Basel III Pillar 3 disclosures 2019

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1. Introduction

Cembra Money Bank AG (the "Bank" and together with its subsidiaries, the "Group") is a leading Swiss provider of financing solutions and services in Switzerland. Our product range includes consumer finance products such as personal loans, auto leases and loans, credit cards and the insurance sold with these products, as well as invoice financing, deposit and savings products.

We have our headquarters in Zurich-Altstetten and operate across Switzerland through our network of branches, online distribution, as well as credit card partners, independent intermediaries and car dealers.

We have been listed as an independent Swiss bank on the SIX Swiss Exchange since October 2013 and we are subject to the prudential supervision by FINMA ("the Swiss Financial Market Supervisory Authority"). As of 31 December 2019, the Group employed 1,045 people (963 full-time equivalents) and served over 1 million customers.

2. Scope of Pillar 3 disclosures

This report provides Pillar 3 disclosures for the Group. The Group comprises the parent company Cembra Money Bank AG and its wholly owned subsidiaries: Swissbilling SA, Swiss Auto Lease 2013-1 GmbH in Liquidation, Swiss Auto Lease 2015-1 GmbH, Swiss Auto Lease 2016-1 GmbH, Swiss Auto Lease 2019-1 GmbH, eny Credit GmbH, Fastcap AG, cashgate AG and Swiss SME Loans 2018-1 GmbH.

The Group figures shown in this report do not include Swissbilling SA and are prepared based on the accounting and valuation principles defined in the FINMA circular 2015/01 "Accounting – Banks".

The disclosures in this report were prepared based on the FINMA regulatory requirements as defined in the circular 2016/01 "Disclosure – Banks", which includes the implementation of the revised Pillar 3 disclosure requirements issued by Basel Committee on Banking Supervision ("BCBS").

The Group is subject to the annual partial disclosure requirements according to the FINMA circular 2016/01 as they are defined for the bank classified in category 4 and they take into account the quantitative and qualitative disclosure information.

3. Capital and capital adequacy

The Group is applying the Basel III rules effective since 1 January 2013. Under Basel III, a variety of basic approaches are available to banks for the calculation of capital adequacy requirements for credit, market and operational risks. The Group uses the international standard approach ("SA-BIS" approach) to calculate the minimum requirement for covering credit risk. It is entitled to use a standardized approach to calculate the capital charge for market risk. The Group also applies a standardized approach to calculate the capital charge for operational risk management. Thus, it fulfils the qualitative and quantitative requirements of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO, SR 952.03). Capital adequacy and the use of regulatory capital is monitored and reported on a

Bank and Group level applying the rules defined by FINMA on regular basis.

As of 31 December 2019, the Group adheres to the requirements of CAO and respective circulars of the FINMA, in particular the disclosure requirements according to the FINMA circular 2016/01. The regulatory requirement consists of the absolute minimum requirement for a banking license at 8% and the capital buffer for category 4 bank at 3.2%, which leads to total capital target ratio at 11.2%.

Group's total capital ratio was 16.3% and Bank's total capital ratio was 15.1% as of 31 December 2019, which is higher than the regulatory requirement of 11.2%. Common Equity Tier 1 (CET1) ratios were 13.7% at Group level and 12.4% at Bank level, both well above regulatory requirement of 7.4%.

As of 31 December 2019, Group's regulatory capital of CHF 962.3 million was composed mostly of CET1 capital of CHF 812.3 million and additional Tier 1 capital of CHF 150.0 million. While the required capital amounted to CHF 472.6 million. Regulatory capital is calculated in accordance with the Swiss accounting rules for the banks valid since 27 March 2014 (FINMA circular 2015/01). A detailed description of the risk and compliance organization, principles applied, methods and processes as well as the various risk categories can be found in the Annual Report 2019 in the section "Risk Management Report – Capital management".

4. Liquidity

The Group has in place appropriate methods and techniques for measuring liquidity risk that include the qualitative and quantitative assessment of exposure to that risk in accordance with Ordinance on the Liquidity of Banks (LiqO, 952.06). The Group monitors exposure to liquidity risk regularly through precisely defined ratios, indicators and other criteria. The effective reporting and monitoring of liquidity risk thus allows the Group to continuously maintain the desired risk profile.

The Group ensures that it has adequate liquidity at all times, and to that end takes into account various liquidity management scenarios, based on which it defines a suitable method for ensuring its liquidity position.

