Your Swiss Bank

Basel III Pillar 3 disclosures 2021

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1. Introduction

Cembra is a leading Swiss provider of financing solutions and services. Our product range includes consumer credit products such as personal loans and auto leases and loans, credit cards, the insurance sold in this context, invoice financing, and deposits and savings products.

We have over 1 million customers in Switzerland and employ about 1,000 people from 43 different countries. We have our headquarters in Zurich and operate across Switzerland through our network of branches and our online distribution channels, as well as our 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. Cembra is rated A– by Standard & Poor's and is included in the SXI Switzerland Sustainability 25 Index and in the 2022 Bloomberg Gender Equality Index.

2. Scope of Pillar 3 disclosures

This report provides Pillar 3 disclosures for the Group. The Group comprises the Cembra Money Bank AG as parent company and its wholly owned subsidiaries: Swissbilling SA, Fastcap AG, eny Credit GmbH, Swiss Auto Lease 2016-1 GmbH in Liquidation, Swiss Auto Lease 2019-1 GmbH and Swiss Auto Lease 2020-1 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 Ordinance on the Accounting of the Swiss Financial Market Supervisory Authority (FINMA-AO, 952.024.1), the FINMA circular 2020/01 "Accounting – Banks" and the Ordinance on Banks and Savings Banks (BO, SR 952.02).

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 a category 4 bank 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 standardised 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 2021, 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 the category 4 bank at 3.2%, which leads to total capital target ratio at 11.2%.

The Group's total capital ratio was 18.9% and the Bank's total capital ratio was 20.1% as of 31 December 2021, which is higher than the regulatory requirement of 11.2%. Common Equity Tier 1 (CET1) ratios were 16.2% at the Group level and 17.2% at the Bank level, both well above the regulatory requirement of 7.4%.

As of 31 December 2021, the Group's regulatory capital of CHF 1,056.6 million was composed mostly of CET1 capital of CHF 906.6 million and additional Tier 1 capital of CHF 150.0 million. The required capital amounted to CHF 448.0 million. Regulatory capital is calculated in accordance with the Swiss accounting rules for banks valid since 1 January 2020 (FINMA-AO, 952.024.1, FINMA circular 2020/01 and BO, SR 952.02). A detailed description of the risk and compliance organisation, principles applied, methods and processes as well as the various risk categories can be found in the Annual Report 2021 in the section "Risk Management Report – Capital management".

4. Liquidity

The Group has appropriate methods and techniques in place 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 and Investment Firms (LiqO, SR 952.06; status as of 1 July 2021). 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 the FINMA circular 2015/02 "Liquidity risks – Banks". In accordance with regulations, the Group calculates and reports the standardised liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

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. While the purpose of the NSFR is to maintain stable funding profile in relation to the compostion of the assets and the off-balance sheet items.

The LCR ratios at the Group level and at the Bank level for 2021, shown in this report, have been well above the minimum regulatory ratio of 100%, which has been required from 2019 onwards. The 2021 NSFR ratios for the Group and the Bank, shown in this report, have been above the minimum regulatory ratio of 100% required from July 2021 onwards.

Additional information regarding an assessment of the Group's liquidity risk management is provided in the Annual Report 2021 in the section "Risk Management Report – ALM, market and liquidity risk".

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 and to the Board of Directors on a regular basis. The ALCO (Asset & Liability Management Committee, see Annual Report 2021 "Risk Management Report") is responsible for approving any material changes that may occur in the methodology, including model assumptions, parameters and techniques.

The 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 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).

The 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 Swiss 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 2021.

The decrease of an IRRBB metric ΔEVE as of 31 December 2021 in comparison to 31 December 2020 is related to the roll down of the funding portfolio during the year 2021, where the weighted average repricing maturity of the liabilities shortened by two months. The weighted average repricing maturity of the liabilities was 2.4 years as of 31 December 2021 in comparison with 2.6 years as of 31 December 2020.

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 2021 available at www.cembra.ch/financialreports.

