



Annual Report **2023**

Mercantil Bank (Schweiz) AG
a subsidiary of Mercantil Holding Financiero Internacional S.A.



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as of General Meeting of April 23, 2024

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Management Report 2023

Business performance and economic position of Mercantil Bank (Schweiz) AG

The year 2023 presented numerous challenges for markets as geopolitical tension and uncertainty increased even more, most recently with a regional conflict in the Middle East. Despite this challenging operating environment, the post-pandemic normalization is well underway and a soft landing for the major global economies looks increasingly likely with inflation rates declining faster than expected.

Despite the challenging conditions, we had a strong year with our results making us one of the best performing “Boutique” private banks in Switzerland. Through reducing credit risks in our investment portfolio, we were able to increase our risk-based Common Equity Tier 1 capital ratio to 47%, which supports growth in our main business areas and is clearly above the regulatory requirement.

Interest rates have continued to remain at higher levels when compared to the prior year. On this basis, the bank was able to further increase its net interest income by 23.3%, to reach CHF 5.6 million revenues for the full year.

Commission income of CHF 4.4 million slightly increased by 3.3%, mainly related to clients shifting their liquidity into fixed income products. We continued to see positive results from clients in exchanging or hedging foreign currencies, thus our result from trading activities increased by CHF 0.3 million in 2023.

In 2023 we started a strategic initiative with the support of our Group to deliver best-in-class service experiences for our customers, drive focused and profitable growth, and increase operational and capital efficiency. Consulting fees for this project, as well as inflation related cost increases were the main reason for the CHF 0.4 million higher operating expenses compared to the previous year.

With our focus on profitable growth opportunities that support our ability to grow income faster than costs, we posted an overall net profit of CHF 1.9 million for 2023. The Board of Directors will propose the distribution of the annual net profit to our shareholder at the annual general meeting.

Our client’s assets under management increased by 2.6% to CHF 681.6 million mainly driven by Net New

Assets of CHF 10.0 million and positive market developments.

Due to appreciating stock markets and higher interest rates, we saw a reduction in the demand for loans and short-term Bank deposits. Thus, balance sheet assets decreased to the current level of CHF 160.2 million.

Product development activities

We made significant progress on numerous product developments of importance for the future. This will allow us to maintain the positive business performance that we achieved in previous years and supports the financial success of our clients.

With the refined Business Plan for the upcoming 5 years, we are changing gears with substantially increased strategic and financial ambitions in terms of profitability and growth. As part of the strategy, we will sharpen our target segment, bolster our commercial strategy and streamline our operational model to be the preferred Private Banking boutique for Latin-American clients seeking unparalleled personalized services through innovation backed by the reliability and trustworthiness of Switzerland’s banking heritage.

The consideration of sustainability criteria in asset management and investment advice, is a priority for us. Accordingly, our client advisors are all appropriately trained and address clients’ individual needs in this area.

Number of full-time employees on annual average and personnel changes

The number of employees measured in terms of fulltime equivalents averaged 18.7 during 2023 which is a decrease of 3.4% compared to 2022.

As of September 30th 2023 Mrs. Sandra Righetti resigned from the Bank after 30 years of dedicated and valuable contribution to the Bank. In view of the refined strategy, the Board of Directors appointed Mr. Atilano Bullos as new member of the executive management team, responsible for the business development of the Bank. At the same time, Mr. Gabriel Urdaneta was appointed as CEO and Mr. Thomas Ita became his deputy with responsibilities in finance and operations.

Conduct of a risk assessment

The Board of Director's periodically performs a structured analysis of the various risks to which the Bank is exposed. These risks are categorized into market, liquidity, credit, operational and strategic as well as reputational risks. To evaluate the risks, mitigating actions and internal controls, including reporting, are involved. Based on this assessment, the Board of Directors approves for each risk category appropriate limits, which are monitored constantly for compliance.

The internal audit and the compliance function are particularly important for the bank's risk management and report directly to the Board of Directors.

Subsequent events

No extraordinary event occurred after the balance sheet date which could have a significant impact on the equity, financial statement or results of the Bank relating to the year under review.

Future prospects

Uncertainties remain, and at a time when one crisis is followed by another, it is crucial to see crises and uncertainty not as exceptions but as an integral part of how we live and do business. However, in view of recent developments in the banking sector, we are confident in our ability to sustain high profitability.

A mayor focus in 2024 will be a successful implementation of the new refined Asset- and Wealth Management Strategy and the inherent essential organizational changes while staying true to our value proposition for our clients.

The entire Board of Directors and Executive Management would like to take this opportunity to express our gratitude to our clients and our employees for the trust and commitment.

Board of Directors and Management as of General Meeting of April 23, 2024

Board of Directors

Peter Huwyler ¹⁾
Chairman

Jürg Reichen ^{1) 2) 3)}
Vice-Chairman

Linda L. Walker ^{1) 3)}
Director

Ignacio A. Vollmer Sosa
Director

Luciano Scandolari
Director

Management

Gabriel Urdaneta
CEO

Thomas Ita
Finance and Operations (CFO/COO)

Atilano Bullos
Business Development (CBDO)

Internal Audit

PEQ GmbH, Zürich

External Auditors

Deloitte AG, Zürich

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- 1) These members of the Board fulfil the independence criteria stipulated in margins nos. 17-22 of FINMA circular 17/01.
- 2) Chairman of the Audit Committee
- 3) Member of the Audit Committee.

Board of Directors

Peter Huwyler

Oberlunkhofen, Switzerland

Chairman since 2013 (Director since 2007)

Graduated with a Degree in Commerce from Swiss Commercial Business College in Zurich, Switzerland. Retired at the end of 2006 after 27 years of service at Zürcher Kantonalbank, where he was Head of International Banking and Deputy Head of Investment and Private Banking. Previously, he held various banking and management positions with Citigroup in Zurich, Geneva, New York and with training experience in London, Paris and Greece. Has also served as Chairman of the Board of the Zürcher Kantonalbank Finance (Guernsey) Ltd., as a Board Member of the Swiss-Chinese Chamber of Commerce and as Vice President of the Latin American Chamber of Commerce in Switzerland. Until January 23, 2018 he served as Director of Mercantil Commercebank Florida Bancorp, and Mercantil Commercebank N.A. He acted for 24 years as a lay judge in the region of his private domicile and served for over 20 years as Vice Chairman at a regional Swiss Hospital.

Jürg Reichen

Stäfa, Switzerland

Vice-Chairman since 2018

Holder of a Swiss Bankers Diploma complemented by further studies at the IMD Business School in Lausanne. Retired in 2018 after 30 years of service at Zürcher Kantonalbank where he held various positions in Wealth Management / Private Banking as a member of Senior Management. Previously at Zürcher Kantonalbank he held the position of Head International Banking and was the Chairman of Zürcher Kantonalbank Finance (Guernsey) Ltd., Guernsey. He established the representative office of Zürcher Kantonalbank in Singapore. Previously he worked for Credit Suisse in Zurich, New York and Bahrain. He served as Vice-Chairman of the Board of the Swiss-Central European Chamber of Commerce.

