Mercantil Private Banking

Financial Statement - Balance Sheet

Assets	31.12.2023 CHF	31.12.2022 CHF
Liquid assets	1'872'562	2'628'557
Amounts due from banks	11'013'715	8'752'978
Amounts due from costumers	81'623'611	98'164'231
Positive replacement values of derivative financial instruments	10'640'733	9'076'211
Financial investments	52'432'369	74'196'546
Accrued income and prepaid expenses	784'087	885'979
Tangible fixed assets	859'943	1'134'493
Other assets	1'009'345	190'229
Total assets	**160'236'365**	**195'029'224**
Total subordinated claims	-	1'198'155
of which subject to mandatory conversion and/or debt waiver	-	-

Liabilities and shareholder's equity	CHF	CHF
Amounts due to banks	3'401'519	12'232'299
Amounts due in respect of costumer deposits	117'520'653	144'911'334
Negative replacement values of derivative financial instruments	1'921'633	2'117'501
Accrued expenses and deferred income	1'438'795	1'079'575
Other liabilities	403'908	510'925
Provisions	1'261	257
Bank's capital	16'000'075	16'000'075
Statutory retained earnings reserve	965'900	938'200
Profit carried forward	16'661'358	16'686'460
Profit / loss for the period	1'921'263	552'598
Total liabilities and shareholder's equity	**160'236'365**	**195'029'224**
Total subordinated liabilities	-	-
of which subject to mandatory conversion and/or debt waiver	-	-

Off-Balance Sheet Transactions	CHF	CHF
Contingent liabilities	740'501	833'646
Irrevocable commitments	362'576	518'000

Income Statement

	01.01.2023 - 31.12.2023 CHF	01.01.2022 - 31.12.2022 CHF
Result from interest operations		
Interest and discount income	3'914'976	2'410'868
Interest and discount income from financial investments	2'437'299	2'692'752
Interest expense	-739'326	-540'226
Gross result from interest operations	**5'612'949**	**4'563'394**
Changes in value adjustments for default risks and losses from interest operations	-4'795	-15'016
Subtotal net result from interest operations	**5'608'154**	**4'548'378**
Result from commission business and services		
Commission income from securities trading and investment activities	4'598'708	4'509'017
Commission income from lending activities	3'500	5'495
Commission income from other service	594'494	514'942
Commission expense	-845'286	-815'817
Subtotal result from commission business and services	**4'351'416**	**4'213'637**
Result from trading activities and the fair value option	**1'479'353**	**1'163'838**
Other result from ordinary activities		
Result from the disposal of financial investments	-3'627	-196
Income from participations	-	-
Other ordinary income	109'610	4'940
Other ordinary expenses	-	-454'148
Subtotal other result from ordinary activities	**105'983**	**-449'404**
Operating expenses		
Personnel expenses	-4'840'477	-4'930'338
General and administrative expenses	-3'774'442	-3'319'414
Subtotal operating expenses	**-8'614'919**	**-8'249'752**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-466'157	-473'494
Changes to provisions and other value adjustments and losses	-15'122	-7'930
Operating result	**2'448'708**	**745'273**
Extraordinary income	-	-
Extraordinary expenses	-	-
Taxes	-527'445	-192'675
Profit/loss for the period	**1'921'263**	**552'598**

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	31.12.2023	31.12.2022
Eligible capital			
1	Common Equity Tier 1 (CET1)	33'629	33'627
2	Regulatory capital (T1)	33'629	33'627
3	Total eligible capital	33'629	33'627
RWA & Regulatory Capital (amounts)			
4	Total risk-weighted assets (RWA)	71'599	103'049
4a	Minimum regulatory capital	10'000	10'000
Risk-based capital ratios (% of RWA)			
5	Common Equity Tier 1 (CET1) ratio	46.97%	32.63%
6	Regulatory capital (T1) ratio	46.97%	32.63%
7	Eligible capital ratio	46.97%	32.63%
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)	38.97%	24.63%
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	161'860	197'305
14	Basel III leverage ratio (%)	20.78%	17.0%
Net Stable Funding Ratio (NSFR)			
18	Total available stable funding (ASF)	122'011	149'657
19	Total required stable funding (RSF)	76'718	105'116
20	NSFR ratio (%)	159.04%	142.4%

