

(in 1000 CHF)

Nr.	Risk Type	RWA		Minimum capital requirement	Deviation of RWA
		31.12.2020	31.12.2019	31.12.2020	in %
1	Credit Risk	55’664	45’586	4’453	22.11%
20	Market Risk	1’916	1'356	153	41.32%
24	Operational Risk	17'488	16'543	1'399	5.71%
25	Items not deducted in application of threshold 3, but risk-weighted with 250% minimum capital requirements	0	0	0	0.0%
27	**Total**	**75’068**	**63’485**	**6’005**	**18.25%**

Remarks:

The increase in assets exposed to credit risks (22.11%) originated from extending the financial investments portfolio with corporate bonds at the bottom tier of investment grade. The increased exposure to market risks (+ 41.32%) 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	80’963	0	80’963
2	Debt Securities	0	56’386	0	56’386
3	Off-Balance sheet exposures	0	1’352	0	1’352
4	**Total (1 + 20 + 24 + 25)**	**0**	**138’701**	**0**	**138’701**

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)	69’824	62’359	5’166
2	Off-Balance sheet exposures	701	651	0
3	**Total:**	**70’525**	**63’010**	**5’166**
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)

31.12.2020	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	354	-	354	0.25	-
Amounts due from customers	65'413	29'555	34'957	0.93	0.87
Financial investments	64'027	-	64'027	3.75	-
Amounts due to banks	866	-	866	1.00	-
Amounts due in respect of customer deposits	12'223	-	12'223	0.46	-
Non-defined interest rate repricing maturity					
Amounts due from banks	4'178	129	2'780	0.08	0.08
Amounts due from customers	8'433	110	8'297	0.22	0.22
Other assets at sight	-	-	-	-	-
Sight liabilities in personal and current accounts	90'967	3'436	86'471	0.22	0.22
Other liabilities at sight	474		474	0.00	0.00
Liabilities from client deposits, callable but not transferable (savings accounts, call deposits)	6'385	-	6'385	1.03	-
Total	**252'420**	**33'230**	**216'834**		

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	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Parallel shift up	-3'148	-1'892	-596	-130
Parallel shift down	3'455	2'098	583	-763
Steepener shock (short rates down and long rates up)	-290	-33		
Flattener shock (short rates up and long rates down)	-407	-384		
Short rates shock up	-1'669	-1'114		
Short rates shock down	1'729	1'179		
Maximum	-3'148	-1'892	-596	-763
Period		**31.12.2020**		**31.12.2019**
Tier 1 Capital		33'182		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 2020, 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 lower than the threshold of 15% of eligible capital set by the supervisory authority for which inappropriately high interest rate risks are assumed.