

# Compensation Report

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# Message from the Chairman of the Compensation and Nomination Committee to the Shareholders

## Dear Shareholders

On behalf of the Board of Directors and the Compensation and Nomination Committee (CNC), I am pleased to introduce the 2018 Compensation Report of Cembra Money Bank AG (hereafter referred as “the Bank”, together with its subsidiaries, “the Group”).

In 2018 the Group achieved a record result for the year with all products contributing to the profitable growth. With a net income of CHF 154.1 million and a corresponding return on equity (ROE) of 16.9%, we delivered the best full-year result in the history of our company. Net financing receivables increased by 5% to CHF 4,807 million. At the same time the Group’s performance was not reflected in the share price performance with a total shareholder return of -11% in the reporting period, following a 28% total shareholder return in 2017.

These achievements are reflected in the compensation decisions for 2018. As a result of the strong financial performance, the total compensation for the Group’s Management Board was TCHF 4,544 for 2018, as compared to the budget of TCHF 5,700 comprising the fixed compensation approved by the Annual General Meeting 2017 and the variable compensation approved by the Annual General Meeting 2018. The total compensation in the previous year was TCHF 4,035 compared to an approved total compensation of TCHF 5,300. The total compensation for 2018 was higher than for the previous year because of the two additional Management Board members who joined in 2018 in connection with the implementation of the new Management Board structure.

To ensure the compensation system fulfils its purpose of supporting the achievement of our long-term business objectives and to ensure alignment of executive compensation with the interests of our shareholders, we:

- Regularly review our compensation policy;
- Maintain a compensation system that is premised on pay for performance;
- Clearly define the expected performance through a robust performance management process; and
- Pay market competitive compensation levels for comparable roles and experience.

Our Executive Variable Compensation Plan consists of a short-term incentive and a separate long-term incentive programme:

- For the short-term variable compensation, the performance is predominantly tied to financial results (70% to 80% weight) and the assessment of qualitative results (20% to 30% weight).
- Awards under the long-term incentive plan are granted in form of performance share units subject to a three-year performance-based cliff-vesting period. The performance conditions include relative total shareholder return and fully diluted earnings per share. This programme directly links the interests of the executives to those of the shareholders.

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For the further development of our compensation strategy, we consider the opinion of our stakeholders as relevant and highly valuable. Therefore we engage in a regular dialogue with our investors and proxy advisors. You will have the opportunity to express your opinion on the compensation programmes through a non-binding, consultative shareholders' vote on this Compensation Report at the Annual General Meeting in April 2019. Furthermore, we will ask you to vote on the maximum aggregate compensation amount for the Board of Directors for the Annual General Meeting 2019 to Annual General Meeting 2020 term of office and on the maximum aggregate compensation for the Management Board to be paid out in the financial year 2020.

Looking ahead, we will continue to assess and review our compensation programmes to ensure that they are still fulfilling their purpose in the evolving context in which the Group operates and that they are aligned to the interests of our shareholders. We would like to thank you for taking the time to share your views with us during the entire year and trust that you find this report informative.



**Urs Baumann**  
Chairman of the Compensation and Nomination Committee

# 1 Compensation Policy and Guiding Principles

The Bank's overall objective is to build on its position as a leading consumer finance provider in Switzerland. The success of the Bank largely depends on the quality and engagement of its employees.

The compensation policy is designed to align employees with the long-term interest of our stakeholders and is based on the following three main guiding principles:

## **Pay for Performance in Alignment with the Bank's Values**

We endorse a performance-oriented approach coupled with sound risk management practices. The compensation policy supports a culture that differentiates and rewards excellent performance and recognises behaviours in line with the Bank's values of customer focus, engagement, responsibility and diversity. Variable compensation of the Management Board is based on the achievements of the Bank's objectives as well as the individual performance. In order to avoid excessive risk taking, risk metrics and behaviours are included in the performance evaluation, and the variable compensation payouts are capped.

## **Market Competitiveness and Fairness**

We are committed to reward employees appropriately and competitively. The compensation guidelines ensure that compensation is based on the responsibilities and performance of the employees and is not influenced by gender or by non-performance-related criteria other than professional experience. In line with best practices, the Bank regularly benchmarks the compensation for the Bank's management to ensure that it is competitive and in line with the market developments in order to be able to attract and retain talented executives.

## **Good Governance Practice**

We want to ensure that our compensation practices are transparent for the Bank's stakeholders and aligned with long-term shareholder interests. We adhere to the rules set by the Ordinance against Excessive Compensation in Listed Corporations (OaEC). Furthermore, the Bank's compensation guidelines take into consideration the rules of the FINMA Circular 2010/1 "Remuneration schemes".

With regards to control functions, the Bank ensures that the remuneration structure and goals for control functions are predominantly linked to the core duties of the functions. Its compensation plans do not create incentives that lead to conflicts of interest with the tasks of control functions. This means in particular that the variable compensation of these persons is not based solely or largely on financial measures and is not directly dependent on the financial performance of the business units, specific products, or transactions these persons monitor.

Should an individual responsible for a control function also be in charge of certain operational tasks, the compensation structure must not create inappropriate incentives.

# 2 Compensation Governance

## **2.1 Compensation and Nomination Committee**

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According to the Articles of Incorporation, the Organisational Regulations (available under [www.cembra.ch/en/investor/](http://www.cembra.ch/en/investor/) → Corporate Governance → Regulations and Principles) and the CNC Charter, the functions, responsibilities and powers of the CNC essentially comprise the following elements:

The CNC supports the Board of Directors in nominating and assessing candidates for positions to the Board of Directors and in assessing candidates for positions to the Management Board, in establishing and reviewing the compensation strategy and principles, and in preparing the respective proposals to the Annual General Meeting regarding the compensation of the members of the Board of Directors and the Management Board.

The CNC annually reviews and makes a recommendation to the Board of Directors of the structure and amount of the individual compensation of members of the Board of Directors and any additional compensation to be paid for service as Chairman of the Board of Directors and as Chairman or member on Board committees. The members of the Board of Directors shall abstain from voting when their own individual compensation is concerned.