The quantitative system comprises liquidity ratios prescribed by FINMA circular 2015/02 "Liquidity risks – Banks". In accordance with regulations, the Group calculates and reports the standardised liquidity coverage ratio (LCR). The purpose of the LCR is to ensure liquidity over the short term by defining the necessary scope of liquid assets to settle liabilities during emergency liquidity conditions. Additional information regarding an assessment of the Group's liquidity risk management is provided in the Annual Report 2019 in the section "Risk Management Report – ALM, market and liquidity risk".

The LCR ratios at Group level and at Bank level for 2019, shown in this report, have been significantly above the minimum regulatory ratio of 100%, which is required from 2019 onwards.

5. Interest rate risk in the banking book

The Group's main source of market risk is the interest rate risk in the banking book ("IRRBB"). IRRBB is the current or prospective risk to the Group's capital and earnings arising from adverse movements in the interest rates. Movements in interest rates might change the underlying value of assets, liabilities and off-balance sheet items and hence its economic value. They might also affect net interest income and earnings by altering interest rate sensitive income and expenses. Excessive IRRBB can pose a significant threat to the Group's current capital base and/or future earnings if not managed appropriately.

An effective interest rate risk management framework has been implemented to limit potential impacts on the Group's current capital base and/or future earnings and to maintain the risk profile at levels that are appropriate to the risk appetite approved by the Board of Directors.

Due to the Group's prevailing fixed interest rate assets and liabilities, it is mainly exposed to the gap (repricing) risk. This is the risk of adverse consequence due to increasing or decreasing interest rates because of difference in time of when these rate changes affect the Group's assets and liabilities. The Group faces relatively low option and basis risk. Consequently, the Group focuses IRRBB monitoring on repricing risk.

The Group applies different interest rate shock scenarios and reports the impact on the economic value of equity (EVE) and net interest income (NII) together with the limits utilisation to the ALCO on a monthly basis and to the Board of Directors typically quarterly. The ALCO is also responsible for approving any material changes that may occur in the methodology, including model assumptions, parameters and techniques.

EVE metric measures the change in the discounted present value of the Group's expected future net cash flows, focusing on the sensitivity of the economic values of the banking book items to the interest rate changes. Economic value metric captures the long-term effect of the interest rate changes on equity. Economic value measures reflect changes in value over the remaining life of the interest rate sensitive instruments. EVE calculation is based on the position level taking into the consideration the exact repricing dates. The market value is determined by discounting the future cash flows, including margins, by a risk-free rate (CHF LIBOR swap rate curve).

NII metric is calculated as the difference, which arises in the net interest margin during a certain time period due to a parallel movement in interest rates. The period for measuring net interest margin sensitivity is one year for each balance sheet position where the exact repricing dates are taken into account. The interest rates used for repricing in the base scenario are derived from the forward rates. Further, the current credit spreads are used in the NII calculation. The Group applies certain caps on the assets for the parallel upward shock and floors on the liabilities for the parallel downward shock. These central assumptions represent the Group's best estimate of its ability to increase interest rates (e.g. considering maximum interest rates as set by the Consumer Credit Act) and to decrease interest rates (e.g. considering no negative interest rates for saving accounts).

Repricing maturities are taking into account assumptions of early repayments based on behavioural models for assets and of early withdrawals for liabilities. The assets prepayment model calculates the expected run-off of a portfolio of contracts until the end of the portfolio's actual life. It is developed on the actual historical data and includes the observed customer behavioural patterns/changes. Early redemption risk is managed through the penalty charged to at least compensate the loss of interest between the date of early withdrawal and the contractual maturity date, which means that the Group uses a natural hedge against interest rates. The saving accounts are positioned in the repricing

bucket within 30 days, where the customer behaviour is evaluated on a regular basis to assess the stickiness of the customer saving account balances.

The Group considers the standardised regulatory interest rate shock scenarios for both IRRBB metrics, ΔEVE and ΔNII, as they are defined in Annex 2 of the FINMA circular 2019/02, "Interest rate risk – Banks". The regulatory interest rate shock scenarios are appropriate enough for the interest rate risks the Group enters into, because they commensurate its nature, size, business complexity and overall risk profile and therefore no further internal interest rate shocks are applied. Within these scenarios, negative interest rates are considered and therefore no interest rate floor is applied. All six standardised regulatory scenarios (parallel shifts up and down for 150 bps; steepener and flattener shocks, short rates up and down) are considered for the calculation of the change in the EVE. For the calculation of the change in the NII the two standardised regulatory scenarios (parallel shifts up and down for 150 bps) are considered. The change in the net present value of capital that is equal or greater than 15% of Tier 1 capital in at least one of the interest rate shock scenarios is according to the Annex 1 of the FINMA circular 2019/02 defined as potentially unduly high interest rate risk.