Ignacio A. Vollmer Sosa

Caracas, Venezuela

Director since 2018

Graduated from the Leonard N. Stern School of Business with a Master's degree in Business Administration, specialized in Finance and Management. He worked for international banking, consulting and investment advisory corporations. At present he is the CEO and member of the Executive Committee of Mercantil Holding Financieros Internacional. Designated Board member of Mercantil Holding Corporation S.A; Mercantil Banco Panama; Mercantil Servicios de Inversion; Mercantil Seguros y Reaseguros S.A. and Luz Capital. Director of Universidad Metropolitana.

Management

Gabriel Urdaneta

Ebertswil, Switzerland

CEO since 2024

Chartered Financial Analyst (Level I), MBA from IESA Caracas 2006 and BSc in Management from Universidad Metropolitana Caracas 1995. He joined Mercantil Bank (Schweiz) in 2016 as Head Wealth Management. Previously working for Mercantil Servicios Financieros in Caracas as Manager of Investment Services (2006-2016), Head of Asset Management (2003-2006) and Portfolio Manager (1996-2003).

Atilano Bullos

Zurich, Switzerland

Business Development (CBDO) since 2024

MBA from Kellogg School of Management, Illinois in 2014. Master in Finance of the IESA Caracas in 2008. Before joining Mercantil Bank (Schweiz) in 2018, he worked for Deutsche Bank in New York, Citibank in Caracas and for Mercantil Servicios Financieros in Caracas.

Linda L. Walker

Kilchberg, Switzerland

Director since 2019

Graduated with a Master of Business Administration from the George Washington University in Washington D.C. and a Master of Arts from the Sorbonne University in Paris. Between 1977 and 1998 has worked for Citibank in the U.S., Venezuela, Peru, Greece and Switzerland where she held a variety of executive positions including heading up the World Corporation Group (Lima/Peru) and managing the Public Sector (Greece). During her Citibank career in Switzerland, she was co-leading the Financial Institutions department, established and headed up the Domestic Origination department and assumed the role as Senior Private Banker. In 1998, she founded her own asset management company "Walker von Graffenried Asset Management Ltd." primarily focusing on the management of assets for private individuals and institutional clients. In addition, she serves as Honorary Consul of Mexico in Zurich/Switzerland, Vice President of the board of the Latin American Chamber of Commerce in Switzerland and is further a member of the Mexican Council on Foreign Relations, Comexi, Mexico City, Mexico.

Luciano Scandolari

Miami, USA

Director since 2022

Graduated from the School of Economics of the University of Buenos Aires, Argentina and alumni of the Advanced Finance Executive Program at Wharton Business School. Before joining the Executive Committee of Mercantil Servicios Financieros Internacional as CFO, he has been a member of the US Leadership Group and the Global Deals Leadership Team at PricewaterhouseCoopers leading projects and advising clients on a wide range of transactions including up front deal strategy and planning, domestic and cross-border acquisitions, alliances, divestitures and spin-offs, as well as business integration and reorganizations.

Thomas Ita

Zurich, Switzerland

Finance and Operations (CFO/COO) since 2024

Swiss Certified Specialist for Finance and Accounting since 2001. Before joining Mercantil Bank (Schweiz) in 2004, worked for ten years for various Swiss banks, including Migrosbank and AKB Privatbank as accountant and Zurich Invest Bank as Manager of Financial Accounting.

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 (IRRBB)

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 to 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 Mercantile Bank Switzerland (MBS) specific Δ EVE 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 (Δ EVE) 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 (Δ NII), 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 (Δ EVE)

- 1 A risk-free interest rate without surcharges such as potential client margin or spread components is used to determine the calculation of Δ EVE.
- 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 (Δ NII)

- 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 Δ EVE / Δ NII 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 (IRRBB A1)

(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 (IRRBB B1)

(in 1000 CHF)

Period	ΔEVE (change in the economic value)		ΔNII (change in net interest income)	
	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
Steeper 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.

*Mercantil Bank (Schweiz) AG,
Zurich*

*Financial Statements for the year ended December 31, 2023
and Report of the Statutory Auditor*

Report of the Statutory Auditor

To the General Meeting of
Mercantil Bank (Schweiz) AG, Zurich

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mercantil Bank (Schweiz) AG (“the Company”), which comprise the balance sheet as at December 31, 2023, the income statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting and valuation principles.

In our opinion, the enclosed financial statements (pages 15 to 34) comply with Swiss law and the Company’s articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the provisions of Swiss law, together with the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' Responsibilities for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal controls as the Board of Directors determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A more detailed description of our responsibilities for the audit of the financial statements can be found on the EXPERTsuisse website: <https://www.expertsuisse.ch/en/audit-report-for-ordinary-audits>. This description forms an integral part of our report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Deloitte AG

Christian Weber
Licensed Audit Expert
Auditor in Charge

Alexander Aebersold
Licensed Audit Expert

Zurich, April 23, 2024

Financial Statement

Balance Sheet

in CHF	31.12.2023	31.12.2022	Change
Assets			
Liquid assets	1'872'562	2'628'557	-755'995
Amounts due from banks	11'013'715	8'752'978	2'260'737
Amounts due from customers	81'623'611	98'164'231	-16'540'620
Positive replacement values of derivative financial instruments	10'640'733	9'076'211	1'564'522
Financial investments	52'432'369	74'196'546	-21'764'177
Accrued income and prepaid expenses	784'087	885'979	-101'892
Tangible fixed assets	859'943	1'134'493	-274'550
Other assets	1'009'345	190'229	819'116
Total assets	160'236'365	195'029'224	-34'792'859
Total subordinated claims	-	1'198'155	-1'198'155
<i>of which subject to mandatory conversion and/or debt waiver</i>	-	-	-
Liabilities and shareholder's equity			
Amounts due to banks	3'401'519	12'232'299	-8'830'780
Amounts due in respect of customer deposits	117'520'653	144'911'334	-27'390'681
Negative replacement values of derivative financial instruments	1'921'633	2'117'501	-195'868
Accrued expenses and deferred income	1'438'795	1'079'575	359'220
Other liabilities	403'908	510'925	-107'017
Provisions	1'261	257	1'004
Bank's capital	16'000'075	16'000'075	-
Statutory retained earnings reserve	965'900	938'200	27'700
Profit / loss carried forward	16'661'358	16'686'460	-25'102
Profit / loss for the period	1'921'263	552'598	1'368'665
Total liabilities and shareholder's equity	160'236'365	195'029'224	-34'792'859
Total subordinated liabilities	-	-	-
<i>of which subject to mandatory conversion and/or debt waiver</i>	-	-	-
Off-Balance Sheet Transactions			
Contingent liabilities	740'501	833'646	-93'145
Irrevocable commitments	362'576	518'000	-155'424