## Compensation Report

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Furthermore, the CNC annually (a) reviews and assesses the objectives upon which the compensation of the CEO and the other members of the Management Board is based; and (b) evaluates the performance of the CEO and reviews, based on the assessment of the CEO, the performance of the other members of the Management Board in the light of these objectives. Based on the performance evaluation, the CNC makes a recommendation to the Board of Directors of the individual compensation of the CEO. With regard to the other members of the Management Board, the CNC makes based on the proposal by the CEO a recommendation to the Board of Directors regarding appropriate individual compensation levels as to (a) the annual base salary level; (b) the annual incentive opportunity level; (c) the long-term incentive opportunity level; (d) any employment agreements and other arrangements or provisions; and (e) any special or supplemental benefits.

The following table illustrates the role of the decision authorities between the CNC, the Board of Directors and the Annual General Meeting in matters related to the compensation of the Board of Directors and the Management Board:

Decision on	Recommendation by	Review by	Approval by
Compensation policy and principles	CNC		Board of Directors
Incentive compensation plans including share-based compensation	CNC		Board of Directors
Aggregate compensation amount of Board of Directors	CNC	Board of Directors	Annual General Meeting (binding vote)
Individual compensation of Chairman and members of the Board of Directors	CNC		Board of Directors
Aggregate compensation amount of Management Board	CNC	Board of Directors	Annual General Meeting (binding vote)
Compensation of Chief Executive Officer	CNC		Board of Directors
Individual compensation of members of the Management Board (excluding CEO)	CEO	CNC	Board of Directors

The CNC consists of at least two and maximum four members of the Board of Directors who are elected annually and individually by the Annual General Meeting for a period of one year. Re-election is possible.

The CNC holds meetings as often as required, but at least once every quarter. During 2018, the CNC held seven meetings (including one phone conference) and performed the following activities:

- Benchmarking analysis of Board of Directors compensation level, structure and pay-mix;
- Determination of Board of Directors compensation for following term of office;
- Nomination of CNC members for following term of office;
- Determination of maximum aggregate compensation amounts of the Board of Directors and the Management Board for shareholders' vote at Annual General Meeting;
- Succession planning for Management Board and evolution of organisation;
- Confirmation of the Bank's variable incentive compensation pool for the performance year 2017;
- Performance evaluation and determination of variable compensation payout for previous year for Management Board;
- Strategic look-back assessment for performance year 2017;
- Benchmarking analysis of Management Board compensation level and structure;
- Review of the Executive Variable Compensation Plan;
- Goal setting 2018 for Management Board;
- Determination of long-term incentive targets;
- Draft and approval of Compensation Report;
- Review of the CNC charter;
- Great Place to Work employee survey results;
- Review of the goal framework; and
- Determination of the CNC agenda for the following year.

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Generally, meetings are attended by the Chairman of the Board of Directors, the CEO and the HR Director in advisory capacity. However, they do not take part in the section of the meetings where their own performance and/or compensation are discussed and have no voting rights. Other members of the Management Board and Board of Directors as well as other persons may be invited if deemed necessary. The Chairman of the CNC reports to the Board of Directors after each meeting on the activities of the CNC. The minutes of the CNC meetings are available to the members of the Board of Directors. The CNC may decide to consult an external advisor from time to time for specific compensation matters. In 2018, HCM International Ltd. and Kienbaum Consultants International based in Zurich were mandated to provide services related to executive compensation matters. These companies do not have other mandates with the Bank. In addition, support and expertise are provided by internal compensation experts such as the HR Director and the Senior Manager Compensation & Benefits. For further governance-related information refer to section Corporate Governance starting on page 41.

### 2.2 Method of Determination of Compensation

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To assist decision-making on the compensation of the Board of Directors and Management Board, benchmarking studies are carried out from time to time. The compensation practices of comparable companies are analysed in order to assess market practices and competitive remuneration levels and structures. The results of the benchmarking studies are taken into account in setting the fee structure and levels for the Board of Directors as well as the compensation structure and levels for the CEO and the other Management Board members. Further details about the benchmarking analyses and the peer groups of companies are provided under section 3 (Compensation of the Board of Directors) and section 4 (Compensation of the Management Board) of this report.

The CNC also considers other factors it deems relevant in its sole judgement including, without limitation, the Bank's performance, the environment in which the Bank operates, individual performance of the members of the Management Board and the awards granted to them in prior years.

### 2.3 Involvement of Shareholders

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The Group's shareholders are involved and have decision authority on various compensation matters. First of all, shareholders annually approve the maximum aggregate compensation amounts of the Board of Directors and the Management Board. In addition, the principles of compensation are governed by the Articles of Incorporation, which have been approved by the shareholders. The provisions of the Articles of Incorporation on compensation can be found on the Corporate Governance website ([www.cembra.ch/en/investor](http://www.cembra.ch/en/investor) → Corporate Governance → Regulations and Principles) and are summarised below:

- Compensation principles (art. 25c, 25d, 25h, 25i): The compensation of the Board of Directors consists of fixed compensation for services rendered as a member of the Board of Directors and – if applicable – as a committee member or a committee chairperson, which may be paid out partially in cash and partially in blocked, registered shares of the Bank. The compensation for the Management Board consists of a (i) fixed base salary paid in cash; (ii) further compensation elements such as housing allowances, school fees and the like as deemed appropriate by the CNC; and (iii) a variable compensation. Variable compensation may comprise short-term and long-term elements. Compensation may be paid in cash, shares or other benefits.
- Say-on-pay vote (art. 11a): Each year, the Annual General Meeting approves separately the aggregate maximum amounts of the compensation of the Board of Directors pursuant to art. 25c for the term of office until the next ordinary Annual General Meeting and of the compensation of the Management Board pursuant to art. 25d that is awarded or paid out in the subsequent business year following the Annual General Meeting. Further, the Annual General Meeting may express its views on the compensation architecture through a consultative vote on the Compensation Report.
- Additional amount (art. 25e): The Bank may award additional compensation to new members of the Management Board in the event that the members are appointed after the Annual General Meeting has approved the aggregate maximum compensation. The additional aggregate compensation per year for all new members of the Management Board shall not exceed 30% of the last aggregate maximum compensation amount approved by the Annual General Meeting.
- Loans, credits and pension benefits (art. 25g): Members of the Board of Directors and of the Management Board may be granted loans, credits and pension benefits in an amount which in total shall not exceed 50% of the last aggregate maximum compensation amount approved by the Annual General Meeting. The payment of bridge or interim annuities by the Bank to members of the Management Board is possible between early retirement and the statutory retirement age.

