Financial Report
2017

Consolidated Financial Statements

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Consolidated Statements of Income

For the years ended 31 December (CHF in thousands)	Notes	**2017**	2016
Interest income	21	**308,305**	324,257
Interest expense	22	**–24,706**	–26,511
Net interest income		**283,599**	**297,746**
Commission and fee income	23	**112,744**	96,260
Net revenues		**396,344**	**394,006**
Provision for losses on financing receivables	**4**	**–45,089**	**–44,557**
Compensation and benefits		**–99,930**	–100,398
General and administrative expenses	24	**–68,017**	–67,140
Total operating expenses		**–167,947**	**–167,538**
Income before income taxes		**183,308**	**181,910**
Income tax expense	16	**–38,816**	–38,204
Net income		**144,492**	**143,707**
Earnings per share			
Basic	15	**5.13**	5.10
Diluted	15	**5.12**	5.09

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

For the years ended 31 December (CHF in thousands)	**2017**	2016
Net income	**144,492**	143,707
Net prior service cost	**–778**	–336
Actuarial gain / (loss)	**18,732**	207
Unrealised gains / (losses) on investment securities	**16**	–15
Total other comprehensive gain / (loss)	**17,971**	–144
Comprehensive income	**162,463**	**143,563**

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Financial Position

At 31 December (CHF in thousands)	Notes	**2017**	2016
Assets			
Cash and cash equivalents		**418,422**	668,948
Financing receivables, net	4	**4,561,500**	4,072,617
Investment securities	5	**11,754**	11,961
Property, plant and equipment, net	6	**5,819**	4,912
Intangible assets, net	7	**26,403**	23,379
Goodwill	8	**14,508**	–
Other assets	9	**57,788**	67,161
Deferred income taxes	16	**3,175**	8,119
Total assets [1]		**5,099,369**	**4,857,097**
Liabilities and equity			
Deposits	10	**2,626,786**	2,354,569
Accrued expenses and other payables		**144,473**	91,967
Short-term debt	11	**100,000**	449,894
Long-term debt	11	**1,321,370**	1,069,868
Other liabilities	13	**21,278**	42,601
Total liabilities [1]		**4,213,908**	**4,008,899**
Common shares		**30,000**	30,000
Additional paid in capital (APIC)		**294,544**	390,931
Treasury shares		**–101,004**	–100,385
Retained earnings		**677,451**	561,154
Accumulated other comprehensive loss (AOCI)		**–15,530**	–33,501
Total shareholders' equity		**885,460**	**848,198**
Total liabilities and shareholders' equity		**5,099,369**	**4,857,097**

[1] The Group's consolidated assets as at 31 December 2017 and 31 December 2016, include total assets of 535,446 and TCHF 487,550, respectively, of consolidated variable interest entities (VIEs) that can only be used to settle the liabilities of the VIEs. The Group's consolidated liabilities as at 31 December 2017 and 31 December 2016 include liabilities of the VIEs of 398,866 and TCHF 398,238, respectively, for which the VIE creditors do not have recourse to Cembra Money Bank AG.

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

CHF in thousands	Common shares	Treasury shares	APIC	Retained earnings	AOCI	Total equity
Balance at 31 December 2015	**30,000**	**–100,093**	**485,351**	**417,448**	**–33,358**	**799,348**
Net income	–	–	–	143,707	–	143,707
Dividends paid	–	–	–94,464	–	–	–94,464
Change in APIC due to share based compensation	–	–	43	–	–	43
Treasury shares	–	–292	–	–	–	–292
Movements related to the Group's benefit plan obligation, net of deferred tax of 1,372	–	–	–	–	–5,163	–5,163
Reclassifications from accumulated other comprehensive loss net of deferred tax of –1,338 [1]	–	–	–	–	5,034	5,034
Unrealised gains / losses on available-for-sale debt securities, net of deferred tax of 4	–	–	–	–	–15	–15
Balance at 31 December 2016	**30,000**	**–100,385**	**390,931**	**561,154**	**–33,501**	**848,198**
Net income	–	–	–	144,492	–	144,492
Dividends paid	–	–	–97,276	–28,196	–	–125,471
Change in APIC due to share based compensation	–	824	23	–	–	847
Treasury shares	–	–1,443	–	–	–	–1,443
Movements related to the Group's benefit plan obligation, net of deferred tax of 3,833	–	–	–	–	13,045	13,045
Reclassifications from accumulated other comprehensive loss net of deferred tax of –1,433 [1]	–	–	–	–	4,909	4,909
Unrealised gains / losses on available-for-sale debt securities, net of deferred tax of 4	–	–	–	–	16	16
Other [2]	–	–	866	–	–	866
Balance at 31 December 2017	**30,000**	**–101,004**	**294,544**	**677,451**	**–15,530**	**885,460**

[1] Reclassifications from accumulated other comprehensive loss related to the Group's benefit plan obligation are classified in the income statement under compensation and benefits.
[2] Related to the acquisitions of Swissbilling SA and EFL Autoleasing AG.

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended 31 December (CHF in thousands)	Notes	2017	2016
Cash flows from operating activities			
Net income		**144,492**	143,707
Adjustments to reconcile net income to cash provided from operating activities:			
Provision for losses on financing receivables		**45,089**	44,557
Deferred income taxes		**–602**	–578
Depreciation		**1,332**	1,429
Amortisation of intangible assets		**7,400**	6,418
Decrease (–) / Increase in accrued expenses		**52,506**	2,605
Decrease / Increase (–) in tax receivables		**–4,758**	2,939
Decrease / Increase (–) in other receivables		**15,166**	–17,483
All other operating activities		**2,662**	6,085
Net cash provided by operating activities		**263,287**	**189,679**
Cash flows from investing activities			
Net change in financing receivables	26	**–533,972**	–55,122
Proceeds from sale of loss certificates		**–**	1,198
Purchase of investment securities		**–**	–11,961
Additions to property, plant and equipment		**–1,618**	–1,007
Decrease / Increase (–) in restricted cash		**–1,502**	14,490
Additions to intangible assets		**–7,240**	–3,426
Investments in subsidiaries and other investments		**–18,502**	–
All other investing activities		**397**	–
Net cash used in investing activities		**–562,437**	**–55,829**
Cash flows from financing activities			
Net change in deposits		**272,217**	108,323
Issuance of non-recourse long-term borrowings		**–**	200,000
Issuance of long-term debt		**351,143**	200,000
Repayments of non-recourse borrowings		**–**	–200,000
Repayments of short-term and long-term debt		**–449,894**	–250,000
Dividends paid		**–125,471**	–94,464
Purchase of treasury shares		**–1,443**	–292
All other financing activities		**2,072**	–909
Net cash used in financing activities		**48,624**	**–37,343**
Net increase / decrease (–) in cash and cash equivalents		**–250,526**	**96,507**
Cash and cash equivalents			
Beginning of the period		**668,948**	572,440
End of period		**418,422**	**668,948**
Supplemental disclosure			
Interest paid		**–23,561**	–25,633
Income taxes paid		**–33,467**	–35,946

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

Cembra Money Bank, which is headquartered in Zurich, Switzerland, comprises of Cembra Money Bank AG ("the Bank" or the parent company) and its subsidiaries Swiss Auto Lease 2012-1 GmbH in liquidation, Swiss Auto Lease 2013-1 GmbH in liquidation, Swiss Auto Lease 2015-1 GmbH, Swiss Auto Lease 2016-1 GmbH, Swissbilling SA, eny Credit GmbH and EFL Autoleasing AG (collectively "the Group"). The Group is a leading provider of financial services in Switzerland. The main products comprise loans, leasing, credit cards and saving products. The services are rendered at the Group's headquarters in Zurich as well as through 18 branches and operating subsidiaries in Switzerland.

The Consolidated Financial Statements reflect the Group's financial position, results of operations, shareholders' equity and cash flows and have been prepared in accordance with accounting principles generally accepted in the US (US GAAP) and in compliance with the Swiss law. The Group's financial year ends on 31 December. The Consolidated Financial Statements are stated in Swiss francs (CHF) and have been derived from the historical accounting records. The abbreviation TCHF within these financial statements refers to thousands of Swiss francs. The numbers published in the notes are rounded in thousands of Swiss francs, therefore rounding differences can occur.

Consolidation

The Consolidated Financial Statements represent the Bank and all of its majority-owned or controlled subsidiaries. All significant transactions and balances among the Group's consolidated subsidiaries have been eliminated.

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined by the Financial Accounting Standards Board (FASB), in the Accounting Standards Codification (ASC) 810, Consolidation, which are: (a) the entity has insufficient equity to allow it to finance its activities without additional subordinated financial support from other parties; or (b) the entity has equity investors that as a group cannot make significant decisions about the entity's operations or that do not absorb the expected losses or receive the expected returns of the entity. The Group is involved with VIEs through its lease securitisation and lending activities.

In accordance with ASC 810, the Group consolidates a VIE when it has both the power to direct the activities that most significantly impact the VIE's economic performance and an obligation to absorb losses, or a right to receive benefits from the entity that could be potentially significant to the VIE, i.e. when the Group is determined to be the primary beneficiary of the VIE.

VIEs are continually monitored by the Group to determine if any events have occurred that could cause its primary beneficiary status to change. These events include:
- Additional purchases or sales of variable interests by the Bank or an unrelated third party, which cause the Bank's overall variable interest ownership to change;
- Changes in contractual arrangements in a manner that reallocates expected losses and residual returns among the variable interest holders;
- Changes in the party that has the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and
- Providing support to an entity that results in an implicit variable interest.

Use of Estimates

Preparing financial statements in conformity with US GAAP requires the management to make estimates based on assumptions about future economic and market conditions that affect the reported amounts and the related disclosures in the financial statements. Although the Group's current estimates take into account current conditions and how

management expects them to change in the future, as appropriate, it is reasonably possible that in 2018 and beyond actual conditions could be worse than anticipated in those estimates, which could materially affect the Group's results of operations and financial position. Among other effects, such changes could result in future impairments of goodwill, intangible and long-lived assets, incremental losses on financing receivables, and establishment of additional valuation allowances on deferred tax assets. Such changes may also have an impact on the residual values of leased objects and on the actuarial valuation of the projected benefit obligations (PBO) of the pension fund.

Revenues (Earned Income)

Interest Income on Loans and Credit Cards

The Group uses the interest method to recognise income on loans and credit cards. Interest income includes amortisation of direct loan origination costs, as well as nonrefundable origination and annual fees.

The Group stops interest recognition at the earlier of the time at which collection on an account becomes doubtful or at the time at which the account becomes 90 days past due. The Group resumes interest recognition on nonaccrual, nonrestructured commercial loans only when (a) payments are received that bring the account to earning status according to the loan's original terms; and (b) future payments are reasonably assured. The Group resumes interest recognition on nonaccrual consumer loans when the customer's account cures to less than 90 days past due as a result of payments received.

Interest Income on Leases

Financing lease income is recognised using the interest method to produce a level yield on the outstanding principal. Interest on leases also includes amortisation of initial direct costs. Estimated residual values at the date of lease inception are based upon the Group's initial best estimates of the value of the leased asset at the end of the lease term. The Group uses various data sources in determining this estimate, including information obtained from third parties which is adjusted for the attributes of the specific asset being evaluated. In accordance with ASC 840-1-25-1, residual values that are guaranteed by third-party dealers are considered to be part of minimum lease payments.

Other Revenues

Other sources of revenue include commissions earned from the sale of insurance products and other fees earned from the remaining products. The Group, acting as an intermediary between the insurance company and the customer, offers payment protection insurance. The premiums are charged monthly, the Group recognises the commission income as earned; revenue from cards insurance products due annually is amortised over 12 months. Fee revenues primarily comprise credit card fees, such as interchange and other fees, including reminder fees. Interchange and other card fees are recognised when earned, except for the origination and annual fees described under the sub-chapter "Interest Income on Loans and Credit Cards" above. Fee revenue is reduced by the costs of any applicable reward programme.

Depreciation and Amortisation

Depreciation of property, plant and equipment is recorded on a straight-line basis over the estimated useful lives of the assets by type of fixed assets.

The cost of intangible assets is generally amortised on a straight-line basis over the asset's estimated useful life. The Group reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

Allowance for Losses

The allowance for losses on financing receivables represents the Group's estimate of future probable losses inherent in the portfolio. Losses on financing receivables are recognised when they are incurred. The method of calculating estimated losses depends on the size, type and risk characteristics of the related financing receivables. The Group's loan portfolio consists of smaller-balance, homogenous loans, including mainly credit card receivables, personal loans, auto leases and loans. Each portfolio is evaluated for impairment on a quarterly basis. The allowance for losses on these financing receivables is established through a process that estimates the probable losses inherent in the port-

folio based upon statistical analyses of portfolio data. These analyses include migration analysis, in which historical delinquency and credit loss experience is applied to the current ageing of the portfolio, together with other analyses that reflect current trends and conditions. Management also considers the Group's historical loss experience to date based on actual defaulted loans and overall portfolio indicators including nonaccrual loans, trends in loan volume and lending terms, credit policies and other observable environmental factors such as the unemployment rate or interest rate movements as well as future client payment behaviour which is subject to management judgement.

"Nonaccrual financing receivables" are those on which the Group has stopped accruing interest.

"Delinquent" receivables are those that are 30 days or more past due based on their contractual terms.

"Troubled debt restructurings" (TDRs) are loans or leases where the customer has experienced financial difficulties and is unable to meet the contractual obligations, and as a result the Group has granted concessions to the customer that it would not otherwise consider. The Group does not have any TDRs.

Write-Offs and Recoveries

For personal loans and auto leases and loans, the Group maintains a single write-off date within each month, which ensures that at each reporting date all accounts meeting the relevant criteria have been written off. The Group writes off unsecured closed-end instalment loans and consumer auto finance leases on the monthly write-off date after the contract reaches 120 days contractually past due and unsecured open-end revolving loans and commercial auto finance leases on the monthly write-off date after the contract reaches 180 days contractually past due. For credit cards, the Group writes off the account on the date the account becomes 180 days contractually past due. Unsecured consumer loans in bankruptcy are written off within 60 days of notification of filing by the bankruptcy court or within the defined write-off periods, whichever occurs earlier.