The Group does not have automatic interest rate options or any derivative exposures, and does not employ hedging instruments to manage IRRBB as of 31 December 2019.

Increase in the both metrics, ΔEVE and ΔNII, as of 31 December 2019 in comparison to 30 June 2019 is related to the acquisition of cashgate in September 2019. Following the acquisition of cashgate with an increase in the interest rate sensitive assets, the Group significantly expanded its funding and increased also the interest rate sensitive liabilities.

The numbers published in this report are rounded, however they are calculated based on the full numbers and therefore rounding differences can occur.

In order to have a complete understanding of the Group's regulatory framework, this report should be read together with the Annual Report 2019 published on the Cembra website (www.cembra.ch/financialreports).

KM1: Key metrics at consolidated Group level

At 31 December (CHF in thousands)	**2019**	**2019 - (3 months)**	**2019 - (6 months)**	**2019 - (9 months)**	**2018**
Eligible capital					
Common equity Tier 1 capital (CET1)	812,297				833,830
CET1 without impact of transitional arrangements for expected losses	–				–
Tier 1 capital	962,297				833,830
Tier 1 capital without impact of transitional arrangements for expected losses	–				–
Total eligible capital	962,297				833,830
Total eligible capital without impact of tranisitional arrangements for expected losses	–				–
Risk-weighted assets (RWA)					
RWA	5,908,114				4,346,114
Minimum capital requirements	**472,649**				**347,689**
Minimum capital requirements risk based capital ratios (in % of RWA)					
CET1 ratio	13.7 %				19.2 %
CET1 ratio without impact of transitional arrangements for expected losses	–				–
Tier 1 capital ratio	16.3 %				19.2 %
Tier 1 capital ratio without impact of transitional arrangements for expected losses	–				–
Total capital ratio	16.3 %				19.2 %
Total capital ratio without impact of transitional arrangements for expected losses	–				–
CET1-buffer requirements (in % of RWA)					
Capital buffer in accordance with the Basel minimum standards	2.5 %				1.875 %
Countercyclical buffer (Art. 44a CAO) in accordance with the Basel minimum standards	–				–
Additional capital buffer due to international or national systematical importance	–				–
Total buffer requirements in accordance with the Basel minimum standards in CET1-quality	2.5 %				1.875 %
CET1 available to meet buffer requirements as per the Basel minimum standards (after deduction of the CET1 to meet minimum requirements and to meet TLAC requirements where applicable)[1]	8.288 %				11.186 %
Capital target ratios in accordance with Annex 8 of CAO (in % of RWA)					
Capital buffer in accordance with Annex 8 of CAO	3.2 %				3.2 %
Countercyclical buffer (Art. 44 and 44a CAO)	0 %				0 %
CET1-target ratio in accordance with Annex 8 of CAO plus countercyclical buffer as per Art. 44 and 44a CAO	7.4 %				7.4 %
T1-target ratio in accordance with Annex 8 of CAO plus countercyclical buffer as per Art. 44 and 44a CAO	9.0%				9.0 %
Total capital target ratio in accordance with Annex 8 of CAO plus countercyclical buffer as per Art. 44 and 44a CAO	11.2 %				11.2 %

Basel III Leverage Ratio					
Leverage ratio exposure	7,680,964				5,689,814
Basel III Leverage Ratio (Tier 1 capital in % of the leverage ratio exposure)	12.5 %				14.7 %
Basel III Leverage Ratio (Tier 1 capital in % of the leverage ratio exposure) without impact of transitional arrangements for expected losses	–				–
Liquidity Coverage Ratio (LCR)[2]					
LCR numerator: total of high-quality, liquid assets	481,124	555,720	406,162	1,012,599	437,016
LCR denominator: total net cash outflows	86,829	126,549	59,532	96,935	51,321
Liquidity Coverage Ratio, LCR (in %)	554 %	439 %	682 %	1,045 %	852 %

[1] Prior year ratio was restated due to technical issues and late change release from software provider (for 2018 stated as 15.386 %)
[2] The average LCR for a quarter is defined as the ratio of the 3-month average for the high-quality assets (numerator) and the 3-month average for net cash outflows (denominator)