# 3 Compensation of the Board of Directors

## 3.1 Compensation Architecture for the Board of Directors

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Members of the Board of Directors receive only fixed compensation to ensure their independence in their supervisory duties towards the Bank's executive management. The members of the Board of Directors do not receive any variable compensation or pension benefits.

The members of the Board of Directors are reimbursed for all reasonable cash expenses that occur in the discharge of their duties, including the reimbursement of their travel expenses to and from the meetings of the Board of Directors, meetings of the Board committees and the Annual General Meeting. Expenses are only reimbursed as they occur.

The fee structure for the Board of Directors consists of an annual fixed compensation for services on the Board of Directors and additional fees for assignments to committees of the Board of Directors.

The current pay structure (basic and committee fees), pay mix (cash or equity) and levels of compensation have been set up in 2015 and have been reviewed in a benchmarking study conducted in 2018 by the Bank's independent advisors of HCM International Ltd. based on listed financial institutions that belong to the 100 biggest companies in Switzerland in terms of market capitalisation. This market comparison group has been further refined by the exclusion of cantonal banks, real estate companies and owner-managed institutions. The final comparison group consisted of 17 companies: Baloise Group, Credit Suisse Group, EFG International, GAM Holding, Helvetia, Julius Baer, Leonteq, LLB, Pargesa, Partners Group, Swiss Life, Swiss Re, UBS, Valiant, Vaudoise Assurances, Vontobel and Zurich Insurance Group. For defining the total compensation levels at the Bank, individual company benchmark data has been size-adjusted. No adjustments of the compensation have been necessary as a result of the new benchmark study conducted in 2018 by HCM International Ltd.

The guiding principles for the fee structure were defined as follows:

- For all members of the Board of Directors, total compensation shall be at or below the market benchmark; and
- The internal pay equity ratios between the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors and the ordinary Board of Directors members shall be maintained at comparable market level.

Structure of the Board of Directors Compensation:

In TCHF	Basic Fee	Committee/ Chair Fee
Chairman of the Board of Directors <sup>1</sup>	450	
Member of the Board of Directors	100	
Vice Chairman		30
Chairman of the Audit and Risk Committee		65
Chairman of the CNC		50
Member of the Audit and Risk Committee		35
Member of the CNC		30

<sup>1</sup> The Chairman of the Board of Directors is not eligible for additional committee fees

The fee structure was set in 2015 and has remained unchanged since then. Since the Annual General Meeting 2016, one-third of the compensation is delivered in Cembra Money Bank AG shares blocked for a period of five years during which they cannot be sold, transferred or pledged. Should the Board member not stand for re-election at the Annual General Meeting, the initial blocking period will be lifted, but the shares will remain blocked until the earlier of two years after such date or the regular expiry of the blocking period. In case of death, disability or change of control, the blocking period may be lifted immediately.

## Compensation Report

### 3.2 Compensation Awarded to the Board of Directors for 2018

The following tables disclose the compensation awarded to the members of the Board of Directors for 2018 and 2017, respectively. For 2018, members of the Board of Directors received a total compensation of TCHF 1,409 (previous year TCHF 1,403).

For the year ended 31 December 2018 (CHF)

Name	Function	Basic Fee	Committee/ Chair Fee	Employer Social Security Contributions	Total	Thereof in Shares in CHF <sup>1</sup>	Number of Shares
Dr Felix Weber	Chairman	450,000	–	25,679	475,679	150,049	1,777
Ben Tellings	Vice Chairman, Member CNC	100,000	60,000	11,354	171,354	53,395	632
Prof. Dr Peter Athanas	Chairman Audit and Risk Committee	100,000	65,000	11,688	176,688	55,024	652
Urs Baumann	Chairman CNC	100,000	50,000	10,641	160,641	50,047	592
Denis Hall	Member Audit and Risk Committee	93,441	34,380	14,700	142,520	42,626	505
Katrina Machin	Member CNC	93,622	29,468	14,048	137,138	41,087	486
Dr Monica Mächler	Member Audit and Risk Committee	100,000	35,000	9,579	144,579	45,069	533
<b>Total compensation of the members of the Board of Directors</b>		<b>1,037,062</b>	<b>273,848</b>	<b>97,688</b>	<b>1,408,598</b>	<b>437,296</b>	<b>5,177</b>

<sup>1</sup> Number of shares reflects shares granted 1 February 2018 for the period 1 January 2018 until Annual General Meeting 2018 and shares granted 1 February 2019 for the period Annual General Meeting 2018 until 31 December 2018. For the grant 1 February 2018 the share price is CHF 90.50 – volume-weighted average price (VWAP) 60 trading days before and including grant date (source: Bloomberg). For the grant 1 February 2019 the share price is CHF 82.79 – VWAP 60 trading days before and including grant date (source: SIX). Due to the blocking period statutory withholdings are made on discounted share value. The discount is 25.274% according to the table published by the Zurich tax office

For the year ended 31 December 2017 (CHF)

Name	Function	Basic Fee	Committee/ Chair Fee	Employer Social Security Contributions	Total	Thereof in Shares in CHF <sup>3</sup>	Number of Shares
Dr Felix Weber	Chairman	450,000	–	25,659	475,659	150,056	1,755
Ben Tellings <sup>1</sup>	Vice Chairman, Member CNC	100,000	50,357	13,747	164,103	50,193	583
Prof. Dr Peter Athanas	Chairman Audit and Risk Committee	100,000	65,000	11,651	176,651	55,030	644
Urs Baumann	Chairman CNC	100,000	50,000	10,634	160,634	50,056	586
Denis Hall <sup>2</sup>	Member Audit and Risk Committee	93,441	34,380	15,775	143,595	42,803	501
Katrina Machin	Member CNC	93,622	29,832	14,167	137,621	41,076	480
Dr Monica Mächler	Member Audit and Risk Committee	100,000	35,000	9,571	144,571	45,056	527
<b>Total compensation of the members of the Board of Directors</b>		<b>1,037,062</b>	<b>264,569</b>	<b>101,203</b>	<b>1,402,834</b>	<b>434,270</b>	<b>5,075</b>