Recoveries are defined as any cash collected after a loan or lease has been written off. Recoveries include the receipt of principal, interest, fees and proceeds from realisation of collateral, debt sales and claims against insurance policies.

Write-offs are deducted from the allowance for losses when the Group judges the principal to be uncollectable and subsequent recoveries are added to the allowance for losses at the time cash is received on a written-off account.

As part of its business activities, the Group periodically sells previously written-off financing receivables to external parties. These transactions are recorded in accordance with ASC 860-20 Sales of Financial Assets.

Provision for Losses

Provision for losses on financing receivables is the expense related to maintaining the allowance for losses at an appropriate level to absorb the estimated probable future losses on financing receivables as at each period end date. Factors that could influence the provision for losses on financing receivables include:

- The impact of general economic conditions on consumers, including unemployment levels, bankruptcy trends and interest rate movements;
- Changes in consumer spending and payment behaviours;
- Changes in the Group's financing receivables portfolio, including the overall mix of accounts, products and loan balances within the portfolio;
- The level and direction of historical and anticipated loan / lease delinquencies and write-offs;
- The credit quality of the financing receivables portfolio, which reflects, among other factors, the Group's underwriting practices and effectiveness of collection efforts; and
- Regulatory changes or new regulatory guidance.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with the Swiss National Bank or other banks and cash equivalents. Cash equivalents are defined as short-term, highly liquid instruments with original maturities of three months or less. Restricted cash, which is not available for use in the ordinary course of operations and is restricted in terms of withdrawal or usage, is classified in "Other assets".

Leases

The Group offers leases for both new and used vehicles (primarily cars but also other auto vehicles including light commercial vehicles, motorcycles and caravans) to private and self-employed individuals and small businesses. These lease transactions are considered and accounted for as direct financing leases as they fulfil the relevant criteria set out in ASC 840. Direct financing leases are carried at the aggregate of lease payments receivable plus the guaranteed residual value of the leased object less unearned income.

Investment Securities

Investment securities include debt securities classified as available-for-sale. Regular-way security transactions are recorded on a trade-date basis. Debt securities classified as available-for-sale are carried at fair value. Unrealised gains and losses, which represent the difference between fair value and amortised cost, are recorded in accumulated other comprehensive income (AOCI). Amounts reported in AOCI are net of income taxes. Amortisation of premiums or discounts is recorded in interest income using the effective interest method through the maturity date of the security.

Impairment on debt securities is recorded in the consolidated statements of income if a decline in fair value below amortised cost is considered other-than-temporary, that is, amounts due according to the contractual terms of the security are considered uncollectable, typically due to the deterioration in the creditworthiness of the issuer. No impairment is recorded in connection with declines resulting from changes in interest rates to the extent the Group does not intend to sell the investments, nor it is more likely than not that the Group will be required to sell the investments before the recovery of their amortised cost bases, which may be at maturity.

Unrealised losses on available-for-sale securities are recognised in the consolidated statements of income when a decision has been made to sell a security.

Goodwill

Goodwill arises on the acquisition of subsidiaries. It is measured as the excess of the fair value of the consideration transferred, the fair value of any noncontrolling interest in the acquiree and the fair value of any previously held equity interest in the acquired subsidiary, over the net fair values of the identifiable assets acquired less the liabilities assumed at the acquisition date. Goodwill is not amortised, instead it is tested for impairment annually, or if events or changes in circumstances happen which indicate that goodwill may be impaired. Goodwill is allocated to the Group's reporting units for the purposes of the impairment test. Please refer to note 8 for further details.

Intangible Assets

The cost of intangible assets is amortised on a straight-line basis over their estimated useful lives. The remaining useful life of an intangible asset that is being amortised is evaluated each reporting period to determine whether the events and circumstances warrant a revision to the remaining period of amortisation. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset shall be amortised prospectively over that revised remaining useful life. Amortisable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets include internally developed and capitalised software. Please refer to note 7 for further details.

Income Taxes

Deferred tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities at the date of the balance sheets and their respective tax bases. Deferred tax assets and liabilities are computed using currently enacted tax rates and are shown on the face of the balance sheet. Income tax expense or benefit is recorded in income tax expense/benefit, except to the extent that the change relates to transactions recorded directly in total shareholders' equity. Deferred tax assets are reduced by a valuation allowance, if necessary, to the amount that management believes will more likely than not be realised. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates in the period in which changes are enacted by the relevant authority. Deferred tax assets and liabilities are presented on a net basis for the same tax-paying component within the same tax jurisdiction.

The Group determines whether it is more likely than not that an income tax position will be sustained upon examination based on the technical merits of the position. Sustainable income tax positions are then measured to determine the amount of benefit eligible for recognition in the financial statements. Each such sustainable income tax position is measured at the largest amount of benefit that is more likely than not to be realised upon ultimate settlement.

Share-Based Compensation

The Group has share-based compensation programmes in place. It accounts for the compensation cost from share-based payment transactions according to the fair-value-based method. The compensation cost is measured based on the grant-date fair value of the shares and is recognised over the requisite service period with a corresponding credit to equity. The compensation cost for an award with only service conditions that has a graded vesting schedule is recognised on a straight-line basis over the requisite service period for each separately vesting portion of the award. The programmes are described in detail in note 25.

Treasury Shares

The Group holds own shares which are recorded at cost and reported as treasury shares, resulting in a reduction to total shareholders' equity. Dividends received on own shares are excluded from the consolidated statements of income and are recorded in shareholders' equity.

Pension Obligation

Pension assumptions are significant inputs to the actuarial models that measure the Group's pension benefit obligation and related effects on operations. The two assumptions regarding the discount rate and expected return on assets are important elements of pension plan expense and asset/liability measurement. The Group evaluates these critical assumptions at least once a year. The measurement date used to perform the actuarial valuation is 31 December. The Group periodically evaluates other assumptions involving demographic factors, such as retirement age, mortality, employee turnover, and updates them to reflect its experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

Accumulated and projected benefit obligations are measured using the present value of expected payments. The Group discounts the cash payments using the weighted average of market-observed yields for high-quality corporate bonds with maturities that correspond to the expected payment of benefits.

To determine the expected long-term rate of return on pension plan assets, the Group considers current asset allocations, as well as historical and expected returns on various categories of plan assets. In developing future long-term return expectations for its benefit plan assets, the Group formulates views on the future economic environment. The Group evaluates general market trends and historical relationships among a number of key variables that impact asset class returns, such as expected earnings growth, inflation, valuations, yields and spreads, using both internal and external sources. The Group also takes into account expected volatility by asset class and diversification across classes to determine expected overall portfolio results given current allocations.

Fair Value Measurements

For financial assets and liabilities measured at fair value, fair value is the price the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on observable market data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that would occur at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.
Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
Level 3 Significant inputs to the valuation model are unobservable.

The Group maintains policies and procedures to value instruments using the best and most relevant data available. Shares in investment companies and units in mutual funds which are not directly quoted on a public stock exchange and / or for which fair value is not readily determinable are measured at fair value using net asset value. With regard to Level 3 valuations, the Group performs a variety of procedures to assess the reasonableness of the valuations. Such reviews take into account any changes in the current interest rate and credit environment, as well as any other available published market data.

Off-Balance Sheet Arrangements

The Group is party to certain financial instruments that present the Group with off-balance sheet risk, primarily relating to credit, in the normal course of business. These financial instruments are commitments to extend credit and involve, to varying degrees, elements of both credit and interest rate risk in excess of the balances recognised in the Group's consolidated statements of financial position.

The Group's consolidated maximum exposure to credit losses under these commitments is represented by their total contractual amount. The Group follows the same credit and underwriting policies in making such commitments as it does for on-balance sheet instruments.

2. Accounting Changes

On 7 April 2015, the FASB issued ASU 2015-03 "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs", which changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity will present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortisation of the costs will continue to be reported as interest expense. The Group adopted this standard as of 1 January 2016.

Recently Issued Accounting Standards to be Effective in Future Periods

On 25 February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)", which introduces material changes to lease accounting. The guidance requires lessees to recognise most leases on their balance sheets. The guidance also eliminates today's real estate-specific provisions and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs for all entities. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities will classify leases to determine how to recognise lease-related revenue and expense. Classification will continue to affect amounts that lessors record on the balance sheet. The standard is effective for annual periods beginning after 15 December 2018, and interim periods within those years. The Group is evaluating the impact of this new standard on its financial statements.

On 14 April 2016, the FASB issued ASU 2016-10 "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" that clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by ASU 2014-09). On 12 August 2015, the FASB issued ASU 2015-14, which defers the effective date of the Board's revenue standard, ASU 2014-09, by one year for all entities. The standard is effective for annual reporting periods beginning after 15 December 2017, including interim reporting periods within those periods. There is no material impact from the adoption of the new standard on the Group's financial statements.

On 16 June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which amends the guidance on the impairment of financial instruments. The ASU adds to US GAAP an impairment model, known as the current expected credit loss (CECL) model that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognises as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity of US GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. The standard is effective for annual periods beginning after 15 December 2020, and interim periods therein. The Group is evaluating the effect of adoption of the new standard on its financial statements.

On 17 November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash", which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. Under the new guidance, an entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows. The guidance is effective for fiscal years beginning after 15 December 2017, including interim periods therein. There is no material impact from the adoption of the new standard on the Group's financial statements.

On 5 January 2017, the FASB issued ASU 2017-1 "Business Combinations (Topic 805): Clarifying the Definition of a Business", which amends the definition of a business with the objective of adding guidance to evaluation whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments in this update provide a screen to determine when a set is not a business. The guidance is effective for fiscal years beginning after 15 December 2017, including interim periods therein. The Group does not expect a material impact from the adoption of the new standard on its financial statements.

On 26 January 2017, the FASB issued ASU 2017-4 "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment", which amends goodwill impairment test by eliminating Step 2 that measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The guidance is effective for fiscal years beginning after 15 December 2020, including interim periods therein. The Group is evaluating the effect of adoption of the new standard on its financial statements.

On 10 March 2017, the FASB issued ASU 2017-7 "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", which amends the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this update require that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The guidance is effective for fiscal years beginning after 15 December 2017, including interim periods therein. There is no material impact from the adoption of the new standard on the Group's financial statements.

3. Business Developments

On 16 February 2017, the Group acquired 100% of shares of Swissbilling SA, a Swiss invoice financing company with operations mainly in the French speaking region of Switzerland. The transaction did not have a material impact on the Group's financial statements.

On 21 July 2017, the Group signed an agreement to refinance a CHF 42 million personal loan portfolio from eny Finance AG, a Swiss online personal loan provider. The deal was structured through a special purpose vehicle (SPV), eny credit GmbH, that is fully owned, controlled and consolidated by the Group. See note 19 for further details.

On 30 November 2017, the Group acquired 100% of shares of EFL Autoleasing AG (EFL). EFL is an established auto lease and auto loan financing company based in Winterthur (Switzerland). As of 31 December 2017, EFL had auto lease and auto loan receivables (net) of circa CHF 278 million.

4. Financing Receivables and Allowance for Losses

As at 31 December 2017 and 2016, respectively, the Group's financing receivables included lending to private customers, vehicle lease financing and credit card financing as follows:

At 31 December (CHF in thousands)	**2017**	2016
Loans	**2,915,033**	2,695,204
Deferred costs, net	**29,120**	28,019
Total loans, including deferred costs, net	**2,944,153**	**2,723,223**
Investment in financing leases, net of deferred income	**1,662,214**	1,393,951
Other [1]	**4,810**	–
Financing receivables before allowance for losses	**4,611,177**	**4,117,175**
Less allowance for losses	**–49,676**	–44,557
Financing receivables, net	**4,561,500**	**4,072,617**

[1] Other included Swissbilling SA.

The majority of the investment in financing leases is related to auto leases. Components of the Group's net investment in financing leases, which are included in financing receivables above, are shown below:

At 31 December (CHF in thousands)	**2017**	2016
Total minimum lease payments receivable	**1,798,191**	1,505,950
Deferred income [1]	**–135,978**	–111,998
Investment in direct financing leases	**1,662,214**	**1,393,951**
Less allowance for losses	**–7,117**	–4,791
Net investment in direct financing leases	**1,655,097**	**1,389,160**

[1] Included 14,613 and TCHF 14,158 of initial direct costs on direct financing leases as at 31 December 2017 and 31 December 2016, respectively.

The subsidiaries held TCHF 503,018 and TCHF 460,803 of net investment in direct financing leases as at 31 December 2017 and 2016, respectively, as collateral to secure third-party debt in securitisations. See note 19 to the Consolidated Financial Statements for further details of securitisations.

As at 31 December 2017, the Group's contractual maturities for loans and financing leases were:

Due in (CHF in thousands)	Loans	Minimum lease payments receivable
2018	**52,512**	**171,038**
2019	**159,642**	**303,579**
2020	**277,034**	**447,254**
2021	**377,968**	**522,600**
2022	**566,077**	**326,559**
2023 and later	**622,523**	**27,161**
Credit cards and revolving loans	**859,277**	**–**
Total	**2,915,033**	**1,798,191**

Actual maturities may differ from contractual maturities.

The following table provides further information about financing receivables:

At 31 December (CHF in thousands)	2017	2016
Personal loans	**1,814,810**	1,751,350
Auto leases and loans	**1,952,211**	1,648,085
Credit cards	**839,346**	717,739
Other [1]	**4,810**	–
Financing receivables, before allowance for losses	**4,611,177**	**4,117,175**
Allowance for losses	**–49,676**	–44,557
Financing receivables, net	**4,561,500**	**4,072,617**

[1] Other included Swissbilling SA.

