Interest rate risk in the banking book Disclosures as per 30 June 2019

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1. About the Bank

Cembra Money Bank AG (the "Bank", together with its subsidiaries, the "Group") is a leading Swiss provider of consumer finance products and services in Switzerland. Its product range includes loans, leasing, credit cards and saving products. Headquartered in Zurich, the Bank has operations across Switzerland via a network of 16 branches as well as alternative sales channels such as the internet, credit card partners, independent intermediaries and about 4,000 car dealers.

Cembra Money Bank AG is an independent Swiss bank and has been listed on the SIX Swiss Exchange since October 2013 and is subject to prudential supervision by FINMA. As at 30 June 2019, the Group occupied 887 employees (812 full time equivalents) and served approximately 911,000 customers.

2. Interest Rate Risk in the Banking Book

The Group's main source of market risk is interest rate risk in the banking book (IRRBB). The IRRBB disclosures are prepared and published according to the FINMA Circular 2016/1, Disclosure – Banks. 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 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 predominately fixed interest rate assets and liabilities, it is mainly exposed to repricing/gap 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 model methodology changes, 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 period of time 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 regulatory interest rate shock scenarios for both IRRBB metrics, ΔEVE and ΔNII, as they are described in the FINMA Circular 2019/2, 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.

The Group does not have automatic interest rate options or any derivative exposures, and does not employ hedging instruments to manage IRRBB as per 30 June 2019.

Interest rate risk: 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)	
As at 30 June	**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	4,537	4,537		1.53	1.53		
Money market mortgages							
Fixed-rate mortgages							
Financial investments	10	10		0.79	0.79		
Other receivables							
Receivables from interest derivatives							
Liabilities to banks	42	42		0.53	0.53		
Liabilities from client deposits	891	891		0.62	0.62		
Medium-term notes	1,833	1,833		2.95	2.95		
Bonds and mortgage-backed bonds	1,551	1,551		3.34	3.34		
Other liabilities							
Liabilities from interest derivatives							
Undetermined repricing maturity							
Receivables from banks	35	35		0.003	0.003		
Receivables from clients	73	73		1.55	1.55		
Variable mortgage receivables							
Other sight receivables							
Sight liabilities in personal and current accounts	138	138		0.08	0.08		
Other sight liabilities							
Liabilities from client deposits, callable but not transferable (savings)							
Total[1]	**9,109**	**9,109**		**2.00**	**2.00**	**3.00**	**3.00**

[1] According to the FINMA Circular 2016/1, Disclosure - Banks, the Total figure on Volume in million CHF is calculated as a simple sum (addition) of receivables and liabilities. Further, the Total figure on average repricing maturity (in years) is calculated as a weighted average of the sum of receivables and liabilities. The weighted average repricing maturity of receivables amounts to 1.52 years and the weighted average repricing maturity of liabilities amounts to 2.51 years.

Interest rate risk: Quantitative information on net present value and interest rate income

As at 30 June (CHF in thousands)	**ΔEVE (Change in the Net Present Value)**	**ΔNII (Change in the Net Interest Income)**
Parallel upward shift	52,656	– 5,438
Parallel downward shift	– 60,948	– 16,178
Steepener shock	34,913	
Flattener shock	– 24,149	
Upward short-term interest rate shock	– 1,297	
Downward short-term interest rate shock	1,363	
Maximum	– 60,948	– 16,178
Core capital (Tier 1)	854,932	

The IRRBB Disclosures should be read in combination with the Risk Management chapter of the Annual Report 2018 as well as with the Interim Report 2019.