<sup>1</sup> Vice Chairman since 26 April 2017

<sup>2</sup> Compensated by the Bank since 1 January 2017

<sup>3</sup> Number of shares reflects shares granted 1 March 2017 for the period 1 January 2017 until Annual General Meeting 2017 and shares granted 1 February 2018 for the period Annual General Meeting 2017 until 31 December 2017. For the grant 1 March 2017 the share price is CHF 76.45 – volume-weighted average price (VWAP) 60 trading days before and including grant date (source: Bloomberg). For the grant 1 February 2018 the share price is CHF 90.50 – VWAP 60 trading days before and including grant date (source: SIX). Due to the blocking period statutory withholdings are made on discounted share value. The discount is 25.274% according to the table published by the Zurich tax office



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Total compensation (including pre-estimated social security contributions) for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019 for the Board of Directors will amount to TCHF 1,419 and is within the maximum aggregate compensation amount of TCHF 1,450 approved by the Annual General Meeting on 18 April 2018.

### Reconciliation between the Reported Compensation of the Board of Directors and the Amounts Approved by the Shareholders at the Annual General Meeting (AGM)

	Compensation earned during financial year as reported (A)	Less compensation earned from Jan to AGM of financial year (B)	Plus compensation accrued from Jan to AGM of following year (C)	Total compensation earned for the period from AGM to AGM (A-B+C)	Amount approved by shareholders at respective AGM	Ratio of compensation earned for the period from AGM to AGM versus amount approved by shareholders
AGM 2018–AGM 2019	2018	1 Jan 2018 to 2018 AGM <sup>1</sup>	1 Jan 2019 to 2019 AGM	2018 to 2019 AGM	2018 AGM	2018 AGM
<b>Board of Directors (total)</b>	<b>1,408,598</b>	<b>410,875</b>	<b>420,834</b>	<b>1,418,557</b>	<b>1,450,000</b>	<b>98%</b>
AGM 2017–AGM 2018	2017	1 Jan 2017 to 2017 AGM	1 Jan 2018 to 2018 AGM <sup>1</sup>	2017 to 2018 AGM	2017 AGM	2017 AGM
<b>Board of Directors (total)</b>	<b>1,402,834</b>	<b>442,021</b>	<b>452,007</b>	<b>1,412,820</b>	<b>1,450,000</b>	<b>97%</b>

<sup>1</sup> The difference to the 2017 figures is due to the calculation basis GV+365 days, i.e. 26 April 2017 to 25 April 2018 vs. 18 April 2018 to 17 April 2019

#### Compensation of Members of the Board of Directors who Left the Bank during the Reporting Period

No such compensation was paid during the reporting period.

#### Other Compensation, Fees and Loans to Members or Former Members of the Board of Directors

No other compensation or fees than the amounts reported in the tables above were accrued for, or paid to, any member or former member of the Board of Directors during the reporting period.

For details related to loans outstanding as of 31 December 2018, please refer to sub-chapter 6 “Loans and Credits: Amounts due from Members of Governing Bodies” of this report.

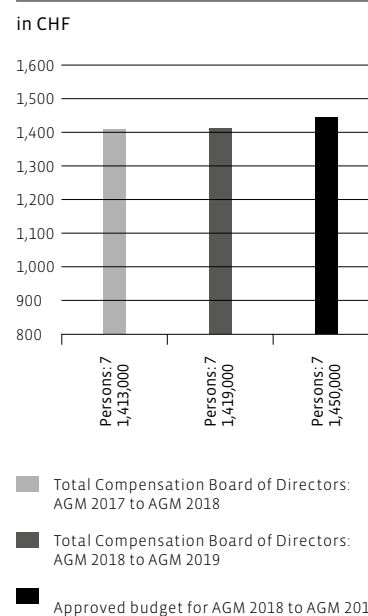
#### Compensation, Loans or Credits to Related Parties

No compensation, loans or credits have been paid or granted, respectively, to persons related to current or former members of the Board of Directors, which are not at arm's length.

#### Clauses on Changes of Control

The contracts of the members of the Board of Directors (including the Chairman of the Board of Directors) do not contain change of control clauses other than regarding the lifting of the blocking period for shares as described in section 3.1 of this report.

#### Total Compensation Board of Directors



## 4 Compensation of the Management Board

### 4.1 Compensation Architecture for the Management Board in 2018

The compensation of the Management Board is governed by the provisions in the Articles of Incorporation (available under: [www.cembra.ch/en/investor](http://www.cembra.ch/en/investor) → Corporate Governance → Regulations and Principles), the individual employment contracts, the Executive Variable Compensation Plan (EVCP) and internal directives such as the Fringe Benefits Policy.

Since 2016 the compensation structure for the Management Board has been fundamentally changed in order to strengthen the alignment with shareholders' interest, the linkage between performance and pay, and to ensure competitive compensation practice.

The compensation of the Management Board consists of the following elements:

- A fixed annual compensation (base salary);
- A variable incentive compensation awarded in form of an annual short-term incentive (STI) in cash and an equity-based long-term incentive (LTI); and
- Benefits such as pension and other benefits.

The table below provides an overview of the compensation architecture for the Management Board:

Key Element	Delivery	Purpose	Drivers	Performance Measures
Annual base salary	Cash	Attract and retain executives required to lead and develop the Group.	Scope and responsibilities of the role; individual's experience and performance; market competitiveness	n/a
STI	Annual Cash Bonus	Pay for short-term performance	Business and individual performance over a one-year period	Bank financial goals, divisional goals and qualitative goals
LTI	Performance share units (PSU) settled in shares	Align to shareholders' interests, pay for long-term performance	Business performance over a three-year period, share price development	Relative total shareholder return (rTSR), earnings per share (EPS)
Pension and other benefits	Retirement plans, insurances, perquisites	Protection against risks for employees and their dependents	Market practice	n/a

To ensure market competitiveness, compensation of the members of the Management Board is reviewed annually taking into consideration the Bank's financial health, benchmark information, market movement, economic environment, and individual performance.