A summary of activity in the allowance for losses is shown below:

CHF in thousands	Balance at 1 January 2017	Provision for losses	Amounts written off	Recoveries	Other	Balance at 31 December 2017
Personal loans	**31,427**	**26,663**	**–71,714**	**43,975**	**2,471**	**32,822**
Auto leases and loans	**6,866**	**8,816**	**–20,509**	**12,259**	**2,455**	**9,888**
Credit cards	**6,264**	**8,991**	**–15,742**	**7,152**	**–**	**6,665**
Other [1]	**–**	**619**	**–339**	**166**	**–143**	**302**
Total	**44,557**	**45,089**	**–108,305**	**63,551**	**4,784**	**49,676**
As a % of total financing receivables, net						**1.1%**

[1] Other included Swissbilling SA.

CHF in thousands	Balance at 1 January 2016	Provision for losses	Amounts written off	Recoveries	Other	Balance at 31 December 2016
Personal loans	32,542	31,341	−78,130	45,674	–	31,427
Auto leases and loans	7,026	6,380	−17,765	11,224	–	6,866
Credit cards	5,591	6,837	−14,109	7,946	–	6,264
Total	**45,159**	**44,557**	**−110,004**	**64,844**	**–**	**44,557**
As a % of total financing receivables, net						1.1%

Credit Quality of Financing Receivables

The Group describes the characteristics of the financing receivables and provides information about payment performance, credit quality indicators and impairment. The Group manages these portfolios using delinquency and nonaccrual data as key performance indicators. The categories used within this section such as nonaccrual financing receivables are defined by the authoritative guidance and the Group bases the categorisation on the related scope and definitions contained in the related standards. The category of delinquent customer accounts is defined by the Group and is used in the process of managing the financing receivables. Definitions of these categories are provided in note 1.

Past Due Financing Receivables

The following table displays payment performance of our financing receivables as a percentage of loans and investment in direct financing leases:

	2017		2016	
At 31 December	**Over 30 days past due**	**Over 90 days past due**	Over 30 days past due	Over 90 days past due
Personal loans	**2.9%**	**0.7%**	2.9%	0.6%
Auto leases and loans	**1.1%**	**0.2%**	0.8%	0.2%
Credit cards	**1.1%**	**0.5%**	1.2%	0.5%
Total [1]	**1.8%**	**0.4%**	**1.8%**	**0.4%**

[1] Does not include Swissbilling SA. There is no material impact on the Group's past due financing receivables.

Nonaccrual Financing Receivables

The following table provides further information about financing receivables that are classified as nonaccrual:

At 31 December (CHF in thousands)	**2017**	2016
Personal loans	**12,291**	10,750
Auto leases and loans	**3,143**	2,496
Credit cards	**3,969**	3,313
Total [1]	**19,403**	**16,559**
Nonperforming loan coverage [2]	**256.0%**	269.1%

[1] Does not include Swissbilling SA. There is no material impact on the Group's nonaccrual financing receivables.
[2] Calculated as allowance for losses divided by nonaccrual financing receivables.

Credit Quality Indicators

For its lending products, the Group uses consumer ratings (CR) to assess overall credit quality. There are five consumer ratings, each having an implied probability of default based on historical default experience, with a default definition of 90 days past due. The five ratings and their associated probabilities of default are

a. CR1 0.00% – 1.20%;
b. CR2 1.21% – 2.97%;
c. CR3 2.98% – 6.99%;
d. CR4 7.00% – 13.16%; and
e. CR5 13.17% and greater.

For private customers, the consumer rating is derived from an application credit score that is calculated through one of the Group's internal scorecards. Each credit score translates into one of the consumer ratings. For commercial customers, an obligor rating (OR) is assigned. The obligor rating can be translated into the grades of the consumer rating.

In addition to regular scorecard monitoring, a parity test is run on a quarterly basis to monitor at portfolio level whether the consumer ratings adequately reflect the credit quality. The parity tests confirm that although a consumer rating may have been assigned more than 12 months ago and so the initial 12-month window for probability of default has passed, the rating still accurately reflects the probability of default.

	2017				
At 31 December (CHF in thousands)	**CR1**	**CR2**	**CR3**	**CR4**	**CR5**
Personal loans	**842,674**	**528,318**	**314,332**	**71,904**	**11,415**
Auto leases and loans	**1,017,965**	**635,868**	**245,310**	**42,079**	**10,989**
Credit cards	**636,384**	**152,895**	**46,308**	**3,735**	**24**
Total [1]	**2,497,022**	**1,317,082**	**605,950**	**117,718**	**22,428**
As a % of total financing receivables before allowance for losses [1]	**54.8%**	**28.9%**	**13.3%**	**2.6%**	**0.5%**

[1] Does not include eny Credit GmbH and Swissbilling SA. There is no material impact on the Group's consumer ratings.

	2016				
At 31 December (CHF in thousands)	CR1	CR2	CR3	CR4	CR5
Personal loans	832,578	519,423	319,312	79,071	967
Auto leases and loans	920,032	505,281	181,411	31,634	9,727
Credit cards	550,965	128,111	36,199	2,438	26
Total	**2,303,575**	**1,152,815**	**536,922**	**113,143**	**10,720**
As a % of total financing receivables before allowance for losses	56.0%	28.0%	13.0%	2.7%	0.3%

5. Investment Securities

Investment securities are comprised of debt securities available for sale.

At 31 December (CHF in thousands)	**2017**	2016
Debt securities available-for-sale	**11,754**	11,961
Total investment securities	**11,754**	**11,961**

The following table summarises amortised cost, fair value and unrealised gains and losses of debt securities available for sale by category.

	2017				2016			
At 31 December (CHF in thousands)	**Amortised cost**	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Debt securities issued by Swiss Cantons	**2,033**	**18**	**–14**	**2,037**	2,051	2	–	2,053
Debt securities issued by Swiss municipal authorities	**1,004**	**4**	**–4**	**1,004**	1,032	1	–3	1,030
Debt securities issued by Swiss Mortgage institutions	**8,715**	**92**	**–94**	**8,713**	8,897	10	–29	8,878
Debt securities available-for-sale	**11,752**	**114**	**–112**	**11,754**	**11,980**	**13**	**–32**	**11,961**

The maturity of debt securities available for sale is presented in the table below:

	Amortised cost	**Fair value**
At 31 December (CHF in thousands)	**2017**	**2017**
Within 1 year	**1,004**	**1,004**
From 1 to 5 years	**10,748**	**10,750**
From 5 to 10 years	**–**	**–**
After 10 years	**–**	**–**
Total debt securities	**11,752**	**11,754**

6. Property, Plant and Equipment

At 31 December (CHF in thousands)	Estimated useful lives (years)	**2017**	2016
Original cost			
Buildings and improvements	(5–40)	**5,976**	5,596
Office equipment	(3–10)	**11,811**	7,286
Total		**17,787**	**12,882**

Accumulated depreciation		
Buildings and improvements	**–3,430**	–3,014
Office equipment	**–8,538**	–4,956
Total	**–11,968**	**–7,970**

Net carrying value		
Buildings and improvements	**2,546**	2,582
Office equipment	**3,273**	2,330
Total	**5,819**	**4,912**

Depreciation expense was TCHF 1,332 in 2017 and TCHF 1,429 in 2016, respectively. The Group did not recognise any impairment losses in both 2017 and 2016.

7. Intangible Assets

At 31 December (CHF in thousands)	2017	2016
Original cost	**45,714**	35,101
Accumulated amortisation	**–19,311**	–11,722
Net carrying value	**26,403**	**23,379**

Capitalised software is amortised over a useful life from one to five years. Amortisation expense related to intangible assets was TCHF 7,400 in 2017 and TCHF 6,418 in 2016. The weighted average amortisation period of intangible assets was five years as of 31 December 2017. The intangible assets comprise mainly of internally developed and capitalised software. The increase is related to intangible assets recognised in the acquisition of Swissbilling SA and EFL Autoleasing AG. As at 31 December 2017, the Group estimates the annual pre-tax amortisation for intangible assets over the next five years to be as follows:

CHF in thousands	2018	2019	2020	2021	2022
Estimated pre-tax amortisation	8,417	8,094	5,853	2,618	1,421

8. Goodwill

On 16 February 2017, the Group acquired 100% of shares of Swissbilling SA, a Swiss invoice financing company with operations mainly in the French speaking region of Switzerland. On 30 November 2017, the Group acquired 100% of outstanding shares of EFL Autoleasing AG, a Swiss auto leasing company domiciled in Winterthur. Goodwill related to these acquisitions is presented below:

CHF in thousands	Balance at 1 January 2017	Goodwill acquired during the period	Other	Balance at 31 December 2017
Gross amount of goodwill	–	**14,508**	–	**14,508**
Accumulated impairment	–	–	–	–
Net book value	–	**14,508**	–	**14,508**

The Group continually assesses whether or not there has been a triggering event requiring a review of goodwill. In estimating the fair value of the reporting units, the Group applied the income approach. This approach is based on a discount rate which reflects the relevant risks and projected cash flows determined from the Group's updated five-year strategic business plan that included significant management assumptions and estimates based on its view of current and future economic conditions.

Based on its goodwill impairment analysis performed as of 31 December 2017, the Group concluded that the estimated fair value for all of the reporting units with goodwill substantially exceeded their related carrying values and no impairment was necessary as of 31 December 2017.

9. Other Assets

At 31 December (CHF in thousands)	**2017**	2016
Restricted cash	**28,213**	26,710
Tax receivables	**20,227**	15,468
Other receivables	**7,083**	22,250
Deferred expenses	**1,386**	1,204
Other	**879**	1,528
Total other assets	**57,788**	**67,161**

Restricted cash is not available for use in the ordinary course of operations and is restricted in terms of withdrawal or usage. The Group had TCHF 28,213 and TCHF 26,710 of restricted cash related to the consolidated VIEs (see note 19) as at 31 December 2017 and 2016, respectively.

The tax receivables as per 31 December 2017 consisted of VAT input tax. Other receivables have decreased due to a repayment of deposit on the credit card settlement account.

10. Deposits

The following table shows the maturities of the Group's customers' saving deposits, term deposits and prepaid cards as at 31 December 2017 and 2016, respectively:

At 31 December (CHF in thousands)	**2017**	2016
On demand	**195,399**	202,778
Less than 3 months	**284,600**	255,943
3 to less than 6 months	**246,923**	292,639
6 to less than 12 months	**523,535**	429,515
12 months plus, thereof	**1,376,329**	1,173,695
due in 2018	**–**	405,768
due in 2019	**377,878**	142,928
due in 2020	**340,415**	147,759
due in 2021	**169,939**	117,014
due in 2022	**167,603**	110,554
due in 2023 and later	**320,494**	249,672
Total	**2,626,786**	**2,354,569**

There is no term maturity for on-demand saving deposits. All deposits are denominated in CHF. The weighted average interest rate on all deposits was approximately 0.48% and 0.59% as at 31 December 2017 and 2016, respectively.

11. Short-term and Long-term Debt

Short-term and long-term debt is shown below:

At 31 December (CHF in thousands)	Maturity	**2017** Amount	**2017** Contractual interest rate	2016 Amount	2016 Contractual interest rate
Short-term portion					
External debt (bank loan)	2017	–	–	150,000	0.89 %
External debt (unsecured bond)	2017	–	–	249,894	1.13 %
External debt (bank loan)	2018	**100,000**	**0.20 %**	50,000	0.42 %
Long-term portion					
External debt (bank loan)	2018	–	–	100,000	0.42 %
External debt (unsecured bond)	2019	**100,034**	**0.75 %**	100,054	0.75 %
Non-recourse borrowings (Auto ABS) [1]	2019	**200,000**	**0.23 %**	200,000	0.23 %
Non-recourse borrowings (Auto ABS) [1]	2020	**200,000**	**0.22 %**	200,000	0.22 %
External debt (unsecured bond)	2021	**175,000**	**0.50 %**	175,000	0.50 %
External debt (unsecured bond)	2022	**99,966**	**1.25 %**	99,959	1.25 %
External debt (unsecured bond)	2023	**200,000**	**0.18 %**	200,000	0.18 %
External debt (unsecured bond)	2024	**200,255**	**0.25 %**	–	–
External debt (unsecured bond)	2025	**150,889**	**0.38 %**	–	–
Debt issuance costs		**– 4,774**	–	– 5,145	–
Total short-term and long-term debt		**1,421,370**		**1,519,762**	

[1] Related to consolidated VIEs.

The contractual rate represents the interest due on the relevant debt at the reporting date, whereas the effective interest (all-in) rate reflects, in addition to the contractual interest rate, fees and debt issuance costs that are amortised over the expected life of the instrument. As per 31 December 2017, the Group had fixed rate funding only.

The Group defers the debt issuance costs and amortises them over the expected life-time of the relevant debt instrument. Debt issuance costs are presented within debt instead of other assets. As per 31 December 2017 and 2016, unamortised debt issuance costs amounted to TCHF 4,774 and TCHF 5,145 , respectively. Commitment fees are recognised as incurred over the commitment period.

In 2014, the Group signed an agreement with a syndicate of Swiss banks over TCHF 150,000 which was fully repaid in 2017.

The Group signed a TCHF 150,000 bilateral term loan with an international bank in 2014 with maturity in 2018. As at 31 December 2017, the outstanding balance was TCHF 100,000 which will mature in 2018. A tranche of TCHF 50,000 was repaid in 2017. The remaining facility bears interest on a fixed rate basis.

In July 2015, the Group signed a revolving credit facility with a Swiss bank for a three year term. The facility matures in 2018 and consists of a TCHF 100,000 unsecured commitment. As at 31 December 2017, the facility was undrawn and has an applicable commitment fee as at 31 December 2017 of 0.35%.

On 4 January 2016, the Group signed a revolving credit facility with a Swiss bank with a committed term until the end of 2018. The facility consists of a TCHF 50,000 unsecured commitment and has an applicable contractual commitment fee of 0.20% per annum.

On 3 February 2016, the Group signed a revolving credit facility with an international bank with a committed term until 2019. The facility consists of a TCHF 100,000 unsecured commitment. The facility has an applicable contractual commitment fee of 0.25% per annum.

On 4 December 2017, the Group signed a rollover of a revolving credit facility with a Swiss bank with a committed term until 2020. The new facility consists of a TCHF 100,000 unsecured commitment. The facility has an applicable contractual commitment fee of 0.25% per annum.