KM1: Key metrics at consolidated Group level

At 31 December (CHF in thousands)	**2021**	**2021 (3 months)**	**2021 (6 months)**	**2021 (9 months)**	**2020**
Eligible capital					
Common equity Tier 1 capital (CET1)	906,594				850,436
CET1 without impact of transitional arrangements for expected losses	–				–
Tier 1 capital	1,056,594				1,000,436
Tier 1 capital without impact of transitional arrangements for expected losses	–				–
Total eligible capital	1,056,594				1,000,436
Total eligible capital without impact of tranisitional arrangements for expected losses	–				–
Risk-weighted assets (RWA)					
RWA	5,600,068				5,661,879
Minimum capital requirements	**448,005**				**452,950**
Minimum capital requirements risk based capital ratios (in % of RWA)					
CET1 ratio	16.2 %				15.0 %
CET1 ratio without impact of transitional arrangements for expected losses	–				–
Tier 1 capital ratio	18.9 %				17.7 %
Tier 1 capital ratio without impact of transitional arrangements for expected losses	–				–
Total capital ratio	18.9 %				17.7 %
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 %				2.5 %
Countercyclical buffer (Art. 44a CAO) in accordance with the Basel minimum standards	–				–
Additional capital buffer due to international or national systemic importance	–				–
Total buffer requirements in accordance with the Basel minimum standards in CET1-quality	2.5 %				2.5 %
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)	10.868 %				9.670 %
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	7,325,062				6,947,127
Basel III Leverage Ratio (Tier 1 capital in % of the leverage ratio exposure)	14.4 %				14.4 %
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)[1]					
LCR numerator: total of high-quality, liquid assets	468,793	499,580	534,786	487,084	545,205
LCR denominator: total net cash outflows	45,515	49,073	57,535	101,146	56,225
Liquidity Coverage Ratio, LCR (in %)	1030 %	1018 %	930 %	482 %	970 %
Net Stable Funding Ratio (NSFR)					
Available amount of stable funding	5,731,175				5,857,363
Required amount of stable funding	4,919,781				5,075,460
Net Stable Funding Ratio, NSFR (in %)	116 %				115 %

1 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)	**2021**	**2021 (3 months)**	**2021 (6 months)**	**2021 (9 months)**	**2020**
Eligible capital					
Common equity Tier 1 capital (CET1)	905,413				779,494
CET1 without impact of transitional arrangements for expected losses	–				–
Tier 1 capital	1,055,413				929,494
Tier 1 capital without impact of transitional arrangements for expected losses	–				–
Total eligible capital	1,055,413				929,494
Total eligible capital without impact of tranisitional arrangements for expected losses	–				–
Risk-weighted assets (RWA)					
RWA	5,260,730				5,327,141
Minimum capital requirements	**420,858**				**426,171**
Minimum capital requirements risk based capital ratios (in % of RWA)					
CET1 ratio	17.2 %				14.6 %
CET1 ratio without impact of transitional arrangements for expected losses	–				–
Tier 1 capital ratio	20.1 %				17.4 %
Tier 1 capital ratio without impact of transitional arrangements for expected losses	–				–
Total capital ratio	20.1 %				17.4 %
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 %				2.5 %
Countercyclical buffer (Art. 44a CAO) in accordance with the Basel minimum standards	–				–
Additional capital buffer due to international or national systemic importance	–				–
Total buffer requirements in accordance with the Basel minimum standards in CET1-quality	2.5 %				2.5 %
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)	12.062 %				9.448 %
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	6,834,848				6,452,751
Basel III Leverage Ratio (Tier 1 capital in % of the leverage ratio exposure)	15.4 %				14.4 %
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)[1]					
LCR numerator: total of high-quality, liquid assets	468,793	499,580	534,786	487,084	545,205
LCR denominator: total net cash outflows	51,452	96,830	119,330	120,952	173,536
Liquidity Coverage Ratio, LCR (in %)	911 %	516 %	448 %	403 %	314 %
Net Stable Funding Ratio (NSFR)					
Available amount of stable funding	5,527,851				5,382,760
Required amount of stable funding	4,566,331				4,685,452
Net Stable Funding Ratio, NSFR (in %)	121 %				115 %