To determine the compensation levels for the members of the Management Board, a compensation analysis has been conducted by Kienbaum Consultants International in 2018 for its executive functions. The following peer group was selected for this benchmark study: Financial Services, including retail banks, cantonal banks, regional Swiss banks as well as divisions of large banks and insurance companies. Only market data for positions comparable in scope and responsibilities have been included. In cases of significantly larger companies, only functions below executive board level but comparable in regard of function-specific responsibilities were considered. No significant changes are deemed necessary as result of this benchmarking study.

#### Annual Base Salary

Annual base salaries are established on the basis of the following factors:

- Scope, size and responsibilities of the role, skills required to perform the role;
- External market value of the role; and
- Skills, experience and performance of the individual in the role.

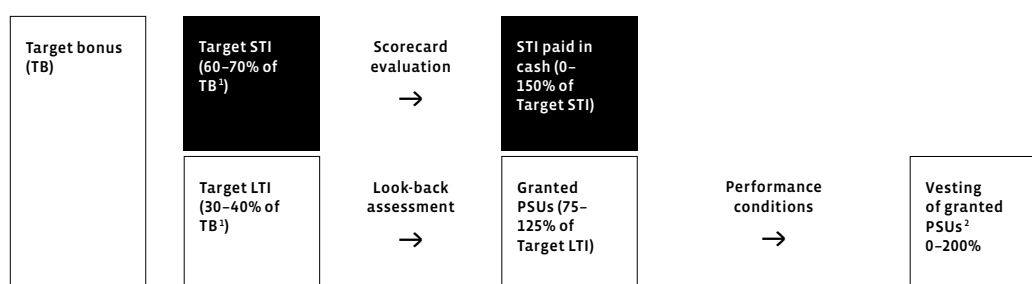
# Compensation Report

## Executive Variable Compensation Plan

The variable compensation of the Management Board is governed by the internal EVCP guideline. The purpose of the EVCP is to reward for the Bank's success and individual contributions of the participants, as well as to drive long-term shareholder value creation in a sustainable manner.

A so-called "target bonus" is determined for each participant. For the CEO, the target bonus amounts to 90% of the annual base salary, for the other members of the Management Board it amounts to 50% of the annual base salary. The target bonus is split into an annual cash incentive and an annual grant of equity. The structure of the EVCP is illustrated below:

## Executive Variable Compensation Framework



Performance year 2018 (Maximum amount approved at Annual General Meeting April 2018)	Q1 2019	Q1 2020	Q1 2021	Q1 2022	Q1 2023
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- <sup>1</sup> The target bonus is split into a target STI and a target LTI depending on function (CEO: 60%/40%, Management Board: 70%/30%)  
<sup>2</sup> Vesting of PSUs settled in shares

## Short-term Incentive (STI)

The STI is designed to reward the individual performance over a time horizon of one year based on the Bank's results. It allows the Management Board to participate in the Bank's success while being rewarded for individual contributions. The target STI amounts to 60% of the target bonus for the CEO and to 70% for the other Management Board members. The payout may vary between 0% and 150% of target depending on the performance achievement.

The performance is assessed through a scorecard evaluation based on the achievement of:

- The financial goals of the Bank;
- The financial goals of the respective division; and
- Qualitative goals.

The goals and their weighting are illustrated below:

	Goal	Weight CEO	Weight Management Board excl. CEO
Bank financial goals	Net Income Net Revenues	80%	25%-40%
Divisional financial goals <sup>1</sup>	As defined in the scorecard approved by the Board of Directors	-	30%-45%
Qualitative goals	Customer Satisfaction Employee Commitment Leadership & Values	20%	30%

<sup>1</sup> For control functions qualitative

The weightings under the current structure have been implemented in line with corporate governance best practice and shareholders' expectations. The STI is fully settled in cash and is usually paid in March of the following year.

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Malus: The STI is subject to a stringent malus condition in case of:

- Financial loss at group or divisional level;
- Breach of regulatory Tier 1 ratio;
- Compliance, risk, regulatory and reputational issues or incidents.

### Long-term Incentive (LTI)

The LTI is a Performance Share Unit (PSU) plan that rewards the achievement of predefined performance goals over a three-year vesting period.

The target LTI amounts to 40% of the target bonus for the CEO and to 30% for the other Management Board members. The individual target LTI may be increased or decreased by up to 25%, based on a strategic look-back assessment of the Bank's performance by the Board of Directors. The look-back assessment considers, among others, the following factors:

- Overall market positioning of the Bank (e.g., market share development, brand reputation);
- Quality of earnings (e.g., sustainability of income drivers and price levels, financing structure and credit rating, digitisation and unit cost efficiency, quality of compliance and risk framework);
- Future strategy (e.g., strategic roadmap for profitable growth, execution of strategic projects, strategic financial targets, quality of succession planning);
- An assessment of the individual contributions of the participants.

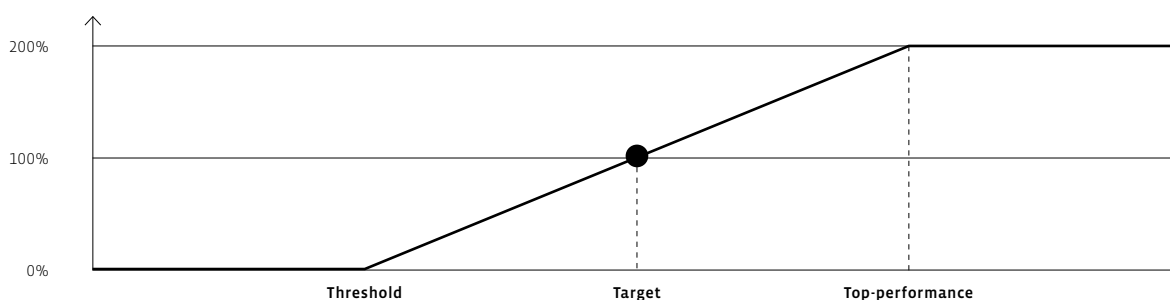
The LTI is granted in form of PSUs by dividing the LTI grant value by the average of the daily volume-weighted average share price during the 60 trading days before the grant date. The PSUs are subject to a three-year cliff-vesting conditional upon the achievement of two performance conditions, both equally weighted:

- Relative total shareholder return (rTSR): The Bank's total shareholder return (TSR) is compared to the SPI Financial Services Index over a three-year period; and
- Fully diluted earnings per share (EPS): The Board of Directors sets an objective three-year target during the annual target setting process, taking into account (i) analysts' views/shareholder expectations and (ii) internal strategic plans. The cumulative EPS is calculated by giving 50% weight to the second and 50% weight to the third financial year following the grant date.