As at 31 December 2017 and at 31 December 2016, the Group maintained TCHF 350,000 of undrawn committed facilities. The weighted average contractual commitment fee for all facilities was 0.24% at 31 December 2017 and 31 December 2016, respectively.

On 8 June 2016, the Group launched its fourth auto lease asset-backed security (ABS) transaction and issued fixed-rate senior notes of TCHF 200,000 on the Swiss capital market with a legal maturity of ten years and an optional redemption date of 3 3/4 years from the date of issuance.

On 1 June 2017, the Group issued a TCHF 150,000 senior unsecured bond at 100.63% with maturity of eight years and a coupon of 0.375%. On 18 October 2017, the Group issued a TCHF 200,000 senior unsecured bond at 100.13% with maturity of six and half years and a coupon of 0.25%.

The Group has a total outstanding of TCHF 925,000 of senior unsecured bonds issued as at 31 December 2017. These bonds have been issued in 2014 (maturing in 2019 and 2022), 2015 (maturing in 2021), 2016 (maturing 2023) and 2017 (maturing in 2024 and 2025). On 29 November 2017, the TCHF 250,000 outstanding senior unsecured bond issued in 2013 was fully repaid with no further amounts due to bondholders.

12. Pension Plans

The Bank and its subsidiaries (collectively "the Group") participate in pension plans that provide benefits in accordance with the requirements of the Swiss Occupational Pension Act (BVG). The Group's participation in these pension plans has been accounted for as defined benefit plans in the Consolidated Financial Statements. The funding policy of the Group's pension plans is compliant with the local government and tax requirements.

The Group recognises an asset for the plan's overfunded status or a liability for the underfunded status in the consolidated statements of financial position. The Group records annual amounts relating to its pension plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality rates, assumed rates of return, compensation increases and employee turnover rates. The Group reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The Group believes that the assumptions utilised in recording its obligations under its plans are reasonable based on its experience and market conditions. The net periodic costs are recognised as employees render the services necessary to earn the postretirement benefits. Apart from temporary staff with an expected duration of employment of less than three months and people receiving a disability pension whose degree of incapacity to perform day-to-day tasks is greater than 70%, all employees aged at least 17 and with an annual base salary exceeding 75% of the applicable maximum single old-age state pension are insured. As a general rule, the statutory retirement age is 65; however, early retirement, starting from the age of 58, is possible. The pension plans insure both mandatory occupational benefits and extra mandatory benefits. The Group uses a 31 December measurement date for the plans.

The Group's pension plan participants as at 31 December 2017 and 2016, respectively, were as follows:

At 31 December	2017	2016
Active employees	**771**	745
Beneficiaries and pensioners	**121**	119
Total	**892**	**864**

The cost of the pension plans is presented below:

For the years ended 31 December (CHF in thousands)	2017	2016
Service cost for benefits earned	**6,537**	7,361
Prior service credit amortisation	**–984**	–425
Expected return on plan assets	**–5,162**	–5,185
Interest cost on benefit obligations	**1,215**	1,651
Net actuarial loss amortisation	**7,199**	6,797
Pension plan cost	**8,805**	**10,199**

The actuarial assumptions as at 31 December are used to measure the year-end benefit obligations and the pension costs for the subsequent year. Actuarial assumptions are presented below:

At 31 December	2017	2016
Discount rate	**0.50%**	0.50%
Compensation increases	**2.17%**	2.17%
Expected return on assets	**2.50%**	2.50%

To determine the expected long-term rate of return on pension plan assets the Group considers current asset allocations and historical and expected returns on various categories of plan assets. In developing future return expectations for the pension plan's assets the Group formulates a view on the future economic environment. Furthermore, the Group evaluates general market trends and historical relationships among a number of key variables that impact asset class returns such as expected earnings growth, inflation, valuations, yields and spreads, using both internal and external sources. The Group also takes into account expected volatility by asset class and diversification across classes to determine expected overall portfolio returns given current allocations. Based on the analysis of future expectations of asset performance, past return results and the current asset allocations, the Group assumed a 2.5% long-term expected return on the assets. For the pension plan, the Group applies the expected rate of return to the market value of assets. The Group amortises experience gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, over the average expected years of service of the employees.

The funding policy of the pension plan is aimed to contribute an amount sufficient to meet minimum funding requirements, as set forth in employee benefit and tax laws, plus any additional amounts which may be determined appropriate by the management. The management expects to contribute approximately TCHF 7,835 to the pension plan in 2018.

Benefit obligations are described in the following tables. Accumulated and projected benefit obligations (ABO and PBO, respectively) represent the obligations of the pension plan for past service as at the measurement date. ABO is the present value of benefits earned to date with benefits computed on the basis of current compensation levels. PBO is ABO increased to reflect expected future compensation.

The accumulated benefit obligation was TCHF 243,815 and TCHF 234,325 for 31 December 2017 and 2016, respectively.

The changes in the projected benefit obligation are presented below:

CHF in thousands	2017	2016
Balance at 1 January	**242,226**	**227,471**
Service cost for benefits earned	**6,537**	7,361
Interest cost on benefit obligations	**1,215**	1,651
Participant contributions	**4,923**	4,726
Actuarial loss / gain (–), net	**3,815**	7,614
Benefits paid (–) / received, net	**–4,244**	–6,597
Business combinations	**4,731**	–
Plan change [1]	**–7,507**	–
Balance at 31 December	**251,696**	**242,226**

[1] In 2017, the board of the pension fund decided to reduce the conversion rate from 6.0% (at age 65) to 5.0%. The plan amendment gain of TCHF 7,507 corresponds to the PBO reduction due to these plan changes.

Plan assets are reported at fair value. The inputs and valuation techniques used to measure the fair value of the assets are consistently applied and described in note 1.

The changes in the fair value of plan assets are presented below:

CHF in thousands	2017	2016
Balance at 1 January	**202,284**	**190,697**
Actual return on plan assets	**19,080**	6,264
Employer contributions	**7,509**	7,194
Participant contributions	**4,923**	4,726
Benefits paid (–) / received, net	**–4,244**	–6,597
Business combinations	**3,625**	–
Balance at 31 December	**233,177**	**202,284**

The asset allocations are described below:

At 31 December	2017 Target allocation	2017 Actual allocation
Equity securities		
Swiss equity securities	**13%**	**13%**
Non-Swiss equity securities	**23%**	**21%**
Debt securities		
Swiss bonds	**18%**	**15%**
Non-Swiss bonds	**17%**	**19%**
Real estate funds	**19%**	**21%**
Other investments	**10%**	**11%**

The pension fund board sets investment policies and strategies and oversees the investment allocation, which includes selecting investment managers, commissioning periodic asset-liability studies and setting long-term strategic targets. Long-term strategic investment objectives take into consideration a number of factors, including the funded status of the plan, a balance between risk and return and the plan's liquidity requirements. Target allocation percentages are established at an asset class level by the pension fund board. Target allocation ranges are guidelines, not limitations, and occasionally the pension fund board will approve allocations above or below a target range. The pension fund board monitors the plan's liquidity position in order to meet the near-term benefit payment and other cash commitments.

The pension fund assets are invested subject to the following additional guidelines:
- Investment in the following assets may not exceed the maximum % of total assets in the plan: Swiss bonds 22%, non-Swiss bonds 21%, Swiss equities 16%, non-Swiss equities 30%, real estate funds 29% and alternative funds 20%;
- No single bond may exceed more than 10% of total assets; and
- No single equity security or real estate investment can exceed more than 5% of total assets.

The pension fund did not hold direct investments, but indirect investments through funds. The fair values of the pension plan investments are presented below:

	2017			
At 31 December (CHF in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities				
Swiss equity securities	**29,631**	**–**	**–**	**29,631**
Non-Swiss equity securities	**49,055**	**–**	**–**	**49,055**
Debt securities				
Swiss bonds	**35,635**	**–**	**–**	**35,635**
Non-Swiss bonds	**44,965**	**–**	**–**	**44,965**
Real estate funds	**–**	**48,120**	**–**	**48,120**
Other investments [1]	**–**	**25,494**	**–**	**25,494**
Total investments	**159,286**	**73,614**	**–**	**232,900**
Other				**277**
Total assets				**233,177**

[1] Primarily includes commodity funds, insurance-linked funds and cash.

	2016			
At 31 December (CHF in thousands)	Level 1	Level 2	Level 3	Total
Equity securities				
Swiss equity securities	26,365	–	–	26,365
Non-Swiss equity securities	46,048	–	–	46,048
Debt securities				
Swiss bonds	30,801	–	–	30,801
Non-Swiss bonds	34,285	–	–	34,285
Real estate funds	–	45,873	–	45,873
Other investments [1]	8,065	10,979	–	19,045
Total investments	**145,565**	**56,852**	**–**	**202,417**
Other				**–133**
Total assets				**202,284**

[1] Primarily includes commodity funds, insurance-linked funds and cash.

The amounts recognised in the statement of financial position were as follows:

At 31 December (CHF in thousands)	2017	2016
Funded status	**–18,519**	–39,942
Pension liability recorded in the statement of financial position		
Other liabilities		
due after one year	**–18,519**	–39,942
Net amount recognised	**–18,519**	**–39,942**

Amounts recorded in shareholders' equity (unamortised)		
Prior service credit	**–7,630**	–1,452
Net actuarial loss	**26,538**	43,840
Total	**18,908**	**42,388**

In 2018, the Group estimates that it will amortise TCHF 1,477 of prior service credit and TCHF 4,336 of net actuarial loss for the pension plan from shareholders' equity into pension cost.

The estimated future benefit payments are described below:

CHF in thousands	2018	2019	2020	2021	2022	2023–2026
Pension plan	16,154	16,481	15,367	15,233	14,060	61,210

13. Other Liabilities

This section primarily reflects the pension plans funded status of TCHF 18,519 and TCHF 39,942 as at 31 December 2017 and 2016, respectively. It also comprises deferred compensation related to the Group's jubilee plan amounting to TCHF 2,759 and TCHF 2,659 as at 31 December 2017 and 2016, respectively. The jubilee plan is a voluntary benefit provided by the Group to its employees based on their years of service.

14. Capital Adequacy

The Group is subject to FINMA regulation. The capital levels of the Group are subject to quantitative requirements and qualitative judgements by the regulators, including FINMA, about the components of capital, risk weightings and other factors.

Since January 2008, the Bank has operated under Basel II – the international capital adequacy standards set forth by the Basel Committee on Banking Supervision (BCBS). These standards affected the measurement of both total eligible capital and risk-weighted assets. In January 2011, as required by FINMA, the Bank implemented the BCBS's "Revisions to the Basel II market risk framework" (Basel 2.5) for FINMA regulatory capital purposes.

As of 1 January 2013, the Group adopted the Basel III standards as required by FINMA.

The Group's consolidated eligible regulatory capital and the risk-weighted assets have been derived from the Group's consolidated financial statements as at 31 December 2017, which were prepared in accordance with FINMA requirements, and calculated in accordance with applicable Swiss regulatory requirements. The Group uses the "SA-BIS" approach to calculate the minimum capital requirement for covering credit risk. It is entitled to use the standard

approach to calculate the capital charge for market risk. The Group uses a standardised approach for operational risk management and fulfils the qualitative and quantitative requirements of the Capital Adequacy Ordinance (CAO 952.03).

The total eligible regulatory capital of the Group comprises Tier 1, Common Equity Tier 1 (CET1), and consists of shareholders' equity including net income for the current year. Deductions from Tier 1 include, among other items, anticipated but non-declared dividends, own shares and deferred tax assets. Risk-weighted assets include consolidated balance sheet assets, off-balance sheet transactions converted into credit equivalents, non counterparty risk, market risk and operational risk from processes, people, systems and external events.

As of 31 December 2017, the Group adheres to the applicable regulatory requirements for a category 4 bank set by FINMA. The Group aims to consistently operate with a capital base that is well above this mark. The Group was adequately capitalised under the regulatory provisions outlined by FINMA and the Bank for International Settlements.

At 31 December (CHF in thousands)	**2017**	2016
Eligible regulatory capital		
Tier 1 capital	**789,660**	752,667
of which CET1 capital	**789,660**	752,667
Total eligible capital	**789,660**	**752,667**
Risk-weighted assets		
Credit risk	**3,510,926**	3,151,966
Non counterparty risk	**29,028**	28,541
Market risk	**899**	7,244
Operational risk	**573,188**	569,848
Total risk-weighted assets	**4,114,040**	**3,757,600**
Capital ratios		
CET1 ratio	**19.2%**	20.0%
Tier 1 ratio	**19.2%**	20.0%
Total capital ratio	**19.2%**	20.0%

15. Earnings Per Share and Additional Share Information

For the years ended 31 December	2017	2016
Net income attributable to shareholders for basic earnings per share (CHF in thousands)	**144,492**	143,707
Net income attributable to shareholders for diluted earnings per share (CHF in thousands)	**144,492**	143,707
Weighted-average number of common shares		
Weighted-average number of common shares issued	**30,000,000**	30,000,000
Less weighted-average number of treasury shares	**1,811,379**	1,803,818
Weighted-average numbers of common shares outstanding for basic earnings per share	**28,188,621**	**28,196,182**
Dilution effect number of shares	**19,699**	16,885
Weighted-average numbers of common shares outstanding for diluted earnings per share	**28,208,320**	**28,213,066**
Basic earnings per share (in CHF)	**5.13**	**5.10**
Diluted earnings per share (in CHF)	**5.12**	**5.09**

The amount of common shares outstanding has changed as follows:

	2017	2016
Common shares issued		
Balance at beginning of period	**30,000,000**	**30,000,000**
Issuance of common shares	**–**	–
Balance at end of period	**30,000,000**	**30,000,000**
Treasury shares		
Balance at beginning of period	**1,807,627**	**1,803,627**
Share based compensation	**–10,457**	–5,980
Purchase	**17,000**	9,980
Balance at end of period	**1,814,170**	**1,807,627**
Common shares outstanding	**28,185,830**	**28,192,373**

16. Income Tax Expense

The provision for income taxes is summarised in the table below:

For the years ended 31 December (CHF in thousands)	2017	2016
Current tax expense	**39,418**	38,782
Deferred tax expense from temporary differences	**–602**	–578
Income tax expense	**38,816**	**38,204**

Deferred income tax balances reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the carrying amounts for income tax purposes.