Income Statement

in CHF	2023	2022	Change
Result from interest operations			
Interest and discount income	3'914'976	2'410'868	1'504'108
Interest and dividend income from financial investments	2'437'299	2'692'752	-255'453
Interest expense	-739'326	-540'226	-199'100
Gross result from interest operations	5'612'949	4'563'394	1'049'555
Changes in value adjustments for default risks and losses from interest operations	-4'795	-15'016	10'221
Subtotal net result from interest operations	5'608'154	4'548'378	1'059'776
Result from commission business and services			
Commission income from securities trading and investment activities	4'598'708	4'509'017	89'691
Commission income from lending activities	3'500	5'495	-1'995
Commission income from other services	594'494	514'942	79'552
Commission expense	-845'286	-815'817	-29'469
Subtotal result from commission business and services	4'351'416	4'213'637	137'779
Result from trading activities and the fair value option	1'479'353	1'163'838	315'515
Other result from ordinary activities			
Result from the disposal of financial investments	-3'627	-196	-3'431
Income from participations	-	-	-
Other ordinary income	109'610	4'940	104'670
Other ordinary expenses	-	-454'148	454'148
Subtotal other result from ordinary activities	105'983	-449'404	555'387
Operating expenses			
Personnel expenses	-4'840'477	-4'930'338	89'861
General and administrative expenses	-3'774'442	-3'319'414	-455'028
Subtotal operating expenses	-8'614'919	-8'249'752	-365'167
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-466'157	-473'494	7'337
Changes to provisions and other value adjustments, and losses	-15'122	-7'930	-7'192
Operating result	2'448'708	745'273	1'703'435
Extraordinary income	-	-	-
Extraordinary expenses	-	-	-
Taxes	-527'445	-192'675	-334'770
Profit/loss for the period	1'921'263	552'598	1'368'665
Distribution of profit/loss			
Profit/loss for the period	1'921'263	552'598	1'368'665
Retained profit brought forward	16'661'358	16'686'460	-25'102
Total available for appropriation	18'582'621	17'239'058	1'343'563
Appropriation of profit / coverage of losses			
Allocation to statutory retained earnings reserves	-96'100	-27'700	-68'400
Distribution to shareholders	-1'920'000	-550'000	-1'370'000
New amount carried forward	16'566'521	16'661'358	-94'837

Statement of changes in equity

in CHF 1000	Bank's capital	Capital reserve	Retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserves and profit carried forward	Own shares	Result of the period	Total
Equity at January 1st, 2023	16'000	-	938	-	16'686	-	553	34'177
Profit distribution 2022								
- Allocated to the statutory retained earnings reserve	-	-	+28	-	-	-	-28	-
- Allocated to the voluntary retained earnings reserve	-	-	-	-	-	-	-	-
- Dividends	-	-	-	-	-	-	-550	-550
- Net change in retained earnings brought forward	-	-	-	-	-25	-	+25	-
Capital increase / decrease	-	-	-	-	-	-	-	-
Profit / Loss current year 2023	-	-	-	-	-	-	+1'921	+1'921
Equity at December 31, 2023	16'000	-	966	-	16'661	-	1'921	35'548

To the extent it does not exceed one-half of the share capital, the statutory retained earnings reserve of TCHF 966 may be used only to cover losses or for measures designed to sustain the company through difficult times, to prevent unemployment or to mitigate its consequences.

Notes to the financial statement

1. Business name or name of the bank, and its legal form and domicile

Mercantil Bank (Schweiz) AG, until January 27, 2000, operating under the name BMS Finanz AG, was incorporated in May 1988 in Zurich. Its activities in the areas of private banking, asset management and fiduciary transactions are focused on Latin America.

2. Accounting and valuation principles

General principles

The Bank's accounting and valuation principles comply with the Swiss Code of Obligations, the Swiss Banking Act, the Swiss Banking Ordinance, the Circular 20/1 "Accounting Standards - Banks" and the Accounting Ordinance of the Swiss Financial Market Supervisory Authority (FINMA).

This reliable assessment statutory financial statement presents the economic situation of the bank such that a third party can form a reliable opinion. The financial statements are allowed to include hidden reserves.

Accounting and recording of transactions

All business transactions concluded up to the balance sheet date are recorded as of their trade date (trade date accounting) and valued according to the above-mentioned principles. Any foreign exchange spot and forward transaction entered into but not yet fulfilled is recorded in accordance with the settlement date accounting method. Between the trade date and the settlement date, these transactions are disclosed at replacement value under the item "Positive replacement values of derivative financial instruments" or "Negative replacement values of derivative financial instruments".

Foreign currency translation

Transactions in foreign currencies are translated at daily exchange rates. Foreign currency positions, with the exception of participations, are converted at the exchange rates prevailing at the year-end closing date. Resulting conversion profits and losses are included in the income statement. Participations are valued at the exchange rates prevailing at the time of the purchase. In the event of a decline in the value of such an investment, giving due account also to the fluctuation of exchange rates, a valuation adjustment is made.

The following exchange rates were used as at the balance sheet date (major currencies):

	2023	2022
USD	0.8368	0.9215
EUR	0.9268	0.9851

General valuation principles

Each item disclosed in the balance sheet is valued individually.

In principle, neither assets and liabilities nor expenses and income are offset. Accounts receivable and accounts payable are offset in the following cases:

- Accounts receivable and accounts payable are offset if they relate the same type of transaction with the same counterparty in the same currency and they have an identical or earlier due date and do not lead to any counterparty risk.
- Deduction of value adjustments from the corresponding asset item.
- Positive and negative replacement values of derivative financial instruments with the same counterparty are offset, if there are recognized and legally enforceable netting agreements in place.

Liquid assets

Liquid assets are recognized at their nominal value.

Amounts due from banks and amounts due from customers

Amounts due from banks and amounts due from customers are recognized at their nominal value less any necessary value adjustments. The methodologies to identify default risks and to determine the necessary value adjustments are explained in detail under paragraph 4.

Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

Treatment of past-due interest

Past-due interest and the corresponding commissions are not registered as interest income if they are more than 90 days past due and not yet paid. With regard to current account limits, interest and commissions are treated as past due if the credit limit has been exceeded for over 90 days. From this point in time, no accrued interest and commission is recorded in "Interest and discount income" until there is no more past-due interest longer than 90 days.

Past-due interest is not reversed retroactively. The liabilities from the accumulated interest up to the expiry of the 90-day term (due unpaid interest and accumulated accrued interest) are depreciated through the item "Change in value adjustments for default risk and losses from interest operations".

Positive and negative replacement values of derivative financial instruments

Derivative financial instruments are used for trading and for hedging purposes.

Trading purposes

The valuation of derivative financial instruments for trading purposes is done according to the fair value and the positive or negative replacement value is recorded in the corresponding item. The fair value is based on market prices, dealers' price quotations, discounted cash flow and option pricing models.

The realized result from trading operations and the unrealized result from valuations relating to trading operations are recorded via the item "Result from trading operations and use of the fair value option".

Hedging purposes

The bank also uses derivative financial instruments as part of its asset and liability management (ALM) to hedge against interest rate change, currency and default risks. Hedging operations are valued like the hedged underlying transaction. The result from hedging operations is recorded in the same item as the corresponding result from the hedged underlying transaction. The valuation result from hedging instruments is recorded in a compensation account, provided that no change in the value of the underlying transaction has been booked. The net balance of the compensation account is recorded via the item "Other assets" or "Other liabilities".