For each performance condition there is a lower threshold of performance below which there is no payout, a target level of performance which corresponds to 100% payout factor and a maximum level of performance providing for a 200% payout factor:

### Payout Factor of Originally Granted PSUs

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If the Bank's TSR exceeds the TRI-Benchmark by 20%pts or more, a payout factor of 200% applies. If the Bank's TSR falls short of the TRI-Benchmark by 20%pts or more, the payout factor is 0%. If the Bank's TSR is between -20%pts and +20%pts of the TRI-Benchmark, the payout factor is determined by linear extrapolation. The LTI vesting curves have been calibrated in a way that statistically in 2 out of 3 cases the LTI plan pays out; the "no payout" probability is kept at 33%. This calibration ensures that the plan is recognised as part of the expected variable compensation.

For EPS the maximum threshold is set at the 20% above target and the lower threshold at 20% below target.

## Compensation Report

At the end of the three-year vesting period, the achievement of the rTSR and EPS performance conditions is evaluated, and the respective payout factor for each performance condition is calculated and the payout factor is capped at 200%. The average of both payout factors provides for the overall payout factor. The number of PSUs originally granted is multiplied by the overall payout factor in order to define the number of shares vested:

### Payout Factor of Originally Granted PSUs

$$\text{Number of shares vested} = \text{Number of PSUs originally granted} \times \text{Overall payout factor}$$

In case of voluntary resignation by a member of the Management Board or termination by the Bank for cause, the unvested PSUs forfeit on the day on which notice of termination is given. In case of termination of employment due to retirement, death, disability, termination by the Bank without cause or termination following change of control, the unvested PSUs are subject to an accelerated pro-rata vesting based on the number of full months that have expired during the actual vesting period in relation to the full vesting period.

The LTI awards are subject to clawback provisions in the case of material accounting restatement due to noncompliance with financial reporting requirements, of serious misconduct detrimental to the Bank or its reputation, of fraudulent or criminal activities, of breach of internal risk management or compliance procedures, or of noncompliance to the Swiss Banking Act.

The below table illustrates the target and maximum STI and LTI at grant and at vesting:

Target Bonus in % of Annual Base Salary	CEO		Management Board	
	90%		50%	
	STI	LTI	STI	LTI
% of Target bonus	60%	40%	70%	30%
Target bonus as % of annual base salary	54%	36%	35%	15%
Cap at grant in % of annual base salary	81%	45%	53%	19%
Pay out/ vesting range in % of annual base salary	0-81%	0-90% <sup>1</sup>	0-53%	0-38% <sup>1</sup>

<sup>1</sup> Not taking into account any increase in the underlying share price

### Performance Objectives under STI and LTI

Due to the commercial sensitivity of financial and qualitative objectives under the STI and LTI, they are not being disclosed ex ante in the Compensation Report. However, the payout level of the variable compensation in the reporting year is explained and commented on in section 4.2 of this report.

### Benefits

Benefits consist mainly of retirement and insurance plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to the risk of retirement, disability and death. The members of the Management Board participate in regular pension plans offered to all employees.

Members of the Management Board may also receive certain executive benefits such as company car and other benefits in kind. In case of employees who have been relocated from abroad, benefits may also include schooling and tax support. The monetary value of these other elements of compensation is evaluated at fair value and is disclosed in the compensation table below.

### Employment Contract Termination Clauses/Notice Periods and Severance Agreements of the Management Board

Employment contracts of members of the Management Board are subject to a notice period of a maximum of 12 months. The contracts concluded with the members of the Management Board do not contain any clauses relating to severance payments.

## Compensation Report

### Clauses on Changes of Control

The contracts of the Management Board do not contain change of control clauses other than the accelerated vesting provision in the EVCP as described in section 4.1. For further information refer to section Corporate Governance starting on page 41.

### Share Ownership Guidelines

Share Ownership Guidelines do not exist for the CEO or the other Management Board members.

### 4.2 Compensation Awarded to the Management Board for 2018

The total compensation paid to the active members of the Management Board for the performance year 2018, respectively 2017, is disclosed in the table below.

For the performance year ended 31 December (CHF)	2018			2017		
	CEO	Management Board <sup>7</sup>	Total Compensation	CEO	Management Board	Total Compensation
Base Salary	630,000	1,534,504	2,164,504	630,000	1,240,754	1,870,754
Social Security	60,780	118,629	179,408	59,637	96,575	156,212
Pension Plan	108,324	218,397	326,721	108,324	177,859	286,183
Other Compensation <sup>1</sup>	200,588	33,873	234,461	218,189	48,650	266,839
Replacement Award <sup>2</sup>	-	248,122	248,122	-	-	-
<b>Total Fixed Compensation</b>	<b>999,692</b>	<b>2,153,525</b>	<b>3,153,216</b>	<b>1,016,149</b>	<b>1,563,839</b>	<b>2,579,988</b>
STI/ EVCP paid in cash <sup>3</sup>	475,023	494,630	969,653	451,537	550,186	1,001,723
LTI/ EVCP granted in PSUs/RSUs	196,951	147,642	344,593	204,972	168,344	373,316
Number of PSUs/RSUs granted <sup>4</sup>	2,740	2,054	4,794	2,507	2,059	4,566
Value per PSU/RSU <sup>5</sup>	71.88	71.88	71.88	81.76	81.76	81.76
Social Security	39,478	37,374	76,852	38,156	41,417	79,573
<b>Total Variable Compensation for the Performance Year</b>	<b>711,452</b>	<b>679,646</b>	<b>1,391,098</b>	<b>694,665</b>	<b>759,947</b>	<b>1,454,612</b>
<b>Total Compensation for the Performance Year</b>	<b>1,711,144</b>	<b>2,833,170</b>	<b>4,544,314</b>	<b>1,710,815</b>	<b>2,323,786</b>	<b>4,034,600</b>
Number of persons receiving compensation <sup>6</sup>			8			5
FTE receiving compensation			5.83			5.00