Under Swiss law, a resident company is subject to income tax at the federal, cantonal and communal levels. The federal statutory tax rate is 8.5%. The cantonal and communal corporation tax rates vary. The Group's effective tax rates for each of the two years ended 31 December was approximately 21%.

Principal components of the Group's deferred tax assets and liabilities are as follows:

At 31 December (CHF in thousands)	2017	2016
Assets		
Pension plans	**3,799**	8,388
Other	**936**	586
Total deferred tax assets	**4,735**	**8,974**
Liabilities		
Deferred loan origination fees and costs	**–678**	–855
Other	**–882**	–
Total deferred tax liabilities	**–1,561**	**–855**
Net deferred tax assets	**3,175**	**8,119**

The management believes that the realisation of the recognised deferred tax assets is more likely than not, based on expectations regarding future taxable income. In assessing the realisability of deferred tax assets, the management considers whether it is more likely than not that a portion or all of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Group will realise the benefits of these deductible differences. The amount of the deferred tax assets is considered realisable, however, it could be reduced in the near term if estimates of future taxable income during the carry-forward period are significantly reduced.

The Group has no unrecognised tax benefits. Management believes that there are no uncertain tax positions that would require a reserve.

17. Commitments and Guarantees

The Group's guarantees are provided in the ordinary course of business and are underwritten by considering the economic, liquidity and credit risk of the counterparty.

Swiss banking law and the deposit insurance system require Swiss banks and securities dealers to jointly guarantee an amount of up to CHF 6 billion for privileged client deposits in the event that a Swiss bank or securities dealer becomes insolvent. Upon occurrence of a payout event triggered by a specified restriction of business imposed by FINMA or by the compulsory liquidation of another deposit-taking bank, the Group's contribution will be calculated based on its share of privileged deposits in proportion to total privileged deposits. Based on FINMA's estimate, the Group's share in the deposit insurance guarantee programme was TCHF 7,478 and TCHF 7,372 as at 31 December 2017 and 2016, respectively. The deposit insurance is a guarantee and exposes the Group to additional risk. As at 31 December 2017, the Group considers the probability of a material loss from this obligation to be remote.

As at 31 December 2017, minimum rental commitments under noncancellable operating leases aggregated TCHF 15,757 for the Group. Amounts payable over the next five years are shown below.

CHF in thousands	2018	2019	2020	2021	2022
Minimum rental commitments	4,972	3,939	3,525	2,948	373

For details of rental expense, refer to note 24.

18. Financial Instruments

The following table provides information about the assets and liabilities not carried at fair value in the Statement of Financial Position.

The table excludes finance leases and nonfinancial assets and liabilities. For the most part, the assets and liabilities discussed below are considered to be Level 3.

	2017		2016	
At 31 December (CHF in thousands)	**Carrying amount net**	**Estimated fair value**	Carrying amount net	Estimated fair value
Assets				
Loans	**2,899,904**	**2,962,668**	2,683,457	2,769,155
Liabilities				
Deposits	**–2,626,786**	**–2,666,924**	–2,354,569	–2,399,086
Borrowings	**–1,421,370**	**–1,438,351**	–1,519,762	–1,537,373

Fair values are estimated as follows:

Loans
Fair value calculation is based on a discounted future cash flows methodology, using current market interest rate data adjusted for inherent credit risk or quoted market prices and recent transactions, if available.

Deposits and Borrowings
If no market quotes are available, the fair value calculation is based on a discounted future cash flows methodology, using current effective interest rate data or current market interest rate data that is available to the Group for similar financial instruments.

Asset and liabilities that are reflected in the accompanying financial statements at a carrying value deemed to represent fair value are not included in the above disclosures; such items include cash and equivalents, investment securities, other assets, accrued expense and other liabilities.

Pension Fund
Refer to note 12 for further details on pension fund.

19. Variable Interest Entities

The Group primarily uses variable interest entities to securitise auto lease financing receivables. The financing receivables are originated by the Bank in the ordinary course of business and transferred to the VIEs. The financing receivables in the VIEs have similar risks and characteristics to the Bank's other lease financing receivables and were underwritten to the same standard. Accordingly, the performance of these assets has been similar to the Bank's other lease financing receivables.

The Group completed four securitisations, all through consolidated VIEs, to obtain funding backed by its auto lease receivables. The first securitisation, launched in March 2012, involved the issuance of TCHF 200,000 in senior notes with a maturity in 2015, three years from the date of issuance. This issuance was fully repaid on 23 March 2015. The second securitisation was completed in June 2013, which involved the issuance of TCHF 200,000 in senior notes with an optional redemption of three years from the date of issuance, and with a coupon of 0.576% per annum. In March 2015, the Group launched its third securitisation transaction and issued fixed-rate senior notes of TCHF 200,000 with a coupon of 0.23% per annum and an optional redemption date of four years from the date of issuance. The proceeds from this issuance were used to refinance the first securitisation. In June 2016, the Group launched its fourth securitisation transaction and issued fixed-rate senior notes of TCHF 200,000 with a coupon of 0.22% per annum and an optional redemption date of 3¾ years from the date of issuance. The proceeds from this issuance were used to refinance the second securitisation.

Third-party holders of the debt issued by the VIEs only have recourse to the financing receivables owned by the VIEs and not to the Bank's general credit. Contractually, the cash flows from these financing receivables must first be used to pay third-party debt holders and other expenses of the VIEs. Excess cash flows are available to the Bank.

The Bank is the servicer of the VIEs and holds the subordinated interests issued by the VIEs. The Bank is considered primary beneficiary of the VIEs as it has both the power to direct the activities that most significantly impact the VIEs' economic performance and an obligation to absorb losses, or a right to receive benefits from the VIEs. Hence the VIEs are being consolidated.

On 21 July 2017, the Group signed an agreement to refinance a CHF 42 million personal loan portfolio from eny Finance AG, a Swiss online personal loan provider. The Group has also agreed to partially refinance future personal loan volume from this provider. The deal was structured through a VIE that is fully owned, controlled and consolidated by the Group. The Bank is the co-servicer of the VIE and holds the subordinated interests issued by the VIE that were used to refinance the loan portfolio from eny Finance AG. The Bank is considered primary the beneficiary of the VIE as it has both the power to direct the activities that most significantly impact the VIE's economic performance and an obligation to absorb losses, or a right to receive benefits from the VIE.

The table below summarises the assets and liabilities of the consolidated VIEs described above:

At 31 December (CHF in thousands)	**2017**	2016
Assets		
Financing receivables, net	**503,018**	460,803
Other assets	**32,428**	26,747
Total assets	**535,446**	**487,550**
Liabilities		
Accrued expenses and other payables	**6,277**	2,668
Non-recourse borrowings	**398,866**	398,238
Total liabilities	**405,142**	**400,906**

Revenues from the consolidated VIEs amounted to 24,331 in 2017 and TCHF 27,568 in 2016, respectively. Related expenses consisted primarily of provisions for losses of TCHF 2,120 and TCHF 1,503 and interest expense of TCHF 1,602 and TCHF 1,846 for the years ended 31 December 2017 and 2016, respectively. These amounts did not include intercompany revenues and costs, principally fees and interest between the Bank and the VIEs, which are eliminated for consolidation purposes.

20. Related-Party Transactions

The Group had no related-party transactions in 2017 and 2016.

21. Interest Income

The details of interest income are shown below:

For the years ended 31 December (CHF in thousands)	**2017**	2016
Personal loans	**167,115**	191,342
Auto leases and loans	**83,820**	83,546
Credit cards	**60,487**	51,623
Other	**–3,117**	–2,254
Total	**308,305**	**324,257**

22. Interest Expense

The details of interest expense are shown below:

For the years ended 31 December (CHF in thousands)	**2017**	2016
Interest expense on ABS	**1,808**	2,166
Interest expense on deposits	**13,217**	14,972
Interest expense on debt	**9,681**	9,373
Total	**24,706**	**26,511**

23. Commission and Fee Income

The details of commission and fee income are shown below:

For the years ended 31 December (CHF in thousands)	**2017**	2016
Insurance	**22,990**	21,869
Credit cards	**75,014**	63,466
Loans and leases	**11,801**	10,644
Other	**2,939**	281
Total	**112,744**	**96,260**

24. General and Administrative Expenses

The details of general and administrative expenses are shown below:

For the years ended 31 December (CHF in thousands)	**2017**	2016
Professional services	**11,427**	8,979
Marketing [1]	**6,057**	6,643
Collection fees	**5,780**	5,737
Postage and stationery	**9,289**	8,568
Rental expense under operating leases	**4,744**	5,979
Information technology	**23,578**	24,119
Depreciation and amortisation	**8,731**	7,847
Other	**–1,588**	–732
Total	**68,017**	**67,140**

[1] Marketing includes advertising costs, which are expensed as incurred.

25. Share-Based Compensation

Under the Executive Variable Compensation Plan (EVCP) that was set up for the senior management team in 2013 each member of the Group's senior management team received at grant a number of restricted stock units (RSUs) as part of their annual variable compensation. Vesting for the RSUs takes place in three equal tranches. The last grant of RSUs was in 2016 for the performance year 2015. For further details related to this plan, please refer to the Compensation Report in the Annual Report 2015.

The total number of RSUs under this plan was 9,785 based on the share price of CHF 58.87 at the grant date 1 March 2014 and 9,911 with a share price of CHF 59.50 at the grant date 1 March 2015. In 2016, the Group granted 9,839 shares with a share price of CHF 65.58. The fair value used for each RSU was calculated as the market price of the Bank's stock on the date of the grant. RSUs issued under this plan will be settled out of shares acquired by the Group for such purpose. Participants will pay no consideration for the receipt of RSUs or the shares in which those RSUs will be settled.

The following table summarises RSUs outstanding as at 31 December 2017 and 2016, respectively:

		2017		2016
	Number of RSUs	**Weighted average grant date fair value (CHF)**	Number of RSUs	Weighted average grant date fair value (CHF)
RSUs outstanding at 1 January	**17,962**	**1,127,032**	14,103	835,945
Granted	**–**	**–**	9,839	645,208
Vested	**–5,246**	**–310,643**	–5,980	–354,121
Forfeited	**–466**	**–30,337**	–	–
RSUs outstanding at 31 December	**12,250**	**786,052**	17,962	1,127,032
RSUs expected to vest	**12,250**	**786,052**	**17,962**	**1,127,032**

The total recognised compensation cost was TCHF 294 and TCHF 417 for the years 2017 and 2016, respectively. The remaining unrecognised cost of TCHF 227 is expected to be recognised over a weighted-average period of 24 months.

In 2016, the EVCP plan was adapted, and since the performance year 2016 the senior management team receives under the long-term incentive programme (LTI), which is one part of the EVCP, a part of their variable compensation in performance share units (PSUs). The PSUs vest after a three-year period depending on the achievement of performance conditions which include relative total shareholder return (TSR) and cumulative fully diluted earnings per share (EPS). The actual LTI bonus of each participant is determined in the first quarter after each performance year in a range of 75% to 125% of the target LTI bonus based on a lookback assessment in a guided discretion by the Board of Directors. The actual LTI bonus is granted in PSUs. The first grant took place in March 2017. For details regarding the plan, please refer to Compensation Report on page 64.

		2017		2016
	Number of PSUs	**Weighted average grant date fair value (CHF)**	Number of PSUs	Weighted average grant date fair value (CHF)
PSUs outstanding at 1 January	**–**	**–**	–	–
Granted	**7,446**	**549,887**	–	–
Vested	**–**	**–**	–	–
Forfeited	**–686**	**–50,661**	–	–
PSUs outstanding at 31 December	**6,760**	**499,226**	–	–
PSUs expected to vest	**7,564**	**558,611**	**–**	**–**

The fair value of a PSU was calculated as the arithmetic average of the daily volume weighted average price (VWAP) of a Bank's share during the 60 trading days ending on the last trading day (inclusive) before the grant date, risk-adjusted for the performance condition. At the grant date of 1 March 2017 the fair value of a PSU was calculated at CHF 73.85, and one PSU was equal to one ordinary share of the Bank. At 31 December 2017 the conversion ratio of one PSU was 112% based on performance conditions.

The total recognised compensation cost was TCHF 155 in 2017. The remaining unrecognised cost of TCHF 403 is expected to be recognised over a weighted-average period of 26 months.

26. Supplemental Cash Flow Information

Certain supplemental information related to cash flows is shown below:

For the years ended 31 December (CHF in thousands)	**2017**	2016
Increase in loans to customers	**–1,782,663**	–1,697,260
Principal collections from customers – loans	**1,655,991**	1,720,556
Investment in equipment for financing leases	**–1,038,222**	–760,583
Principal collections from customers – financing leases	**766,247**	784,205
Net change in credit card receivables and other	**–135,324**	–102,041
Net change in financing receivables	**–533,972**	**–55,122**

27. Off-Balance Sheet Arrangements

As at 31 December 2017 and 2016, the Group was party to the following off-balance sheet financial instruments. The balances represent the Group's maximum contractual exposure to credit risk resulting from off-balance sheet arrangements:

At 31 December (CHF in thousands)	**2017**	2016
Ordinary course of business lending commitments	**58,502**	57,625
Unused revolving loan facilities	**56,841**	50,333
Unused credit card facilities	**2,859,117**	2,666,614

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Loan commitments are most often uncollateralised and may be drawn up to the total amounts to which the Group is committed. Total commitment amounts do not necessarily represent future cash requirements as the lines of credit may expire or be terminated without being fully drawn upon. No additional allowance for losses was deemed necessary for these unused commitments since the Group can terminate the lines of credit at any time unilaterally.

28. Subsequent Events

The Group has evaluated subsequent events from the financial position date through 15 March 2018, the date at which the financial statements were available to be issued. There were no subsequent events at that date.