Hedges and the goals and strategies of hedging operations are documented by the bank at the conclusion of a derivative hedging transaction. The effectiveness of the hedge is regularly reviewed. If the hedge is no longer or only partially effective, the part of the hedging transaction that is no longer effective is treated like a trading operation.

Financial investments

Financial investments include debt instruments and equity securities.

Debt securities as well as equity securities held as available for sale are valued at the lower of cost or market principle. If the fair value of these financial investments increases again after declining below the historical cost, the value may be appreciated up to a maximum of the historical cost. The balance of the value adjustments is recorded in the item "Other ordinary expenses" or "Other ordinary income" respectively. Debt securities acquired with the intention to hold them to maturity are valued on the acquisition cost principle with the agio/disagio (premium/discount) accrued/deferred over the residual term to maturity (accrual method). The agio/disagio is accrued/deferred over the residual term to maturity through the item "Prepayments and accrued income" or "Accrued liabilities and deferred income". Value adjustments for

default risk are recorded immediately under "Changes in value adjustments for default risk and losses from interest operations". If held-to-maturity financial investments are sold or reimbursed early, the realized gains and losses, which correspond to the interest component, are accrued/deferred over the residual term to maturity of the transaction in "Other assets" or "Other liabilities".

Tangible fixed assets

Investments in tangible fixed assets are capitalized as an asset if they are used for more than one accounting period.

Tangible fixed assets are recognized at acquisition cost minus the scheduled accumulated amortization over the estimated operating life.

Tangible fixed assets are amortized at a consistent rate (straight-line amortization) over a prudent estimated operating life in "Value adjustments on participations and amortization of tangible fixed assets and intangible assets". The estimated operating lives of specific categories of tangible fixed assets are as follows:

Asset class	Operating life
Installations and renovations in third party properties	Remaining duration of rental agreement
Property and equipment	5 years
Core banking software	5 years
Telecommunications and IT	3 years

Each tangible fixed asset is tested for impairment as of the balance sheet date. This test is based on indicators reflecting a possible impairment of individual assets impaired. If any such indicators exist, the recoverable amount is calculated. The recoverable amount is calculated for each individual asset. An asset is impaired if its carrying amount exceeds its recoverable amount.

If the asset is impaired, the book value is reduced to match the recoverable value and the impairment is charged via the item "Value adjustments on participations and amortization of tangible fixed assets and intangible assets".

If the impairment test shows that the operating life of an intangible asset has changed, the residual carrying amount is depreciated systematically over the newly estimated useful life.

Realized gains from the sale of tangible fixed assets are recorded under "Extraordinary income" and realized losses are recorded under "Extraordinary expense".

Amounts due to banks and amounts due in respect of customer deposits

These items are recognized at their nominal value.

Amounts due in respect of precious metal account deposits must be valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

Provisions

Legal and factual obligations are valued regularly. If an outflow of resources is likely and can be reliably estimated, a corresponding provision is registered.

Existing provisions are reassessed at each balance sheet date. Based on this reassessment, the provisions are increased, left unchanged or released.

Positions are recorded as follows via the individual items in the income statement:

- Provision for deferred taxes: "Taxes"
- Pension provision: "Personnel expenses"
- Other provisions: "Changes in provisions and other value adjustments and losses", except provisions for restructuring

Provisions are released via the income statement if they are no longer needed on business grounds and cannot be used for other similar purposes at the same time.

Employee benefit obligation

The bank maintains two defined contribution pension plans for its employees in Switzerland. The bank bears the expenses of the pension plans of all its employees as well as their survivors in accordance with the Swiss federal law on occupational pension plans. The benefit obligations as well as the coverage capital are disincorporated into a legally independent collective occupational foundation. The organization, management and financing of the collective foundation conform to the legal regulations, to the articles of the funds as well as to current pension regulations.

The bank assesses whether there is an economic benefit or economic obligation arising from a pension fund as of the balance sheet date. The assessment is based on the contracts and financial statements of the pension funds (established under Swiss GAAP FER 26 in Switzerland) and other calculations that present a true and fair view of the financial situation as well as the actual over- or underfunding for each pension fund. The bank relies on the pension fund expert of the collective foundation to assess whether a benefit or an obligation exists for each pension fund.

An economic benefit exists where it is permissible and intended to use the surplus for lowering the bank's contributions, reimburse it to the bank as provided for in local laws, or utilize it for the bank's economic benefit outside of the benefits as provided for in the scheme's rules.

The bank records its contributions as employer in "personnel expenses" in the same period in which the contributions are paid.

Taxes

Liabilities from current income and capital tax are disclosed under "Accrued liabilities and deferred income". Expense due to income and capital tax is disclosed in the income statement under "Taxes".

Contingent liabilities, irrevocable commitments

Contingent liabilities and irrevocable commitments are stated at their nominal value. Provisions for recognizable risks are created and recorded under "Provisions" on the liability side. The methodologies to identify recognizable risks and to determine the necessary provisions are explained in detail under paragraph 4.

Changes in Accounting and Valuation Principles

The accounting and valuation policies have not been changed compared to the previous year.

3. Risk management

The bank is subject to various banking-specific risks: credit, market and liquidity risks as well as operational and legal risks. The monitoring, identification, measurement and management of these risks is a priority for the bank.

The risk capacity is set in such a way that the bank complies with the statutory capital adequacy requirements, even under the influence of diverse negative events.

The key elements of risk management are:

- Comprehensive risk policy;
- The use of recognized risk measurement and risk management principles;
- The definition of various risk limits and the corresponding monitoring and reporting measures;
- Ensuring timely and comprehensive reporting on all risks;
- The allocation of adequate financial and human resources to the risk management; and
- highlighting risk awareness at all management levels.

The Board of Directors is the supreme organ of the risk management organization. It specifies the risk policy and, as part of this, defines the risk philosophy, risk capacity, risk measurement and risk management. The Board of Directors approves the strategic risk limits based on the risk capacity and it monitors compliance with the limits as well as the implementation of the risk policy. To fulfill its monitoring duties, a comprehensive risk report is submitted to the Board of Directors at least on a quarterly basis. The internal reports ensure adequate reporting at all levels.

The executive management is responsible for the execution of the Board of Director's policies. It ensures that a suitable and independent risk management organization is in place as well as the use of an adequate risk monitoring system. It allocates the limits approved by the Board of Directors to the organizational units and delegates the corresponding competences. Adequate reporting at all levels is ensured by the internal reports.

Credit risk

All credit risk positions, including those from derivative instruments, are limited and monitored continuously by a credit line system based on counterparty and country risk.

Exposures are entered into and monitored in compliance with the credit risk policy. The assessment procedure, except for exposures in industrialized countries (Category 1), where country risk is negligible, is based on the rating of the Interagency Country Exposure Committee (ICERC) and on the bank's own internal rating system. The internal evaluation is based on economic trends and political and social developments and derived from various bank-internal and external sources (Categories 2 – 6).

