Individual Financial Statements

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.

KPMG

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

KPMG

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