Report of the Statutory Auditor

To the General Meeting of Cembra Money Bank AG, Zurich

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of Cembra Money Bank AG and subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows, and notes thereto (page 84 to 117) for the years ended December 31, 2017 and 2016.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. Generally Accepted Accounting Principles and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Swiss law and Swiss Auditing Standards as well as Auditing Standards Generally Accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements as of and for the years ended December 31, 2017 and 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with U.S. Generally Accepted Accounting Principles and comply with Swiss law.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Valuation of allowance for losses on financing receivables

Valuation of goodwill

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of allowance for losses on financing receivables

Key Audit Matter

As per December 31, 2017 gross financing receivables (smaller-balance, homogenous loans, including credit card receivables, personal loans as well as auto leases and loans) amounted to CHF 4,611.2 million (representing 90% of total assets). At the same time, the Group has recorded an allowance for losses on financing receivables of CHF 49.7 million.

The valuation of collective allowance for losses on financing receivables relies on the application of significant management judgment in determining the methodology and parameters in calculating the allowance and requires specific knowledge of developments in the Group's financing receivables portfolio. The use of different modelling techniques and assumptions (e.g. current trends, conditions and macroeconomic factors) could result in significantly different estimates of allowances for losses on financing receivables.

In particular, the valuation of the collective allowance for losses on financing receivables is based on significant estimates, such as future client payment behaviour, which is subject to management judgment and requires specific knowledge and competencies in determining allowances.

Our response

We assessed and tested the design and operating effectiveness of the key controls over financial reporting with respect to the valuation of the allowance for losses on financing receivables. This included controls over the calculation, approval, recording and monitoring of allowances. This also included controls over model approval, validation and approval of key data inputs and qualitative considerations for potential impairment that were not captured by management's models.

For a sample of allowances for losses on financing receivables calculated on a collective basis we tested the underlying models including the model approval and validation process. We also tested the reasonableness of the inputs to those models, such as delinquency and payment behaviour, by comparing data and assumptions made to historical accuracy of estimates.

For a sample of financing receivables, and with the use of our own valuation specialists, we critically examined and challenged the assumptions and models used or we re-performed an independent assessment of the valuation allowance.

For further information on valuation of allowance for losses on financing receivables refer to the following:

— Annual Report 2017, Basis of presentation and summary of significant accounting policies, Allowance for losses

Valuation of goodwill

Key Audit Matter	Our response
As at December 31, 2017 the Group recognised goodwill of CHF 14.5 million arising from two acquisitions in the reporting period. Due to the inherent uncertainty of forecasting and discounting future cash flows in relation with the Group's recognised goodwill, this is deemed to be a significant area of judgment. Goodwill impairment testing is performed at the Reporting Unit (RU) level and involves a comparison of the estimated fair value of each RU to its carrying amount. The estimates of fair values are determined by discounting future projected cash flows.	Our procedures included, amongst others, the assessment of the Group's processes and key controls for testing of goodwill impairment, including the assumptions used. We tested the key assumptions and methodologies forming the Group's fair value calculations, including the cash flow projections and discount rates. We assessed the reasonableness of cash flow projections and compared key inputs, such as the discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance. Additionally, we considered whether the Group's disclosures of the application of judgment in estimating key assumptions and the sensitivity of the results of those estimates adequately reflect the risk associated with the goodwill impairment.

For further information on valuation of goodwill refer to the following:

— Annual Report 2017, Basis of presentation and summary of significant accounting policies, Goodwill

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Cataldo Castagna Licensed Audit Expert Auditor in Charge	Daniel Merz Licensed Audit Expert

Zurich
March 15, 2018

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Balance Sheet

At 31 December (CHF in thousands)	Notes	2017	2016
Assets			
Liquid assets		**405,410**	662,425
Amounts due from banks		**3,016**	4,494
Amounts due from customers	7.1	**4,075,753**	3,625,397
Financial investments	7.2	**49,032**	49,277
Accrued income and prepaid expenses		**47,065**	46,117
Participations		**56,988**	120
Tangible fixed assets		**28,354**	28,423
Other assets	7.3	**8,878**	23,675
Total assets		**4,674,496**	**4,439,928**
Total subordinated claims		**292,990**	50,990
Liabilities			
Amounts due to banks		**147,000**	385,000
Amounts due in respect of customer deposits		**1,012,278**	997,820
Cash bonds		**1,576,887**	1,276,792
Bond issues and central mortgage institution loans		**926,144**	824,907
Accrued expenses and deferred income		**50,070**	41,578
Other liabilities	7.3	**62,555**	34,904
Provisions	7.6	**1,371**	1,538
Bank's capital	7.7	**30,000**	30,000
Statutory capital reserves		**84,760**	182,036
of which reserve from tax-free capital contribution		**84,760**	182,036
Statutory retained earnings reserves		**15,000**	15,000
Voluntary retained earnings reserves		**722,304**	605,000
Own shares	7.11	**–101,004**	–100,385
Profit carried forward		**237**	42
Profit (result of the period)		**146,893**	145,695
Total liabilities		**4,674,496**	**4,439,928**
Total subordinated liabilities		**–**	–
Off-Balance-Sheet Transactions			
Contingent liabilities	7.1	**58,502**	57,625
Irrevocable commitments	7.1	**7,478**	7,372

Income Statement

For the years ended 31 December (CHF in thousands)	Notes	2017	2016
Result from interest operations			
Interest and discount income	8.1	**326,336**	344,804
Interest and dividend income from financial investments		**871**	121
Interest expense	8.1	**−23,167**	−24,665
Gross result from interest operations		**304,040**	**320,260**
Changes in value adjustments for default risks and losses from interest operations		**−32,338**	−34,331
Subtotal net result from interest operations		**271,702**	**285,929**
Result from commission business and services			
Commission income from other services		**141,319**	127,942
Commission expense		**−65,702**	−71,219
Subtotal result from commission business and services		**75,617**	**56,722**
Other result from ordinary activities			
Income from participations		**249**	–
Other ordinary income		**3,736**	4,022
Other ordinary expenses		**–**	–
Subtotal other result from ordinary activities		**3,986**	**4,022**
Operating expenses			
Personnel expenses	8.2	**−98,473**	−98,524
General and administrative expenses	8.3	**−56,803**	−55,548
Subtotal operating expenses		**−155,276**	**−154,072**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		**−8,186**	−7,853
Operating result		**187,843**	**184,748**
Extraordinary income	8.4	**–**	1,198
Taxes	8.5	**−40,949**	−40,251
Profit (result of the period)		**146,893**	**145,695**

Appropriation of Profit

For the years ended 31 December (CHF in thousands)	**2017**	2016
Profit	**146,893**	145,695
Profit carried forward	**237**	42
Distributable profit	**147,131**	**145,737**
Reclassification from statutory capital reserves	**84,595**	97,284
Reclassification from voluntary retained earnings reserves	**15,509**	28,198
Total available to the General Meeting	**247,234**	**271,219**
Appropriation of profit		
Allocations to statutory retained earnings reserves	**–**	–
Allocations to voluntary retained earnings reserves	**–147,000**	–145,500
Dividends declared	**–100,104**	–125,482
of which distributed from distributable profit	**–15,509**	–28,198
of which distributed from statutory capital reserves	**–84,595**	–97,284
New profit carried forward	**131**	**237**

Statement of Changes in Equity

CHF in thousands	Bank's capital	Statutory capital reserves	Statutory retained earnings reserves	Voluntary retained earnings reserves and profit carried forward	Own shares	Result of the period	**Total**
Equity at 1 January 2017	**30,000**	**182,036**	**15,000**	**605,042**	**–100,385**	**145,695**	**877,388**
Appropriation of profit 2016							
Allocation to legal reserves	–	–	–	–	–	–	**–**
Allocation to voluntary reserves	–	–	–	145,500	–	–145,500	**–**
Dividends	–	–97,276	–	–28,196	–	–	**–125,471**
Net change in profit carried forward	–	–	–	195	–	–195	**–**
Acquisition of own shares	–	–	–	–	–619	–	**–619**
Profit (result of the period)	–	–	–	–	–	146,893	**146,893**
Equity at 31 December 2017	**30,000**	**84,760**	**15,000**	**722,541**	**–101,004**	**146,893**	**898,191**

Notes to the Individual Financial Statements

1. The Company, Legal Form and Domicile of the Bank

Cembra Money Bank AG (the "Bank") is a public company under the Swiss law. The services are rendered at the Bank's headquarters in Zurich as well as through 18 branches in Switzerland.

2. Accounting and Valuation Principles

General Principles

Accounting and valuation principles for the statutory individual financial statements are based on the Swiss Code of Obligations, the Banking Law, its relevant regulation and the Circular 15/1 of the Swiss Financial Market Supervisory Authority FINMA. The individual financial statements with reliable assessment describe the economic situation of the Bank in the way that enables third parties to make a reliable opinion. The individual financial statements can contain hidden reserves.

The numbers published in the notes are rounded, however they are calculated on full numbers, therefore rounding differences can occur.

General Valuation Principles

The financial statements are prepared under the going concern assumption. Assets result from past business transactions or events. They are tangible or intangible assets under the control of the Bank, from which the Bank is likely to benefit or future cash inflow is probable. Asset values must be determined in a reliable manner. If no sufficient reliable estimate is possible, then the asset is considered as contingent.

Liabilities result from past business transactions or events where future cash outflow is probable (e.g. due to the purchase of goods or services, liabilities resulting from the provision of guarantees, or liability claims for services rendered). The amount required to meet the liability (settlement value) must be determined or estimated reliably. Where this is not possible, liabilities are considered as contingent liabilities.

The balance sheet line items are valued on an individual basis. The transitional provision requiring implementation of individual valuation for participations, tangible fixed assets and intangible assets by 1 January 2020, is not applied.

Offsetting of assets and liabilities as well as income and expense is generally not permitted. The exceptions are made for: offsetting value adjustments that are directly attributable to individual assets against the respective assets; for receivables and payables as long as they are related to similar transactions with the same counterparty, in the same currency and the same or earlier maturity of the receivables that do not result in counterparty risk.

Liquid Assets
Liquid assets are recorded at nominal value.

Amounts Due from Banks, Amounts Due from Customers
Amounts due from banks and customers are recorded at nominal value less value adjustments.

The allowance for losses on financing receivables represents the Bank's estimate of future probable losses inherent in the portfolio. Losses on financing receivables are recognised when they are incurred. The method of calculating estimated losses depends on the size, type and risk characteristics of the related financing receivables. The Bank's loan portfolio consists of smaller-balance, homogenous loans, including credit card receivables, personal loans, auto leases and loans. Each portfolio is evaluated for impairment quarterly. The allowance for losses on these financing

receivables is established through a process that estimates the probable losses inherent in the portfolio based upon statistical analyses of portfolio data. These analyses include migration analysis, in which historical delinquency and credit loss experience is applied to the current ageing of the portfolio, together with other analyses that reflect current trends and conditions. Management also considers the Bank's historical loss experience to date based on actual defaulted loans and overall portfolio indicators including nonaccrual loans, trends in loan volume and lending terms, credit policies and other observable environmental factors such as the unemployment rate or interest rate movements as well as future client payment behaviour which is subject to management judgement.

"Nonaccrual financing receivables" are those on which the Bank has stopped accruing interest.

"Delinquent" receivables are those that are 30 days or more past due based on their contractual terms.

For personal loans and auto leases and loans, the Bank maintains a single write-off date within each month, which ensures that at each reporting date all accounts meeting the relevant criteria have been written off. The Bank writes-off unsecured closed-end instalment loans and consumer auto finance leases on the monthly write-off date after the contract reaches 120 days contractually past due and unsecured open-end revolving loans and commercial auto finance leases on the monthly write-off date after the contract reaches 180 days contractually past due. For credit cards, the Bank writes off the account on the date the account becomes 180 days contractually past due. Unsecured consumer loans in bankruptcy are written off within 60 days of notification of filing by the bankruptcy court or within the defined write-off periods, whichever occurs earlier.

Recoveries are defined as any cash collected after a loan or lease has been written off. Recoveries include the receipt of principal, interest, fees and proceeds from realisation of collateral, debt sales and claims against insurance policies.

Write-offs are deducted from the allowance for losses when the Bank judges the principal to be uncollectable and subsequent recoveries are added to the allowance for losses at the time cash is received on a written off account.

Changes in value adjustments for default risks and losses from interest operations is the expense related to maintaining the allowance for losses at an appropriate level to absorb the estimated probable future losses on financing receivables as at each period end date.

Delinquent receivables are classified as regular when outstanding instalments and interest are paid in a timely manner according to contractual terms and when further credit worthiness criteria are fulfilled as well. The release of allowance is recorded through the Income Statement position "Change in value adjustments for default risks from interest operations".

Amounts Due to Banks, Amounts Due to Customers in Savings and Deposit Accounts
These items are recorded at nominal value.

Financial Investments
Financial assets comprise debt securities and vehicles that have been acquired as a result of credit transactions and are designated for resale. Financial investments valued according to the principle of the lower of cost or market value: an upwards revaluation to the acquisition cost at maximum is required where the market value has fallen below the acquisition cost and then recovers. The balance of adjustments in the book value is to be recorded under the position "Other ordinary income" or "Other ordinary expenses", as applicable.

Debt securities held to maturity are valued at acquisition cost with premium or discount amortised to maturity under the accrual method. Value adjustments for default risks are recorded in the Income Statement position "Change in value adjustments for default risks from interest operations".

Debt securities without intent to hold to maturity are valued according to the principle of lower of cost or market value. Value adjustments from subsequent measurement are recorded in the income statement under the position "Other ordinary income" or "Other ordinary expenses", as applicable. Value adjustments for default risks are recorded in Income Statement under position "Change in value adjustments for default risks from interest operations".

Participations
Participations are equity securities owned by the Bank in undertakings, where those securities are held with the intention of a permanent investment irrespective of the percentage of voting shares held. Participations are valued individually at acquisition cost less economically necessary value adjustments. At every balance sheet date, participations are tested for impairment. This test results from indicators that individual assets may be impaired. In such case realisable value of the asset is determined, which is the higher of net market value and utility value. An asset is impaired if the book value is higher than realisable value. In case of impairment, the book value is written down to realisable value, and the impairment charge is recorded in the position "Value adjustments on participations and depreciation and amortisation of fixed assets and intangible assets".