Loans to clients

The Board of Directors' is responsible for approving large credit exposures as well as loans and exposures to members of the governing bodies. Specific authority to grant loans involving manageable risks is delegated to the client advisers. Credit approval is based on requirements as to quality, collaterals, limits and credit authority as laid down in the credit policy.

Credit Administration, which is independent of the client advisers, processes the approved loans and is responsible for the final checks.

The credit policy of the bank forms the basis of credit risk monitoring and control. This is expressed, particularly, in the credit conditions and the monitoring of loans. Significant aspects include knowing the purpose of the loan and the client's integrity along with the transparency, plausibility, ability to pay and the proportionality of the transaction. The credit policy is reviewed periodically and supplemented by process descriptions.

Counterparty risk in interbank business

In the interbank business and trading operations, a multi-level limit system is used to manage the counterparty and default risks. In principle, the bank works only with first-class counterparties. The limit depends significantly on the rating and on the capital adequacy of the counterparty.

A review of the appropriate classification of the counterparties and, thus, of the set limits is performed, usually on an annual basis. In cases of extreme market events, an interim situation report is prepared in order to react immediately to increased risk situations.

Interest rate risk

Interest rate risk arises mainly from imbalances between the time limits of assets and liabilities. 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 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.

The Risk Management function reports to the ALCO on a monthly basis. Depending on the estimated interest rate developments, the ALCO may take measures within defined risk limits and strategies.

Other market risks

Currency risks

The bank's currency management serves to minimize any negative impact on the bank's earnings. Basically, the goal is to balance the assets denominated in foreign currencies with the liabilities in foreign currencies.

Foreign currency exposures are restricted by internal limits and monitored on an on-going basis.

Trading operations

When trading securities for customers, the bank does not engage in open positions from which market risks could arise.

Trades in derivative financial instruments are mainly on behalf of clients; trades on own account are small and limited to hedging operations for 'nostro' positions and transactions relating to balance sheet structure management. The bank does not have any market-making activities.

Liquidity risks

The liquidity strategy of the bank has been developed by the Treasury department and approved by the Board of Directors. The Treasury department ensures that the limits and objectives are complied with. Liquidity positions, the financing situation and concentration risks are reported monthly to the ALCO of the bank. The liquidity and financing limits are approved annually by the executive management and the Board of Directors. In doing so, the current and planned business strategy and the risk appetite are considered.

Liquidity management aims to create a solid liquidity position to allow the bank to pay its obligations in a timely manner at all times. Further, the financing risk is managed through the optimization of the balance sheet structure.

The emergency liquidity plan is an essential aspect of the bank's crisis management concept. The emergency plan includes an assessment of financing sources in a stressed market situation, considers liquidity status/key indicators and describes the emergency measures. Provisions for a crisis have been made by diversifying the sources of financing.

All material expected cash flows and the availability of first-class collateral, which could be used to gain additional liquidity, are regularly reviewed.

Operational risks

Operational risks are defined as the risks of losses due to the inadequacy or failure of internal policies, people and systems or due to external events.

The assessment of operational risks and compliance risks evaluates the direct financial losses and the consequences of the loss of client trust and reputation. The primary objective of operational risk management is to ensure the trust of the clients, shareholders and regulators.

The operational risks are measured by calculating the potential extent of damages in normal and extreme cases. For risk management purposes, the potential losses are assigned to the various risk categories and risk-adjusted measures to minimize the potential loss are defined.

The Board of Directors reviews annually the operational risk policy, which, together with the detailed directives, serves as the basis for risk management. Risk-mitigation measures are implemented in the areas of process management, information security, control systems, quality and training. This also includes ensuring that operations continue in cases of internal or external events or disasters.

The key controls have been documented in a standardized manner. All of the bank's departments perform (usually on an annual basis) an assessment of the internal control processes in terms of their operational effectiveness and take any improvement measures necessary. The effectiveness of the Business Continuity Management is tested annually. The results of these review measures are included in a report on the operational risks. This report is discussed by the executive management and presented to the Board of Directors. The improvement measures are summarily approved by these bodies.

In line with the expanded provisions outlined by the regulator, the bank performed an in-depth intrusion risk assessment of the entire IT landscape and systematically implemented controls to prevent, detect and respond to such intrusions.

Due to the fast-paced technological developments and the increased number of cyberattacks, yearly internal and external penetration tests are conducted by a specialized provider to identify vulnerabilities and to guard the infrastructure. As part of the active prevention strategy, periodic trainings (e.g. Awareness shows, e-Learning) are mandatory for all employees.

4. Methods used to identify default risks and determining the need for value adjustments

Lombard loans

In the Lombard loan business, collaterals in the form of marketable securities and fiduciary deposits are accepted. Credit utilization and collateral value are monitored on an ongoing basis. If the amount of credit utilized exceeds the collateral value, clients receive a margin call to increase the securities deposited as collateral or sell them.

Unsecured loans

Unsecured loans generally are funded sub-participations in syndicated term loans and working capital loans purchased from an affiliated bank. The syndicated term loans have credit enhancements, and the issuer default risk as well as the transaction risk must be rated by at least two accredited rating agencies. Other unsecured loans are account overdrafts of clients.

Related to the sub-participated loans, the Loan Review department of the affiliated bank periodically performs credit analyses, monitors and identifies any significant risks. If significant risks are identified, the Loan Review department makes a detailed assessment and defines jointly with the bank if action should be taken. If it is expected in this phase that the credit commitment is at risk, a corresponding value adjustment is created.

Procedure for determining value adjustments and provisions

Necessary value adjustments and provisions are identified by the above-described procedures.

Doubtful receivables for which it is unlikely that the customer will be able to comply with its future obligations, are valued individually and depreciated by means of individual value adjustments. The amount of the impairment is determined by the difference between the book value of the loan and the estimated collectible amount, considering the counterparty risk and the net value from the execution of any collateral. If the process of execution is expected to take longer than a year, then a present value calculation is made of the expected cash flows to be generated from the execution process.

If a receivable is classified as entirely or partially non-recoverable or a receivable is waived, the receivable is derecognized by booking it against the corresponding value adjustment.

5. Valuation of collateral

Lombard loans

Primarily, the following asset classes are considered acceptable for Lombard loans:

- Callable, time or fiduciary deposits
- Liquid and actively traded securities
- Precious Metals Exchange Traded Funds (ETFs), except leveraged or short ETFs
- Equity funds (excluding hedge funds, commodities funds and real estate funds), bond funds and money market funds with daily liquidity

In addition to the individual valuation adjustments, a value adjustment for inherent default risks is made to cover the inherent default risks as of the valuation cut-off date.

Inherent default risks are those that arise later even though, they appear to be part of a seemingly flawless credit portfolio as of the balance sheet date. The assessment of inherent default risks is based on estimated qualitative and quantitative loss ratios for each credit-rating class and country dependent transfer risk factors.

Considered in the assessment of inherent default risks are the following positions:

- Due from Banks
- Due from Customers
- Contingencies in the off-balance sheet

The value adjustments for inherent default risks do not include doubtful positions with individual value adjustments.

Further, a reassessment of existing value adjustments is performed at each balance sheet date and are approved by the executive management and the Board of Directors.