KM1: Key metrics at Bank level

At 31 December (CHF in thousands)	**2019**	**2019 - (3 months)**	**2019 - (6 months)**	**2019 - (9 months)**	**2018**
Eligible capital					
Common equity Tier 1 capital (CET1)	695,139				832,875
CET1 without impact of transitional arrangements for expected losses	–				–
Tier 1 capital	845,139				832,875
Tier 1 capital without impact of transitional arrangements for expected losses	–				–
Total eligible capital	845,139				832,875
Total eligible capital without impact of tranisitional arrangements for expected losses	–				–
Risk-weighted assets (RWA)					
RWA	5,603,186				4,121,572
Minimum capital requirements	**448,255**				**329,726**
Minimum capital requirements risk based capital ratios (in % of RWA)					
CET1 ratio	12.4 %				20.2 %
CET1 ratio without impact of transitional arrangements for expected losses	–				–
Tier 1 capital ratio	15.1 %				20.2 %
Tier 1 capital ratio without impact of transitional arrangements for expected losses	–				–
Total capital ratio	15.1 %				20.2 %
Total capital ratio without impact of transitional arrangements for expected losses	–				–
CET1-buffer requirements (in % of RWA)					
Capital buffer in accordance with the Basel minimum standards	2.5 %				1.875 %
Countercyclical buffer (Art. 44a CAO) in accordance with the Basel minimum standards	–				–
Additional capital buffer due to international or national systematical importance	–				–
Total buffer requirements in accordance with the Basel minimum standards in CET1-quality	2.5 %				1.875 %
CET1 available to meet buffer requirements as per the Basel minimum standards (after deduction of the CET1 to meet minimum requirements and to meet TLAC requirements where applicable)[1]	7.083 %				12.208 %
Capital target ratios in accordance with Annex 8 of CAO (in % of RWA)					
Capital buffer in accordance with Annex 8 of CAO	3.2 %				3.2 %
Countercyclical buffer (Art. 44 and 44a CAO)	0 %				0 %
CET1-target ratio in accordance with Annex 8 of CAO plus countercyclical buffer as per Art. 44 and 44a CAO	7.4 %				7.4 %
T1-target ratio in accordance with Annex 8 of CAO plus countercyclical buffer as per Art. 44 and 44a CAO	9.0 %				9.0 %
Total capital target ratio in accordance with Annex 8 of CAO plus countercyclical buffer as per Art. 44 and 44a CAO	11.2 %				11.2 %

Basel III Leverage Ratio					
Leverage ratio exposure	7,219,243				5,297,187
Basel III Leverage Ratio (Tier 1 capital in % of the leverage ratio exposure)	11.7 %				15.7 %
Basel III Leverage Ratio (Tier 1 capital in % of the leverage ratio exposure) without impact of transitional arrangements for expected losses	–				–
Liquidity Coverage Ratio (LCR)[2]					
LCR numerator: total of high-quality, liquid assets	481,122	555,720	406,162	1,012,596	437,016
LCR denominator: total net cash outflows	198,601	75,992	71,416	133,891	66,382
Liquidity Coverage Ratio, LCR (in %)	242 %	731 %	569 %	756 %	658 %

[1] Prior year ratio was restated due to technical issues and late change release from software provider (for 2018 stated as 16.408 %)
[2] The average LCR for a quarter is defined as the ratio of the 3-month average for the high-quality assets (numerator) and the 3-month average for net cash outflows (denominator)

OV1: Overview of risk-weighted assets

At 31 December (CHF in thousands)	**2019**	**2018**	**2019**
			Minimum capital requirements[1]
Credit risk	5,157,305	3,740,443	412,584
Market risk	5,482	7,409	439
Operational risk	745,326	598,263	59,626
Amounts below the thresholds for deduction (subject to 250 % risk weight)	–	–	–
Total	**5,908,114**	**4,346,114**	**472,649**

[1] Corresponds to 8 % of the risk-weighted assets (RWA)

CR1: Credit risk – Credit quality of assets

At 31 December (CHF in thousands)	**Gross carrying values of defaulted exposures**	**Gross carrying values of non-defaulted exposures**	**Value adjustments / impairments**	**Net values**
Loans (excluding debt securities)	41,530	6,534,871	79,383	6,497,017
Debt securities	–	5,659	–	5,659
Off-balance sheet exposures	–	109,494	–	109,494
Total	**41,530**	**6,650,024**	**79,383**	**6,612,170**

CR2: Credit risk – Changes in stock of defaulted loans and debt securities

At 31 December (CHF in thousands)	**2019**
Defaulted loans and debt securities[1] at end of the previous reporting period	20,772
Loans and debt securities that have defaulted since the last reporting period	36,099
Returned to non-defaulted status	2,521
Amounts written off	12,819
Other changes[2] (+/-)	–
Defaulted loans and debt securities at end of the reporting period[3]	**41,530**

[1] Exposures net of write-offs and gross of allowances/impairments
[2] Balancing items that are necessary to enable total to reconcile
[3] Excluding the non-recurring impact (for further details see note 1 of the Consolidated Financial Statements), defaulted loans at the end of the period at TCHF 27,525