Liquidity Coverage Ratio (LCR)

Nr.		Ø Q4 2023	Ø Q3 2023	Ø Q2 2023	Ø Q1 2023	Ø Q4 2022
15	Total HQLA	27'465	27'436	28'174	28'089	33'544
16	Total net cash outflow	17'773	20'983	18'285	21'183	22'508
17	LCR ratio (%)	154.54%	130.75%	154.08%	132.60%	149.03%

Overview of Risk-weighted Assets (OV1)

(in 1000 CHF)

Nr.	Risk Type	RWA		Minimum capital requirement	Deviation of RWA
		31.12.2023	31.12.2022	31.12.2023	in %
1	Credit Risk	51'181	81'864	4'095	-37.48%
20	Market Risk	1'239	3'822	99	-67.59%
24	Operational Risk	19'179	17'363	1'534	10.46%
25	Items not deducted in application of threshold 3, but risk-weighted with 250% minimum capital requirements	0	0	0	0.00%
27	Total	71'599	103'049	5'728	-30.52%

Remarks:
The decreased credit risk exposure (-37.48%) is primarily caused by the lower risk profile of the financial investment portfolio due to the reduction in corporate bonds below investment grade.
The decreased exposure to market risks (-67.59%) was driven by a lower net 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	91'918	0	91'918
2	Debt Securities	0	52'431	0	52'431
3	Off-Balance sheet exposures	0	1'103	0	1'103
4	Total	0	145'452	0	145'452
	Total prior year	0	182'145	0	182'145

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)	82'567	59'836	1'945
2	Off-Balance sheet exposures	441	662	0
3	Total	83'008	60'499	1'945
3a	of which defaulted	0	0	0
	Total prior year	110'188	69'327	2'630

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)

(in 1000 CHF)

31.12.2023	Volumes			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	-	-	-	-	-
Amounts due from customers	74'368	40'083	34'286	0.51	0.56
Financial investments	54'958	-	54'958	1.04	-
Amounts due to banks	-	-	-	-	-
Amounts due in respect of customer deposits	7'779	-	7'779	0.27	-
Non-defined interest rate repricing maturity					
Amounts due from banks	6'968	613	4'815	0.08	0.08
Amounts due from customers	10'554	545	9'962	0.23	0.23
Other assets at sight	-	-	-	-	-
Sight liabilities in personal and current accounts	94'885	3'257	90'885	0.37	0.37
Other liabilities at sight	3'402	53	3'333	0.08	0.08
Liabilities from client deposits, callable but not transferable (savings accounts, call deposits)	6'694	-	6'694	0.23	-
Total	**259'608**	**44'551**	**212'711**		

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

(in 1000 CHF)

	ΔEVE (change in the economic value)		ΔNII (change in net interest income)	
Period	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**
Parallel shift up	-98	-2'541	576	-1'397
Parallel shift down	1'021	2'716	-1'377	-1'323
Steepener shock (short rates down and long rates up)	277	191		
Flattener shock (short rates up and long rates down)	-478	-746		
Short rates shock up	-801	-1'684		
Short rates shock down	821	1'740		
Maximum	980	2'541	1'377	1'397
Period	**31.12.2023**		**31.12.2022**	
Tier 1 Capital	33'629		33'627	

Remarks:

The active shortening of the duration of the fixed-interest balance sheet items by almost 50% has led to a substantial reduction of the interest rate shocks on the economic value of equity (EVE). In combination with shortening the repricing period on loans, this also reduced the impact on the 12-months net interest income projections and shocks.

Interest rate risk in the banking book is not underpinned for capital purposes but is subject to a regulatory threshold. As at December 31st 2023, 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.