Doubtful receivables are classified again at full value if payments of outstanding capital and interest are resumed according to the contractual terms and also credit standing criteria are fulfilled.

Method of using value adjustments for inherent default risks and replenishing funding gaps

Value adjustments for inherent default risks can be used for the establishment of individual value adjustments on impaired receivables, particularly in a crisis, and without having to immediately replenish them. However, if a funding gap incurred, the Bank restores the difference within a maximum of 5 financial years.

In the event of an exceptionally large requirement for individual value adjustments for impaired loans (>10% of the item "Gross result from interest operations"), the Bank evaluates whether the valued adjustments and provisions created for inherent default risks would be used to cover the required individual value adjustments.

As at balance sheet date, the bank does not have a shortfall in value adjustments for inherent default risks.

Specific securities may not be eligible for lending even if they belong to an acceptable asset class listed above.

The bank applies a discount to the market value in order to cover the market risk relating to marketable liquid securities and to calculate the value of the collateral. In addition to the discount, the bank applies additional haircuts for currency mismatch, issuer and country dependency.

6. Policy regarding the use of derivative financial instruments and hedge accounting

Business policy regarding the use of derivative financial instruments

Derivative financial instruments may be used for trading and for hedging purposes.

Derivative financial instruments are traded exclusively by specially trained traders. The bank does not have any market-making activities. Standardized and OTC instruments are traded on own account and on behalf of clients, especially interest-, currency- and equity/index-based instruments. There is no trading in credit or commodity based derivative instruments.

Derivative financial instruments are used by the bank for risk management purposes, mainly to hedge against foreign currency risks. Hedging transactions are entered exclusively with the bank's parent company (MHFI).

Use of hedge accounting

Types of underlying and hedging transaction

The bank uses hedge accounting mainly in relation to hedge exchange rate changes on net currency positions using foreign exchange forwards.

Economic relationship between the hedged items and the hedging transactions

The bank documents the relationship between the hedging instrument and the secured underlying transaction. Among others, it documents the risk management goals and strategy for the hedging transaction and the methods to assess the effectiveness of the hedging. The economic link between the underlying and the hedging transactions is continuously assessed as part of the effectiveness testing by observing the opposing changes in their values and their correlation.

Measurement of effectiveness

A hedge is seen as highly effective when the following criteria are fulfilled in all material aspects:

- The hedge is estimated as highly effective from its first application and for the rest of its lifetime.
- There is a close economic correlation between the underlying and the hedging transaction.
- Changes in the value of the underlying and the hedge are contrary to the hedged risk.

Ineffectiveness

If a hedging transaction no longer fulfills the effectiveness criteria, it is considered like a trading transaction and the effect of the ineffective portion is recorded under "Results from trading operations and use of fair value option".

7. Material events after the balance sheet date

No material events occurred after the balance sheet date that could have a material impact on the financial position of the bank as of December 31, 2023.

8. Premature resignation of the auditor

Deloitte AG, Zurich, was elected as the bank's auditor by the General Meeting. The auditor has not resigned prematurely from its function.

9. Information on the Balance sheet

9.1. Collateral for loans, off-balance sheet transactions and impaired loans

in CHF 1000	Type of collateral			Total
	Mortgage collateral	Other collateral	Without collateral	
Loans (before netting with value adjustments)				
Amounts due from customers	-	76'885	4'879	81'764
Total loans 31.12.2023 (before netting with value adjustments)	-	76'885	4'879	81'764
Previous year	-	90'017	8'290	98'307
Total loans 31.12.2023 (after netting with value adjustments)	-	76'745	4'879	81'624
Previous year	-	89'874	8'290	98'164
Off-balance sheet transactions				
Contingent liabilities	-	711	30	741
Irrevocable commitments	-	-	363	363
Liabilities for calls on shares and other equities	-	-	-	-
Total off-balance sheet transactions 31.12.2023	-	711	393	1'104
Previous year	-	815	537	1'352

in CHF 1000	Gross outstanding	Estimated recovery amount of collaterals	Net outstanding	Specific provision
Impaired loans as per 31.12.2023	-	-	-	-
Previous year	-	-	-	-

9.2. Outstanding derivative instruments

in CHF 1000	Trading Instruments			Hedging Instruments		
	positive replacement values	negative replacement values	Contract volume	positive replacement values	negative replacement values	Contract volume
Foreign exchange						
Forward contracts	272	1'922	47'675	10'369	-	33'389
Total 31.12.2023	272	1'922	47'675	10'369	-	33'389
of which, determined using a valuation model	272	1'922		10'369	-	
Total 31.12.2022	1'037	2'118	93'711	8'039	-	33'389
of which, determined using a valuation model	1'037	2'118		8'039	-	

The bank does not have netting agreements with counterparties.

Breakdown of positive replacement values by counterparty	31.12.2023	31.12.2022
Central clearing houses	-	-
Banks and securities dealers	10'632	8'547
Other customers	9	529

9.3. Financial investments

in CHF 1000	Book value		Fair value	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Debt securities	52'431	74'195	51'332	70'330
- of which, intended to be held to maturity	48'425	69'146	47'326	65'278
- of which, available for sale	4'006	5'049	4'006	5'052
Equity securities	1	2	3	4
- of which qualified participations	-	-	-	-
Total financial investments	52'432	74'197	51'335	70'334
- of which securities eligible for repo transactions in accordance with liquidity requirements	-	-	-	-

Breakdown of counterparties by rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated	
Book values of debt securities	31.12.2023	32'270	5'750	10'911	495	-	3'005
	31.12.2022	27'555	5'232	25'880	7'972	537	7'019

The bank relies on the rating classes of Standard&Poor's (S&P). If there is no rating available from S&P the bank uses ratings from Moody's.

9.4. Fixed assets

in CHF 1000	Acquisition cost	Accumulated depreciation	Book value previous year end	2023				Book value 31.12.2023
				Additions	Disposals	Depreciation	Reversals	
Fixed assets								
Other fixed assets	1'759	-1'570	189	+36	-	-81	-	144
Proprietary or separately acquired software	4'903	-3'958	945	+156	-	-385	-	716
Total fixed assets	6'662	-5'528	1'134	+192	-	-466	-	860

No operating leases

9.5. Other Assets and Other Liabilities

in CHF 1000	31.12.2023		31.12.2022	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Compensation account	995	303	130	389
Indirect Taxes	-	88	14	100
Claims and liabilities from goods and services	-	-	-	22
Sundry accounts	14	13	46	-
Other assets and liabilities	-	-	-	-
Total other assets and other liabilities	1'009	404	190	511

Accrued interest components of hold-to-maturity investments that were sold prior to maturity are included in the compensation account.

The balance of the previous year was reclassified to this position accordingly.

9.6. Assets pledged or ceded to secure own commitments and assets subject to retention of title

in CHF 1000	31.12.2023		31.12.2022	
	Book Value	Effective Commitment	Book Value	Effective Commitment
Due from banks	-	-	-	-
Financial investments	3'280	1'989	22'449	9'717
Other	-	-	-	-
Total	3'280	1'989	22'449	9'717

9.7. Disclosure of liabilities to own pension plans

The bank's employees are entitled to a legally independent occupational pension scheme with two different plans. One plan covers the obligatory benefits according to the Swiss federal law on occupational pension plans, while the second plan covers all the non-obligatory benefits. Both plans are defined contribution plans. As in the previous year, the bank had no further obligations towards these pension plans and there were no reserves from employer's contributions. The paid contributions correspond to the expenses for the pension fund (see note 11.2).