<sup>1</sup> Includes benefits for relocated employees such as school fees as well as other benefits such as company cars

<sup>2</sup> Replacement Award for the COO for forfeiture of deferred equity awards with previous employer. Award is granted in RSUs in August 2018 with a vesting period of 3 years after grant date

<sup>3</sup> Paid out in March 2019, respectively March 2018

<sup>4</sup> PSUs granted in 2019 and 2018 for the performance years 2018 and 2017

<sup>5</sup> PSUs for 2018: Fair Market Value is based on the risk-adjusted volume-weighted average price (VWAP) 60 trading days before grant date 1 February 2019 (CHF 82.79 – source: SIX). PSUs for 2017: Fair Market Value is based on the risk-adjusted volume-weighted average price (VWAP) 60 trading days before grant date 1 February 2018 (CHF 90.50 – source: SIX). Determination through a Monte Carlo simulation algorithm

<sup>6</sup> 8 persons end of 2018 because of new Management Board structure with 7 Management Board members in total plus the new hire of the CFO function effective 1 October 2018 and the garden leave of the previous CFO until 31 March 2019

<sup>7</sup> Includes compensation paid to the former CFO in 2018 after his withdrawal from the Management Board

# Compensation Report

## Highest Total Compensation

Robert Oudmayer, CEO, received the highest total compensation in 2018. For compensation details, please refer to the table above.

## Compensation of Management Board Members who Left the Bank during the Reporting Period

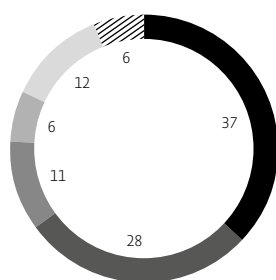
No compensation was paid in 2018 to former Management Board members who left the Bank in the performance year 2018.

## Explanation of Deviations versus the Previous Year:

- The total compensation of the Management Board members for the performance year 2018 amounts to TCHF 4,544. The total amount of TCHF 4,544 is within the approved maximum aggregate compensation amount of TCHF 5,700 (consisting of the sum of the expected portion of fixed compensation of TCHF 3,100 approved by the Annual General Meeting 2017 and the expected portion of variable compensation of TCHF 2,600 approved by the Annual General Meeting 2018).
- The total fixed compensation of the members of the Management Board for the business year 2018 amounts to TCHF 3,153 (previous year TCHF 2,580). The total fixed compensation amount is higher than in the previous year due to the appointment of two additional Management Board members in 2018 (bringing the total number of Management Board members from five to seven) in connection with the implementation of the new Management Board structure as well as the appointment of the new CFO as Management Board member as of 1 October 2018 and the overlap with the garden leave of the previous CFO.
- The total variable compensation for the performance year 2018 amounts to TCHF 1,391 (previous year TCHF 1,455). For the performance year 2018, the variable compensation amounted to 31% of the total compensation (compared to 36 % in 2017). The total variable compensation amount is lower than in the previous business year due to the former CFO leaving the Bank and the new Management Board members only being eligible for variable compensation on a pro-rata basis.

**Performance Year 2018 Compensation Structure**

in %

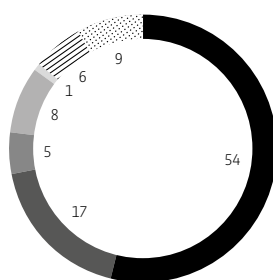


### Chief Executive Officer

- Base salary
- Bonus in cash
- Grant value of PSUs
- Pension
- Other compensation
- ▨ Social security

**Performance Year 2018 Compensation Structure**

in %



### Management Board (excl. CEO)

- Base salary
- Bonus in cash
- Grant value of PSUs
- Pension
- Other compensation
- ▨ Social security
- ▨ Replacement Award

## Assessment Compared to Plan

## Compensation Report

The individual overall short-term incentive payout percentage, which is based on the achievement of Bank and divisional financial goals as well as qualitative KPIs, ranges from 100% to 140% for the performance year 2018 for the members of the Management Board including the CEO (previous year 122% to 133%).

The long-term incentive grant for the performance year 2018 has been approved by the Board of Directors at 100% based on the strategic look-back assessment. The final value of this grant will be determined by the performance conditions outlined in the sub-chapter “Long-term Incentive (LTI)” of this report.

Assessment compared to plan			
Goal	Threshold	Target	Cap
Net income			
Net revenue			
Divisional goals			
STI	Qualitative goals		
LTI	Strategic look-back assessment		

### Vesting Schedule of PSU and RSU Grants

Plan	Grant Year	Vesting Year 1st tranche	Vesting Year 2nd tranche	Vesting Year 3rd tranche	Number of RSUs Vested 2018	Value at vesting 2018 (in CHF) <sup>1</sup>
EVCP 2013	2014	2015	2016	2017	n/a	n/a
EVCP 2014	2015	2016	2017	2018	1,818	162,257
EVCP 2015	2016	2018	2019	2020	1,891	168,772
EVCP 2016 <sup>2</sup>	2017	n/a	n/a	2020	n/a	n/a
EVCP 2017 <sup>3</sup>	2018	n/a	n/a	2021	n/a	n/a
EVCP 2018 <sup>4</sup>	2019	n/a	n/a	2022	n/a	n/a

<sup>1</sup> EVCP vesting on 1 March 2018 valued with share price of CHF 89.25

<sup>2</sup> 3-year-cliff vesting on 1 March 2020

<sup>3</sup> 3-year-cliff vesting on 1 February 2021

<sup>4</sup> 3-year-cliff vesting on 1 February 2022

### Other Compensation, Fees and Loans to Members or Former Members of the Management Board

No other compensation or fees than the amounts reported in the tables above were accrued for or paid to the members or a former member of the Management Board during the reporting period.