CR3: Credit risk – Overview of credit risk mitigation techniques

At 31 December (CHF in thousands)	**Exposures unsecured/Carrying amount**	**Exposures secured by collateral, of which: secured amount**	**Exposures secured by financial guarantees or credit derivatives, of which: secured amount**
Loans (including Debt securities)	6,500,249	2,428	–
Off-balance-sheet transactions	109,494	–	–
Total	**6,609,743**	**2,428**	**–**
- of which defaulted	41,530	–	–

CR5: Credit risk – Exposures by asset classes and risk weights under the standardised approach

Exposure class *At 31 December (CHF in thousands)*	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total credit exposures amount (post-CCF and post-CRM)**[1]
Central governments and central banks	531,568	–	–	–	–	–	–	–	531,568
Banks and securities firms	–	–	45,471	–	–	–	–	–	45,471
Non-central government public sector entities and multilateral development banks	–	–	3,419	–	2,241	–	–	–	5,660
Corporates	–	–	5,659	–	–	–	28,434	28	34,122
Retail	–	–	–	–	–	6,594,223	36,025	35,706	6,665,954
Equity	–	–	–	–	–	–	–	4,711	4,711
Other exposures	213	–	–	–	–	–	19,644	13	19,869
Total	**531,781**	**–**	**54,549**	**–**	**2,241**	**6,594,223**	**84,103**	**40,458**	**7,307,356**
- of which, covered by mortgages	–	–	–	–	–	–	–	–	–
- of which, past-due loans	–	–	–	–	–	–	–	35,719	35,719

1 The amount used for the capital requirements calculation (both for on- and off-balance-sheet amounts), therefore net of allowances and write-offs and after having applied CRM techniques and CCF but before the application of the relevant risk weights

IRRBBA1: Interest rate risk in the banking book – Quantitative information on position structure and repricing maturities

	Volume in million CHF			Average repricing maturity (in years)		Maximum repricing maturity (in years) for the positions with modelled repricing maturity (not deterministic)	
At 31 December	**Total**	**- of which CHF**	**- of which other major currencies that make up more than 10 % of assets or liabilities of the balance sheet**	**Total**	**- of which CHF**	**Total**	**- of which CHF**
Determined repricing maturity							
Receivables from banks							
Receivables from clients	6,022	6,022		1.52	1.52		
Money market mortgages							
Fixed-rate mortgages							
Financial investments	6	6		0.57	0.57		
Other receivables							
Receivables from interest derivatives							
Liabilities to banks	115	115		0.15	0.15		
Liabilities from client deposits	1,270	1,270		0.59	0.59		
Medium-term notes	2,027	2,027		2.83	2.83		
Bonds and mortgage-backed bonds	2,575	2,575		4.02	4.02		
Other liabilities							
Liabilities from interest derivatives							
Undetermined repricing maturity							
Receivables from banks	38	38		0.003	0.003		
Receivables from clients	77	77		1.54	1.54		
Variable mortgage receivables							
Other sight receivables							
Sight liabilities in personal and current accounts	98	98		0.08	0.08		
Other sight liabilities							
Liabilities from client deposits, callable but not transferable (savings)							
Total[1]	**12,228**	**12,228**		**2.14**	**2.14**	**3.00**	**3.00**

[1] The total figure on volume in million CHF is calculated as a simple sum (addition) of receivables and liabilities, in accordance to the FINMA circular 2016/01, "Disclosure - Banks"
Further, the total figure on average repricing maturity (in years) is calculated as a weighted average of the sum of receivables and liabilities
On the other hand the weighted average repricing maturity of receivables amounts to 1.5 years and of liabilities amounts to 2.8 years

IRRBB1: Interest rate risk in the banking book – Quantitative information on net present value and interest rate income

CHF in thousands	**ΔEVE (Change in the net present value)**		**ΔNII (Change in the net interest income)**	
Period	**31.12.2019**	**30.06.2019**	**31.12.2019**	**30.06.2019**
Parallel upward shift	99,753	52,656	– 8,700	– 5,438
Parallel downward shift	– 114,508	– 60,948	– 11,647	– 16,178
Steepener shock	58,005	34,913		
Flattener shock	– 38,209	– 24,149		
Upward short-term interest rate shock	3,770	– 1,297		
Downward short-term interest rate shock	– 3,818	1,363		
Maximum	– 114,508	– 60,948	– 11,647	– 16,178

Period	**31.12.2019**	**30.06.2019**
Core capital (Tier 1)	962,297	854,932