[1] 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)	**2021**	**2020**	**2021**
			Minimum capital requirements[1]
Credit risk	4,860,964	4,903,270	388,877
Market risk	1,385	3,452	111
Operational risk	737,719	755,157	59,018
Amounts below the thresholds for deduction (subject to 250% risk weight)	–	–	–
Total	**5,600,068**	**5,661,879**	**448,005**

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)	35,297	6,124,787	85,993	6,074,091
Debt securities	0	0	0	0
Off-balance sheet exposures	0	223,729	0	223,729
Total	**35,297**	**6,348,516**	**85,993**	**6,297,820**

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

At 31 December (CHF in thousands)	**2021**
Defaulted loans and debt securities[1] at end of the previous reporting period	40,804
Loans and debt securities that have defaulted since the last reporting period	24,585
Returned to non-defaulted status	4,993
Amounts written off	25,098
Other changes[2] (+/-)	–
Defaulted loans and debt securities at end of the reporting period	**35,297**

[1] Exposures net of write-offs and gross of allowances/impairments
[2] Balancing items that are necessary to enable total to reconcile

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)	6,071,707	2,384	–
Off-balance-sheet transactions	223,729	–	–
Total	**6,295,436**	**2,384**	**–**
- of which defaulted	35,297	–	–

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	528,856	–	–	–	–	–	–	–	528,856
Banks and securities firms	–	–	51,180	–	–	–	–	–	51,180
Non-central government public sector entities and multilateral development banks	–	–	3,194	–	4,499	–	–	–	7,693
Corporates	–	–	–	–	–	–	52,374	–	52,374
Retail	–	–	–	–	–	6,098,020	104,322	35,989	6,238,332
Equity	–	–	–	–	–	–	–	4,000	4,000
Other exposures	–	–	–	–	–	–	20,165	–	20,165
Total	**528,856**	**–**	**54,374**	**–**	**4,499**	**6,098,020**	**176,862**	**39,989**	**6,902,600**
- of which, covered by mortgages	–	–	–	–	–	–	–	–	–
- of which, past-due loans	–	–	–	–	–	–	–	35,989	35,989

[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 Credit Risk Mitigation (CRM) techniques and Credit Conversion Factor (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	5,593	5,593		1.50	1.50		
Money market mortgages							
Fixed-rate mortgages							
Financial investments							
Other receivables							
Receivables from interest derivatives							
Liabilities to banks	10	10		0.88	0.88		
Liabilities from client deposits	1,076	1,076		0.67	0.67		
Medium-term notes	1,946	1,946		2.56	2.56		
Bonds and mortgage-backed bonds	2,499	2,499		3.12	3.12		
Other liabilities							
Liabilities from interest derivatives							
Undetermined repricing maturity							
Receivables from banks	42	42		0.003	0.003		
Receivables from clients	72	72		1.47	1.47		
Variable mortgage receivables							
Other sight receivables							
Sight liabilities in personal and current accounts	96	96		0.08	0.08		
Other sight liabilities							
Liabilities from client deposits, callable but not transferable (savings)							
Total[1]	**11,334**	**11,334**		**1.94**	**1.94**	**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 2.4 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	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
Parallel upward shift	61,847	73,966	– 4,706	– 3,647
Parallel downward shift	– 70,480	– 84,105	– 10,537	– 11,121
Steepener shock	34,616	39,634		
Flattener shock	– 22,200	– 24,895		
Upward short-term interest rate shock	3,384	5,368		
Downward short-term interest rate shock	– 3,460	– 5,489		
Maximum	– 70,480	– 84,105	– 10,537	– 11,121

Period	**31.12.2021**	**31.12.2020**
Core capital (Tier 1)	1,056,594	1,000,436