For details related to loans outstanding as of 31 December 2018 please refer to sub-chapter 6 “Loans and Credits: Amounts due from Members of Governing Bodies” of this report.

### Compensation or Loans to Related Parties

No compensation or loans have been paid or granted, respectively, to persons related to current or former members of the Management Board which are not at arm's length.



## 5 Compensation Awarded to All Bank Employees in 2018

The structure of compensation of all employees is as follows:

- Annual base salary determined based on the scope and responsibilities of the role, the market value of the role and the individual's level of experience and performance;
- Annual variable incentive compensation for middle management employees paid fully in cash. For the senior management team, the variable incentive compensation is paid under the terms and conditions of the EVCP described above for the Management Board;
- Sales incentives for sales employees are paid quarterly in cash based on the performance against pre-approved goals;
- Incentive payments for employees in operations functions are paid semi-annually or annually in cash.

The following table includes information regarding the aggregated compensation awarded to all employees for the business years 2018 and 2017, including compensation for members of the Management Board. The Bank had 754 and 696 employees (full-time equivalents) as of 31 December 2018 and as of 31 December 2017 respectively.

For the performance year ended 31 December	2018		2017	
	Amount (in TCHF) <sup>2</sup>	Eligible Employees (FTE)	Amount (in TCHF)	Eligible Employees (FTE)
Base Salaries	75,025		71,453	
Variable Compensation <sup>1</sup>	5,998	253	5,258	230
<b>Total</b>	<b>81,023</b>	<b>754</b>	<b>76,711</b>	<b>696</b>

<sup>1</sup> Includes annual variable incentive payments for Management Board, other senior management team members and middle management as well as sales incentive payments for the performance year 2018, respectively 2017.

<sup>2</sup> Covers only employees of Cembra Money Bank AG.

## 6 Shareholdings and Loans

As required by art. 663c of the Code of Obligations, the Bank discloses the shareholdings of the members of the Board of Directors and the Management Board.

### Shareholdings of the Board of Directors

At 31 December		2018		2017	
Name	Function	Number of shares	Number of blocked shares	Number of shares	Number of blocked shares
Dr Felix A. Weber	Chairman	7,250	3,621	7,250	1,963
Ben Tellings	Vice Chairman	-	1,157	-	567
Prof. Dr Peter Athanas	Member	-	1,328	-	720
Urs D. Baumann	Member	7,200	1,208	7,200	655
Denis Hall	Member	-	651	-	180
Katrina Machin	Member	-	991	-	537
Dr Monica Mächler	Member	-	1,087	-	589

The members of the Board of Directors do not hold any share options as of 31 December 2018 and as of 31 December 2017, respectively.

### Shareholdings and Unvested Performance Share Unit and Restricted Stock Unit Ownership of the Management Board

At 31 December		2018			2017		
Name	Position	Number of shares	Number of RSUs	Number of PSUs	Number of shares	Number of RSUs	Number of PSUs
Robert Oudmayer	CEO	9,790	2,138	5,474	7,734	4,194	2,967
Jörg Fohringer	Managing Director B2B	-	-	-	n/a	n/a	n/a
Daniel Frei	Managing Director B2C	4,053	584	1,144	3,455	1,182	620
Volker Gloe	CRO	3,823	579	1,087	3,266	1,136	589
Dr Emanuel Hofacker	General Counsel	1,919	486	996	1,421	984	540
Niklaus Mannhart	COO	-	3,038	-	n/a	n/a	n/a
Pascal Perritaz	CFO	-	-	-	n/a	n/a	n/a
Rémy Schimmel	former CFO	282	927	-	-	1,042	288

The members of the Management Board do not hold any share options as of 31 December 2018 and as of 31 December 2017, respectively.

### Loans and Credits: Amounts due from Members of Governing Bodies

At 31 December (CHF in thousands)	2018	2017
Amounts due from members of governing bodies	22	17

Amounts due from members of governing bodies as of 31 December 2018 are in connection with credit card balances. Due to the insignificance of the amounts involved, there was no disclosure by name for members of the Board of Directors and the Management Board.

## 7 Compensation Outlook: Refined Goal Framework

In 2018, the CNC reviewed and further developed the Management Board's goal framework consisting of company financial goals, divisional financial goals and qualitative goals. Such efforts were mainly triggered by the aim to better reflect business strategy in the targets of the goal framework and to further strengthen the alignment between shareholders and management. The amendments mainly pertain to the structure and weighting of the targets. Other aspects of the current framework, including target STI level (60% of the target bonus for the CEO and to 70% for the other Management Board members) and payout range (0% to 150% of target STI) remain unchanged.

As of 2019, the goal framework for all Management Board members will be based on the following four pillars:

- Financials;
- Customer & Market;
- Operational Excellence; and
- People and Leadership.

Financial targets will be purely of quantitative nature, while targets for the other three pillars are a mix of quantitative and qualitative targets. The weights of these four pillars will depend on the role assumed by members of the Management Board. For 2019 the following weights are applicable:

Goal Pillar	Weight CEO	Weight Management Board (excl. CEO)
Financials	60%	30%-60%
Customer & Market	15%	15%
Operational Excellence	10%	10%-40%
People and Leadership	15%	15%



# Report of the Statutory Auditor

To the General Meeting of Cembra Money Bank AG, Zurich

We have audited the compensation report of Cembra Money Bank AG for the year ended December 31, 2018. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the sections 3.2, 4.2 and 6 of the compensation report.

## Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

## Auditor's Responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

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

## Opinion

In our opinion, the compensation report for the year ended December 31, 2018 of Cembra Money Bank AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Cataldo Castagna  
Licensed Audit Expert  
Auditor in Charge

Daniel Merz  
Licensed Audit Expert

Zurich  
March 19, 2019