The bank's employees are insured at a collective foundation for pension services in the scope of an affiliation agreement. The contracts cover all retirement, invalidity and death benefits. The unaudited coverage ratio of the pension fund for year 2023 is 104.6% (audited ratio for year 2022: 102.8%).

The overfunding of the bank's pension fund is used exclusively for the benefit of the insured members, thus there is no economic benefit to the bank that needs to be recorded in the balance sheet and in the income statement.

9.8. Value adjustments, provisions and reserves for general banking risks

in CHF 1000	Balance previous year	Use in conformity with designated purpose	Reclassifications	Currency differences	Recoveries, past due interest	New creation charged to income	Releases to Income	Balance current year
Provisions for deferred taxes	-	-	-	-	-	-	-	-
Provisions for liabilities to pension plans	-	-	-	-	-	-	-	-
Provisions for default risks	-	-	-	-	+1	-	-	1
- Provisions for possible liabilities	-	-	-	-	-	-	-	-
- Provisions for expected losses	-	-	-	-	-	-	-	-
- Provisions for inherent risks	-	-	-	-	+1	-	-	1
- Provisions for latent risks	-	-	-	-	-	-	-	-
Provisions for other business risks	-	-	-	-	-	-	-	-
Provisions for restructurings	-	-	-	-	-	-	-	-
Other Provisions	-	-	-	-	-	-	-	-
Total provisions	-	-	-	-	+1	-	-	1
Value adjustments for default risks	-	-	-	-	-	-	-	-
Value adjustments for expected losses	-	-	-	-	-	-	-	-
Value adjustments for inherent risks	143	-	-	-8	-	+5	-	140
Value adjustments for latent risks	-	-	-	-	-	-	-	-
Total value adjustments for default and country risks	143	-	-	-8	-	5	-	140
Reserves for general banking risks	-	-	-	-	-	-	-	-

9.9. Schedule of share capital and disclosure of shareholders

in CHF 1000	31.12.2023			31.12.2022		
	Nominal amount	Number of shares	Capital with dividend rights	Nominal amount	Number of shares	Capital with dividend rights
Capital structure						
Shareholder's equity	16'000	45'500	16'000	16'000	45'500	16'000
- of which, paid-in	16'000	45'500	16'000	16'000	45'500	16'000

The company's share capital is fully paid in. No special rights are conferred by the share capital. In addition, there are no other limitations placed on shareholders' voting rights.

Significant shareholders and shareholder groups with voting rights

	31.12.2023		31.12.2022	
	Nominal	Share in %	Nominal	Share in %
Mercantil Holding Financiero Internacional S.A., Panama	16'000	100%	16'000	100.0%

Shareholder of Mercantil Holding Financiero Internacional S.A.:
Mercantil Servicios Financieros Internacional, S.A., Panama (100% of shares)

Mercantil Servicios Financieros Internacional, S.A (MSFI) is a financial holding registered on the Panama Stock Exchange. The capital structure of MSFI is comprised of A (58%) and B (42%) shares, with B shares having limited voting rights. Its shares are held primarily by Venezuelan investors.

Shareholders with ownership of over 5%, as known to MSFI are:

- Vollmer Family Group: (20.04% A shares; 7.15% B shares); 14.70% participation
- Marturet Family Group: (20.06% A shares; 2.39% B shares); 12.75% participation
- Capriles Group: (10.51% A shares; 12.20% B shares); 11.21% participation

9.10. Disclosure of amounts due from and due to affiliated companies as well as loans and exposures to directors and senior executives

in CHF 1000	Amounts due from		Amounts due to	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Holders of qualified participations	15'450	15'402	64	138
Group companies	-	-	-	-
Linked companies	2'951	12'232	5'498	10'542
Members of governing bodies	-	-	35	-
Other related parties	-	-	-	-

Transactions with related parties

Transactions with related parties such as securities transactions, international payments, placement of funds and deposits are made under the conditions as they would apply with third parties.

The Bank hedged the eligible equity in CHF against USD with the parent company. This forward exchange contract is renewed annually and the rate corresponds to the historical spot rate.

9.11. Maturity structure of financial instruments

in CHF 1000	Maturity							Total
	at sight	redeem-able by notice	within 3 months	within 3 to 12 months	within 1 to 5 years	after 5 years	no maturity	
Assets / financial instruments								
Liquid assets	1'873	-	-	-	-	-	-	1'873
Amounts due from banks	9'173	1'841	-	-	-	-	-	11'014
Amounts due from customers	-	10'554	20'007	45'862	5'201	-	-	81'624
Positive replacement values of derivative financial instruments	10'641	-	-	-	-	-	-	10'641
Financial investments	2	-	19'708	9'280	21'878	1'564	-	52'432
Total 31.12.2023	21'689	12'395	39'715	55'142	27'079	1'564	-	157'584
Previous year	19'467	10'152	34'397	75'435	47'096	6'272	-	192'819
Liabilities / financial instruments								
Amounts due to banks	3'402	-	-	-	-	-	-	3'402
Amounts due to customers	102'630	6'694	5'806	2'391	-	-	-	117'521
Negative replacement values of derivative financial instruments	1'922	-	-	-	-	-	-	1'922
Total 31.12.2023	107'954	6'694	5'806	2'391	-	-	-	122'845
Previous year	131'209	9'135	14'928	3'989	-	-	-	159'261

9.12. Assets and liabilities by domestic and foreign origin

in CHF 1000	31.12.2023		31.12.2022	
	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	1'873	-	2'629	-
Amounts due from banks	6'972	4'042	2'802	5'951
Amounts due from customers	523	81'101	200	97'964
Positive replacement values of derivative financial instruments	263	10'378	508	8'568
Financial investments	-	52'432	-	74'197
Accrued income and prepaid expenses	783	-	886	-
Fixed assets	860	-	1'134	-
Other assets	1'009	-	190	-
Total assets	12'283	147'953	8'349	186'680
Liabilities				
Amounts due to banks	-	3'402	-	12'232
Amounts due in respect of customer deposits	1'264	116'257	194	144'717
Negative replacement values of derivative financial instruments	1'881	41	1'813	305
Accrued expenses and deferred income	1'438	-	1'080	-
Other liabilities	404	-	511	-
Provisions	1	-	-	-
Bank's capital	16'000	-	16'000	-
Statutory retained earnings reserve	966	-	938	-
Profit / loss carried forward	16'661	-	16'686	-
Profit / loss for the period	1'921	-	553	-
Total liabilities	40'536	119'700	37'775	157'254