Tangible Fixed Assets
Investments in tangible fixed assets are capitalised when they are used for more than one accounting period and exceed a threshold of CHF 3,000. Tangible fixed assets are recorded at acquisition cost less accumulated depreciation. Depreciation is recognised in accordance with a schedule on a straight line over the useful life of the asset and recorded in the position "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets". On every balance sheet date, fixed assets are tested on impairment. This test results from indicators that individual assets may be impaired. In such case, realisable value of the asset is determined, which is the higher of net market value and utility value. An asset is impaired if the book value is higher than the realisable value. In case of an impairment, the book value is reduced to the realisable value, and the value adjustment is recorded in the position "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets". The estimated useful life of the fixed asset categories is as follows:

Buildings	40 years
Leasehold improvements	5–10 years
Office equipment	5–10 years
Hardware	3 years
Software	5 years

Provisions
Legal and factual obligations are valued on a regular basis. When a value outflow is probable and can be measured reliably, a corresponding provision is established.

Existing provisions are assessed at every balance sheet date. Provisions are recorded in the Income Statement position "Changes in provisions and other impairments and losses". Based on the new assessment, provisions are increased, retained or released. Provisions are released through Income Statement in case they are not economically necessary anymore and cannot be used to cover for similar exposures.

Taxes
Current taxes are recurring annual income and capital taxes. Transaction-based taxes are not included in current taxes. Liabilities resulting from current income and capital taxes are disclosed under "Accrued expenses". The current income and capital tax expense is disclosed under "Taxes" in the Income Statement.

Off-balance Sheet
Off-balance sheet items are recorded at nominal value. For foreseeable risk provisions are built in the balance sheet.

Own Shares
Acquired own shares are recorded initially at cost value on the purchase date under "Own shares" as a negative position in the shareholders' equity. There is no subsequent measurement.

Realised gain from the sale of own shares is recorded under "Statutory retained earnings reserve". The position "Own shares" is reduced for the sale at acquisition cost value.

Pension Liability

The employees of the Bank are insured by the pension fund of the Bank. The pension liabilities as well as pension assets to cover these liabilities are held in a legally independent foundation. The organisation, management and financing of the pension plan are done in accordance with applicable regulations, the articles of the foundation as well as the valid pension regulations. The entire pension and post-retirement benefit plans of the Bank are based on a defined contribution principle.

The Bank pays over-mandatory contributions to the Bank's pension fund, which insures personnel against the financial consequences of old age, death and disability. The employer contributions to the pension plans are recorded under "Personnel expenses" of the corresponding reporting period.

The Bank assesses at every balance sheet date if there is an economic benefit or an economic liability against the pension plan. It is based on the contractual agreements and annual reports of the pension fund prepared under FER 26 in Switzerland, as well as other calculations relevant to the assessment of financial situation as well as existing over/ underfunding of the plan.

Share-based Compensation

The Bank has share-based compensation programmes in place. The Bank accounts for the compensation cost from share-based payment transactions according to the fair-value-based method. The compensation cost is measured based on the fair value of the shares at grant date and is recognised over the requisite service period with a corresponding credit to equity. Any differences at settlement are recorded as "Personnel expenses". For details to share-based compensation please refer to the Compensation Report.

Changes in the Accounting and Valuation Principles as Compared to the Previous Year

There were no significant changes in the accounting and valuation principles in 2017 compared to previous year.

Recording of Transactions

All transactions concluded by the balance sheet date are recorded at trade date in the books and valued according to the valuation principles as described above.

Treatment of Overdue Interest

Overdue interest and corresponding commissions are not recorded as interest income. As such are considered interest and commissions that are due for more than 90 days, but not paid. From this point of time, the future interest and commissions are no longer recorded as "Interest and discount income" until there is no overdue interest outstanding. Overdue interest is not cancelled retroactively. The interest due from the period up to 90 days (due, unpaid and accrued interest) is written off through the position "Changes in value adjustments for default risks and losses from interest operations".

Foreign Currency Translation

Transactions in foreign currencies are booked using daily exchange rates. At the balance sheet date, assets and liabilities are translated at closing exchange rates. Foreign currency translation gains and losses are recorded in the Income Statement. As of balance sheet date, the Bank had no significant foreign exchange exposures.

3. Risk Management

Risk is broadly defined as the possibility that an uncertain event or outcome results in adverse variations of profitability or in losses. In the process of performing its function as a financial intermediary, the Bank exposes itself to various categories of risk, such as credit risk, asset and liability management risk, operational risk and other risks.

The Bank ensures relevant legal and regulatory requirements are complied with at all times. In accordance with its strategic objectives, risk profile, risk appetite and tolerance levels, the Bank prudently takes, controls and monitors its risks.

The Bank actively, comprehensively and systematically manages risk and promotes a strong risk culture across all business areas. The established risk management process comprises four core elements:

- Identification of risks across all business activities;
- Assessment, measurement of risks, including stress testing;
- Limitation, mitigation of risks; and
- Effective risk controls and monitoring.

The Board of Directors is ultimately responsible for determining the Bank's risk strategy, risk appetite and corresponding tolerance levels. It ensures that an adequate and effective internal control system is in place to continually assess, monitor and control material risks and oversees the Bank's risk profile and implementation of the risk management framework and strategies.

The Bank has set regulations governing the risk management and control processes. These ensure all material risks are recorded, mitigated and supervised. These processes are supported by a framework of approved policies and directives, which describe the principles guiding the Bank's attitude and propensity to risk.

Three working committees have been established:

Committee	Risk category
Credit Committee	Credit risk
Asset & Liability Management Committee (ALCO)	Asset & Liability Management, Market & Liquidity Risk, Capital Management
Risk & Controllership Committee (RCC)	Enterprise Risk Framework, Internal Control System, Compliance & Operational Risk Management, Security, Business Continuity Management

Credit Risk

Credit risk is the risk to earnings or capital that may arise from the potential that a borrower or counterparty may fail to honour its contractual obligations. The obligations include, for example, interest, fees and principal repayment. A consequent loss may be partial or complete and may arise at any time from a number of isolated or interlinked circumstances. The Bank is exposed to credit risk on all its lending products.

As per the delegation from the Board of Directors, the Credit Committee serves as the decision-making body for credit decisions and regularly reviews the Bank's credit risk performance. The Credit Committee is responsible for making credit decisions on individual counterparties and existing programme renewals which are not within the authority delegated to the Chief Risk Officer (CRO) but within the authority determined by the Board of Directors. Credit decisions that exceed the Credit Committee's authority would need to be approved by the Board of Directors. The Credit Committee is chaired by the CRO who, along with the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), are mandatory members for decision-making.

The guidelines for credit decisions for new product introductions, existing programme renewals, as well as the individual counterparty credit approvals are described within a credit competency policy. Delegated credit competency authorities are actively monitored and reviewed regularly to ensure alignment with the risk appetite.

The Bank maintains a stringent underwriting process, which is continually monitored and optimised to ensure that credit risk is adequately managed. Prior to granting credit, the customer's creditworthiness, credit capacity and, where applicable, collateral are assessed. The customer's creditworthiness is evaluated by an automated internal credit risk rating system (scorecard) by leveraging available information about the customer. This ensures consistent and systematic decision-making across all lending products.

The credit capacity of consumers is further evaluated according to the legal regulations of the Swiss Consumer Credit Act. Internal models determine the credit amount based on the risk profile of the customer. Manual underwriting complements the automated system decision in cases where additional information may be required.

The quality of portfolios and specific customer segments are thoroughly and periodically assessed. The quality and performance of new business is monitored to ensure that the credit approval process continues to effectively mitigate credit risk and underwriting procedures are being correctly followed. Scorecards are regularly monitored and back-tested to ensure their performance remains at the expected level and, if required, model changes are implemented. Segmented collection strategies are implemented to tailor activities to customer groups with different payment behaviours and to ensure optimal resource allocation and effective mitigation of credit risk.

The Bank's customer base comprises primarily of natural persons and small and medium enterprises. Concentration risks are regularly assessed and monitored. The large number of borrowers naturally results in a broad credit risk diversification.

The credit risk metrics and portfolio performance reports are reviewed by the Credit Committee monthly. Summaries of the Bank's credit risk performance are reported to the Audit & Risk Committee and Board of Directors quarterly.

Asset and Liability Management

Asset and liability management (ALM) forms part of the Bank's risk management framework and can be considered as the coordinated management of various inherent risk types, such as liquidity, funding and market risk, in order to achieve the Bank's objectives whilst operating within prudent and predetermined risk limits and concentrations. The decision-making committee for asset and liability management activities, as per the delegation from the Board of Directors, is the Asset & Liability Management Committee (ALCO). The ALCO has overall responsibility for the administration of finance policies, its monitoring and reporting. The ALCO is chaired by the CFO and requires the mandatory attendance of the CEO and CRO.

Liquidity and Funding Risk

Liquidity risk is defined as the risk of the Bank not having sufficient funds, or only being able to secure them at excessive costs, to meet contractual obligations when they fall due and support normal business activities. The Bank recognises that liquidity risks are often consequential rather than isolated in nature and arise from the materialisation of other risk types such as strategic, reputation, credit, regulatory, or macroeconomic.

The Bank's liquidity risk appetite is defined by the Board of Directors and forms the basis for the Bank-internal liquidity risk management strategy, the liquidity-related directives and the risk-steering and control process. The liquidity risk management strategy, processes and controls are guided by the Principles for Sound Liquidity Risk Management and Supervision issued by the Basel Committee on Banking Supervision (BCBS) and are compliant with FINMA circulars and in accordance with the defined liquidity risk appetite.

As an independent listed entity, the Bank aims to maintain a highly conservative liquidity profile; this approach is viewed as an essential safeguard in protecting the reputation of the Bank as a stable institution. The Management Board ensures that adequate liquidity levels are maintained to meet operational and regulatory requirements under normal and stressed conditions. Excess liquidity can be invested with two principal objectives in mind: principal preservation and liquidity management.

The Bank maintains a robust stable funding structure. In order to withstand an extended period of limited access to the wholesale funding market, the Bank proactively seeks to reduce reliance on short term, potentially volatile sources of funding. The Bank actively averts building up concentration risk and strategically diversifies its investor base across different business sectors, by individual counterparty, by maturity buckets and across various categories of debt instruments.

Market Risk

Market risk encompasses the risk of financial losses due to adverse movements in the market prices. The Bank's business model leads to a very limited exposure to market risk factors. The Bank's main source of market risk is interest rate risk (IRR). IRR is the risk of a potential reduction in earnings and/or capital that stems from changes in the prevailing market interest rates that is borne by interest-sensitive assets, liabilities and capital.

IRR has various primary components and is not simply linked to falling or rising interest rates. Due to the Bank's predominately fixed interest rate assets and liabilities, it is mainly exposed to 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 Bank's assets and liabilities. The Bank faces relatively low option and basis risk. Consequently, the Bank focuses on IRR repricing risk.

The Bank actively monitors and manages IRR performance against internally defined triggers. As per the regulatory requirement, the Bank reports forecasted values of economic value of equity (lifetime) and earnings at risk (next 12 months) on a weekly basis. As of 31 December 2017, the Bank does not employ hedging instruments to manage IRR.

Operational Risk and Other Risks

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank recognises the importance of the effective management of operational risks and has implemented appropriate processes to manage them.

Key instruments:
- Operational Risk Assessments: regular identification and assessment of the likelihood and potential impact of operational risks;
- Key Risk Indicators: regularly monitored risk metrics that serve as early warning indicators for potentially material operational risks;
- Loss Data Collection: historical dataset of loss events used to identify operational risks deriving from process inefficiencies or control gaps; and
- External Events Analysis: external operational risk events applicable to the Bank's risk profile analysed to identify emerging risks and evaluate controls.

The Bank is exposed to a wide variety of operational risks, including technology risk that stems from dependencies on information technology, third-party suppliers and the telecommunications infrastructure. Information security, data confidentiality and integrity are of critical importance, and the Bank has implemented an enhanced and comprehensive framework dealing with protecting client identifying data.

4. Methods Used for Identifying Default Risks and Determining the Need for Value Adjustments

For its lending products, the Bank uses consumer ratings (CR) to assess overall credit quality. There are five consumer ratings, each having an implied probability of default based on historical default experience, with a default definition of 90 days past due.

For private customers, the consumer rating is derived from a credit score application that is calculated through one of the Bank's internal scorecards. Each credit score translates into one of the consumer ratings. For commercial customers, an obligor rating (OR) is assigned. The obligor rating can be translated into the grades of the consumer rating. In addition to regular scorecard monitoring, a parity test is run on a quarterly basis to monitor at portfolio level whether the consumer ratings adequately reflect the credit quality. The parity tests confirm that although a consumer rating may have been assigned more than 12 months ago and so the initial 12-month window for probability of default has passed, the rating still accurately reflects the probability of default.

5. Events after the Balance Sheet Date

The Bank has evaluated subsequent events from the financial statements date through 15 March 2018, the date at which the financial statements were available to be issued. There were no subsequent events at that date.

6. Reasons that Led to the Premature Resignation of the Auditor

The External Auditor is elected for a period of one year at the General Meeting. The General Meeting has elected KPMG AG, Zurich as the statutory auditor of the Bank. KPMG AG was first appointed as statutory auditor in 2005. The auditors have not prematurely resigned from their function.

7. Notes to the Balance Sheet

7.1 Collateral for Financing Receivables and Off-Balance Sheet and Impaired Financing Receivables

The collateral for financing receivables and off-balance sheet is as follows:

At 31 December 2017 (CHF in thousands)	Secured by mortgage	Other collateral	Unsecured	Total
Financing receivables				
Amounts due from customers	**–**	**360,803**	**3,714,950**	**4,075,753**
Total financing receivables	**–**	**360,803**	**3,714,950**	**4,075,753**
Prior year	–	342,923	3,282,474	3,625,397
Off-balance sheet				
Contingent liabilities	**–**	**–**	**58,502**	**58,502**
Irrevocable commitments	**–**	**–**	**7,478**	**7,478**
Total off-balance sheet	**–**	**–**	**65,980**	**65,980**
Prior year	–	–	64,997	64,997

Impaired financing receivables are as follows:

At 31 December 2017 (CHF in thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments [1]
Impaired loans / receivables	**14,160**	**1,153**	**13,006**	**–**
Prior year	14,827	1,408	13,419	–

[1] The Bank has only allowance for losses that is calculated on the total of financing receivables. See note 7.6. for details.

The net debt amount remained stable against prior year, which is in line with the development of receivables.

7.2 Financial Investments

	Book value		Fair value	
At 31 December 2017 (CHF in thousands)	**2017**	2016	**2017**	2016
Debt securities held to maturity	**37,200**	37,200	**37,408**	37,244
Debt securities available for sale	**11,744**	11,959	**11,744**	11,959
Repossessed vehicles held for sale	**88**	118	**88**	118
Total	**49,032**	**49,277**	**49,240**	**49,321**

The breakdown of counterparties by rating is following:

At 31 December 2017 (CHF in thousands)	AAA to AA–	A+ to A–	BBB+ to BBB–	Lower than B–	Not rated
Book value of debt securities	**10,740**	**37,200**	**–**	**–**	**1,004**

The Bank uses the rating classes of Fitch, Moody's and Standard & Poor's.

7.3 Other Assets and Liabilities

	2017		2016	
At 31 December (CHF in thousands)	**Other assets**	**Other liabilities**	Other assets	Other liabilities
Indirect taxes	**920**	**950**	58	2,386
Settlement accounts	**562**	**60,852**	528	29,265
Amounts due from the sale of insurance products	**2,182**	**–**	4,587	–
Various assets and liabilities	**5,213**	**752**	18,503	3,254
Total other assets and liabilities	**8,878**	**62,555**	**23,675**	**34,904**

7.4 Liabilities to Own Pension Plans

At 31 December (CHF in thousands)	**2017**	2016
Amounts due in respect of customer deposits	**–**	989
Total due to own pension plans	**–**	**989**

The pension fund does not directly hold any equity instruments of the Bank.

7.5 Economic Position of Own Pension Plans

At 31 December (CHF in thousands)			**2017**		Influence of ECR on personnel expenses	
Employer contribution reserves (ECR)[1]	**Nominal value**	**Waiver of use**	**Net amount**	Net amount end of prior year	**2017**	2016
Pension plan	**2,915**	**–**	**2,915**	2,915	**–**	–
Total due to own pension plans	**2,915**	**–**	**2,915**	**2,915**	**–**	**–**

[1] Based on audited financial statements 2016 and 2015 of Employer Pension Plan of Cembra Money Bank AG in accordance with FER 26 and material changes during the reporting period

The employer contribution reserves are recorded at nominal value according to pension plan statement under the position "Other assets" in the balance sheet. The nominal value of the employer contribution reserve is not discounted. Ordinary interest rate is currently not applied to employer contribution reserve. There are no unrecognised employer contribution reserves.

Economic benefit / obligation and pension expense[1]	**Overfunding / underfunding at 31.12.2017**	Economic interest of the bank		Change in economic interest versus prior year	**Contributions paid 2017**	Pension expense in personnel expense	
CHF in thousands		**2017**	2016			**2017**	2016
Employer sponsored funds / schemes	**–**	**–**	–	–	**–**	**–**	–
Pension plans without overfunding / underfunding	**–**	**–**	–	–	**–**	**–**	–
Pension plans with overfunding	**10,584**	**–**	–	–	**7,403**	**7,877**	7,194
Pension plans with underfunding	**–**	**–**	–	–	**–**	**–**	–

[1] Based on audited financial statements 2016 and 2015 of Employer Pension Plan of Cembra Money Bank AG in accordance with FER 26 and material changes during the reporting period

All regular employees of the Bank are insured in the pension fund of the Bank. Temporary employees are exempt. The plan is a defined contribution plan. The accounting of the pension plan follows the guidelines of Swiss GAAP FER 26. There are no further obligations of the employer.

7.6 Value Adjustments and Provisions

CHF in thousands	Balance as per 31 December 2016	Use in conformity with designated purpose	Recoveries, past due interest	New provisions charged to income	Releases to income	**Balance as per 31 December 2017**
Value adjustments and provisions for default risks	43,831	−103,555	61,406	52,971	−11,249	**43,404**
Provision for pension benefit obligations	–	–	–	–	–	**–**
Other provisions	1,538	−135	–	11	−42	**1,371**
Total value adjustments and provisions	**45,368**	**−103,690**	**61,406**	**52,982**	**−11,291**	**44,776**

Value adjustments and provisions for default risks are related to financing receivables. Please refer to the Risk Management section for details. Other provisions contain provisions for fraud losses, litigation and others.

7.7 Bank's Capital

Bank's capital	2017 Total par value in CHF	2017 Number of shares	2017 Capital eligible for dividend in CHF	2016 Total par value in CHF	2016 Number of shares	2016 Capital eligible for dividend in CHF
Share capital	**30,000,000**	**30,000,000**	**30,000,000**	30,000,000	30,000,000	30,000,000
Total	**30,000,000**	**30,000,000**	**30,000,000**	**30,000,000**	**30,000,000**	**30,000,000**

Share capital is fully paid in. There are no special rights related to share capital.

7.8 Share and Option Holdings of the Members of the Board of Directors, the Management Board and the Employees

	Equity shares				Options (RSUs)			
	Number as of 31 December		Value (CHF) at 31 December		Number as of 31 December		Value (CHF) at 31 December [1]	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Members of the Board of Directors	**19,661**	14,450	**1,786,202**	1,072,190	**–**	–	**–**	–
Members of the Management Board	**15,876**	12,430	**1,442,335**	922,306	**13,542**	11,984	**917,429**	751,940
Employees	**4,971**	4,411	**451,615**	327,296	**5,468**	5,978	**367,880**	375,092
Total	**40,508**	**31,291**	**3,680,152**	**2,321,792**	**19,010**	**17,962**	**1,285,309**	**1,127,032**

[1] Weighted yearly average price since grant date

Under the Executive Variable Compensation Plan (EVCP) that was set up for the senior management team in 2013 each member of the Group's senior management team received at grant a number of restricted stock units (RSUs) as part of their annual variable compensation. Vesting for the RSUs takes place in three equal tranches. The last grant of RSUs was in 2016 for the performance year 2015. For further details related to this plan, please refer to the Compensation Report in the Annual Report 2015.

In 2016 the EVCP plan was adapted and since the performance year 2016 the senior management team receives under the long-term incentive programme (LTI), which is one part of the EVCP, a part of their variable compensation in performance share units (PSUs). The PSUs vest after a three-year period depending on the achievement of performance conditions which include relative total shareholder return (TSR) and cumulative fully diluted earnings per share (EPS). The actual LTI bonus of each participant is determined in the first quarter after each performance year in a range of 75% to 125% of the target LTI bonus based on a lookback assessment in a guided discretion by the Board. The actual LTI bonus is granted in PSUs. The first grant took place in March 2017. For details regarding the plan, please refer to Compensation Report on page 64.

7.9 Related Parties

At 31 December (CHF in thousands)	**2017**	2016
Amounts due from related companies	**339,691**	52,524
Amounts due to related companies	**10,443**	4,968

There are no off-balance items from related parties. Related-party transactions are concluded at arm's length conditions.

There are following transactions with governing bodies:

At 31 December (CHF in thousands)	**2017**	2016
Amounts due from members of governing bodies	**17**	21
Amounts due to members of governing bodies	**429**	912

The governing bodies conclude usual banking transactions at personnel conditions.

7.10 Holders of Significant Participations

The following parties hold participations with more than 5% of voting rights:

	2017			2016		
Significant shareholders with voting rights	**Total par value in CHF**	**Number of shares**	**Share as %**	Total par value in CHF	Number of shares	Share as %
Cembra Money Bank AG	**1,814,170**	**1,814,170**	**6.0%**	1,807,627	1,807,627	6.0
UBS Fund Management	**1,623,913**	**1,623,913**	**5.4%**	1,623,913	1,623,913	5.4

7.11 Own Shares

Treasury shares (number)	**2017**	Average transaction price (CHF)
Balance at 1 January	**1,807,627**	
Purchase	**17,000**	84.88
Share-based compensation	**–10,457**	63.74
Balance at 31 December	**1,814,170**	

Own shares were purchased at fair value during the reporting period.

Non-distributable Reserves

At 31 December (CHF in thousands)	**2017**	2016
Non-distributable statutory capital reserves	**–**	–
Non-distributable statutory retained earnings reserves	**15,000**	15,000
Total non-distributable reserves	**15,000**	**15,000**

The statutory retained earnings reserves and the statutory capital reserves, to the extent they do not exceed one-half of the share capital, may be used only to cover losses or for measures designed to sustain the Bank through difficult times, to prevent unemployment or to mitigate its consequences.

7.12 Holdings of the Governing Bodies and Compensation Report

Board of Directors

At 31 December		2017		2016	
Name	Function	**Number of shares**	**Number of blocked shares**	Number of shares	Number of blocked shares
Dr Felix Weber	Chairman	**7,250**	**1,963**	7,250	–
Ben Tellings [1]	Vice-Chairman	**–**	**567**	–	–
Denis Hall	Member	**–**	**180**	–	–
Prof. Dr Peter Athanas	Member	**–**	**720**	–	–
Urs Baumann	Member	**7,200**	**655**	7,200	–
Dr Monica Mächler	Member	**–**	**589**	–	–
Katrina Machin	Member	**–**	**537**	–	–

[1] Vice-Chairman since 26 April 2017

Management Board

At 31 December		2017			2016		
Name	Position	**Number of shares**	**Number of RSUs**	**Number of PSUs**	Number of shares	Number of RSUs	Number of PSUs
Robert Oudmayer	CEO	**7,734**	**4,194**	**2,967**	5,807	6,121	–
Rémy Schimmel	CFO	**–**	**1,042**	**288**	–	1,042	–
Volker Gloe	CRO	**3,266**	**1,136**	**589**	2,742	1,660	–
Dr Emanuel Hofacker	General Counsel	**1,421**	**984**	**540**	1,026	1,379	–
Daniel Frei	Managing Director B2B Retail	**3,455**	**1,182**	**620**	2,855	1,782	–

For details, refer to the Compensation Report.

8. Notes to the Income Statement

8.1 Negative Interest Revenue

Negative interest on assets is recorded as a reduction of interest income. Negative interest on liabilities is recorded as a reduction of interest expense.

For the years ended 31 December (CHF in thousands)	2017	2016
Negative interest on assets (reduction of interest income)	**2,863**	2,040
Negative interest on liabilities (reduction of interest expense)	**253**	231

8.2 Personnel Expenses

For the years ended 31 December (CHF in thousands)	2017	2016
Salaries	**81,845**	82,593
of which share-based compensation and alternative forms of variable compensation	**464**	441
Social security benefits	**14,102**	13,633
Other compensation	**2,526**	2,298
Compensation and benefits	**98,473**	**98,524**

8.3 General and Administrative Expenses

For the years ended 31 December (CHF in thousands)	2017	2016
Office space expenses	**6,613**	8,605
Expenses from furniture and fixtures	**1,222**	1,176
Expenses for information and communication technology	**23,142**	24,046
Audit fees	**837**	947
Other operating expense	**24,989**	20,775
Total	**56,803**	**55,548**

8.4 Explanatory Notes on Extraordinary Income and Value Adjustments and Provisions No Longer Required

For the years ended 31 December (CHF in thousands)	2017	2016
Sale of a portfolio of loss certificates	–	1,198
Total	–	**1,198**

8.5 Current and Deferred Taxes

For the years ended 31 December (CHF in thousands)	2017	2016
Current tax expense	**40,949**	40,251
Income tax expense	**40,949**	**40,251**

The effective tax rates of the Bank for each of the two years ended 31 December was approximately 21%. There were no deferred taxes.

Report of the Statutory Auditor

To the General Meeting of Cembra Money Bank AG, Zurich

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of Cembra Money Bank AG, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 122 to 139) for the year ended December 31, 2017.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2017 comply with Swiss law and the company's articles of incorporation.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Valuation of allowance for losses on amounts due from customers (financing receivables)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of allowance for losses on amounts due from customers (financing receivables)

Key Audit Matter

As per December 31, 2017 amounts due from customers (smaller-balance, homogenous loans, including credit card receivables, personal loans as well as auto leases and loans) amounted to CHF 4,075.8 million (representing 87% of total assets) and included an allowance for losses of CHF 43.4 million.

The valuation of collective allowance for losses on amounts due from customers relies on the application of significant management judgment in determining the methodology and parameters in calculating the allowance and requires specific knowledge of developments in the Bank's amounts due from customers. The use of different modelling techniques and assumptions (e.g. current trends, conditions and macroeconomic factors) could result in significantly different estimates of allowances for losses on amounts due from customers.

In particular, the valuation of the collective allowance for losses on amounts due from customers is based on significant estimates, such as future client payment behaviour, which is subject to management judgment and requires specific knowledge and competencies in determining allowances.

Our response

We assessed and tested the design and operating effectiveness of the key controls over financial reporting with respect to the valuation of the allowance for losses on amounts due from customers. This included controls over the calculation, approval, recording and monitoring of allowances. This also included controls over model approval, validation and approval of key data inputs and qualitative considerations for potential impairment that were not captured by management's models.

For a sample of allowances for losses on amounts due from customers calculated on a collective basis we tested the underlying models including the model approval and validation process. We also tested the reasonableness of the inputs to those models, such as delinquency and payment behaviour, by comparing data and assumptions made to historical accuracy of estimates.

For a sample of amounts due from customers, and with the use of our own valuation specialists, we critically examined and challenged the assumptions and models used or we re-performed an independent assessment of the valuation allowance.

For further information on valuation of allowance for losses on amounts due from customers (financing receivables) refer to the following:

— Annual Report 2017, Accounting and valuation principles, Amounts due from banks/customers

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

KPMG AG

Cataldo Castagna
Licensed Audit Expert
Auditor in Charge

Daniel Merz
Licensed Audit Expert

Zurich
March 15, 2018