9.13. Geographical analysis of assets (by domicile)

in CHF 1000	31.12.2023		31.12.2022	
	Amount	in %	Amount	in %
Europe	29'876	18.7%	24'498	12.6%
Switzerland	12'283	7.7%	8'349	4.3%
Other west European countries	17'593	11.0%	16'149	8.3%
North-America	32'234	20.1%	41'800	21.4%
Latin-America	91'003	56.8%	120'610	61.8%
Anguila	103	0.1%	98	0.1%
Bahamas	426	0.2%	157	0.1%
Belize	125	0.1%	-	-
Bermuda	849	0.5%	2'606	1.3%
Brazil	-	-	3'611	1.9%
Cayman Islands	1'204	0.7%	2'516	1.3%
Chile	-	-	1'394	0.7%
Colombia	261	0.2%	812	0.4%
Dominican Republic	932	0.6%	1'999	1.0%
Ecuador	1'068	0.7%	-	-
Mexico	839	0.5%	2'321	1.2%
Panama	33'925	21.2%	42'513	21.8%
Peru	-	-	641	0.3%
St. Kitts and Nevis	6'581	4.1%	9'241	4.7%
Venezuela	43'698	27.3%	49'785	25.5%
Virgin Islands (British)	992	0.6%	2'916	1.5%
Other	7'123	4.4%	8'121	4.2%
Total assets	160'236	100.0%	195'029	100.0%

9.14. Breakdown of net exposure by credit rating of foreign country groups

in CHF 1000	Rating Standard & Poor's	31.12.2023		31.12.2022	
		Amount	in %	Amount	in %
Rating category 1	AAA to AA-	47'837	29.7%	68'102	34.7%
Rating category 2	A+ to A-	8'200	5.1%	7'391	3.8%
Rating category 3	BBB+ to BBB-	20'065	12.4%	25'110	12.8%
Rating category 4	BB+ to B-	270	0.2%	5'347	2.7%
Rating category 5	CCC+ and lower	43	0.0%	1'800	0.9%
Without foreign country dependent risk		84'925	52.6%	88'631	45.1%
Total		161'340	100.0%	196'381	100.0%

The bank considers net exposures without foreign country dependent risk where

- the net exposure or its collateral is originated in Switzerland
- the net exposure remain collateralized by a diversified portfolio after applying a default stress scenario on a specific country

9.15. Balance sheet by currencies

in CHF 1000	Currencies			
	CHF	EUR	USD	other
Assets				
Liquid assets	1'851	8	14	-
Amounts due from banks	613	513	4'302	5'586
Amounts due from customers	39'300	14'539	27'737	48
Positive replacement values of derivative financial instruments	272	-	10'369	-
Financial investments	-	7'403	45'029	-
Accrued income and prepaid expenses	488	0	295	-
Fixed assets	860	-	-	-
Other assets	1'003	0	6	0
Total balance sheet effective assets	44'387	22'463	87'752	5'634
Claims from transactions related to forex spot, forward and option transactions	33'389	4'380	36'694	6'601
Total assets	77'776	26'843	124'446	12'235
Liabilities				
Amounts due to banks	53	8	3'326	15
Amounts due in respect of customer deposits	3'257	24'744	80'252	9'268
Negative replacement values of derivative financial instruments	1'922	-	-	-
Accrued expenses and deferred income	1'400	3	35	0
Other liabilities	404	-	-	-
Provisions	1	-	-	-
Bank's capital	16'000	-	-	-
Statutory retained earnings reserve	966	-	-	-
Profit / loss carried forward	16'661	-	-	-
Profit / loss for the period	1'921	-	-	-
Total balance sheet effective liabilities	42'585	24'755	83'613	9'283
Claims from transactions related to forex spot, forward and option transactions	35'519	1'998	41'223	2'324
Total liabilities	78'104	26'753	124'836	11'607
Net position per currency	-328	90	-390	628

10. Information on Off-Balance Sheet Business

10.1. Analysis of contingent liabilities

in CHF 1000	31.12.2023	31.12.2022	Change
Guarantees to secure credits and similar	741	834	-93
Performance guarantees and similar	-	-	-
Irrevocable commitments	363	518	-155
Other contingent liabilities	-	-	-
Total contingent liabilities	1'104	1'352	-248
Contingent assets arising from tax losses carried forward	-	-	-
Other contingent assets	-	-	-
Total contingent assets	-	-	-

10.2. Customer assets under management

in CHF 1000	31.12.2023		31.12.2022	
	Amount	in %	Amount	in %
Type of customer assets under management				
Assets under discretionary asset management agreements	130'435	19.1%	131'156	19.7%
Other customer assets under management	551'187	80.9%	533'272	80.3%
Total customer assets under management	681'622	100.0%	664'428	100.0%
of which, double counting	42'727	6.3%	32'516	4.9%
Development of customer assets under management				
Total customer assets under management at beginning	664'428		655'467	
+/- Net funds inflow/outflow	+9'969	+1.5%	+66'513	+10.1%
+/- Market and currency fluctuations, charges, interest and dividends	-3'079	-0.5%	-73'930	-11.3%
+/- Other effects	+10'304	+1.6%	+16'378	+2.5%
Total customer assets under management	681'622		664'428	

Assets under discretionary asset management agreements are defined as assets for which the investment decisions are made by the bank, and cover assets deposited with group companies as well as assets deposited at third-party institutions. Other customer assets under management are defined as assets for which the investment decision is made by the client himself, and cover advisory and administrative mandates. Both, assets with discretionary mandate and other assets under management, take into account client deposits as well as market values of securities, precious metals, and fiduciary investments placed at third-party institutions. The bank does not provide services exclusively for custody and transaction settlement purposes ("custody assets").

Net funds in- or outflow consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net funds in- or outflows.

During the year, the Bank issued actively managed certificates in the amount of CHF 10 million through a special purpose vehicle. These assets are reported under "Other effects".

11. Information on the Income Statement

11.1. Income from trading activities and the fair value option

According to FINMA Accounting Ordinance Art. 32, the breakdown of income from trading activities and the fair value option is not published, as the Bank is subject to the De-Minimis rule (CAO, Art. 83)

11.2. Personnel expenses

in CHF 1000	2023	2022	Change
Salaries (salaries and benefits, meeting attendance fees and fixed compensation to members of the bank's governing bodies)	3'955	4'133	-178
- of which, expenses related to share based compensation and alternative forms of variable compensation	-	-	-
Contributions to pension funds	330	346	-16
Social security contributions	333	330	3
Other personnel expenses	222	121	101
Total personnel expenses	4'840	4'930	-90

11.3. General and administrative expenses

in CHF 1000	2023	2022	Change
Expenses for premises	303	292	11
Expenses for information and communications technology	1'871	1'826	45
Expenses for machinery, furniture, vehicles and other equipment	9	2	7
Fees of audit firm	221	174	47
- of which, for financial and regulatory audits	221	174	47
- of which, for other services	-	-	-
Other operating expenses	1'370	1'025	345
Total other operating expenses	3'774	3'319	455

11.4. Current taxes

in CHF 1000	2023	2022	Change
Expenses for current capital and income taxes	527	193	334
Creation of provisions for latent taxes	-	-	-
Total taxes	527	193	334
Weighted average tax rate	21.5%	25.9%	

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