Your Swiss Bank

Financial Report 2020

Consolidated Financial Statements

116 Consolidated Financial Statements

117 Consolidated statements of income

118 Consolidated statements of comprehensive income

119 Consolidated statements of financial position

120 Consolidated statements of changes in shareholders' equity

121 Consolidated statements of cash flows

122 Notes to the consolidated financial statements

158 Report of the statutory auditor

Consolidated statements of income

For the years ended 31 December (CHF in thousands)	Notes	2020	2019
Interest income	22	**401,814**	359,775
Interest expense	23	**– 26,856**	– 27,791
Net interest income		**374,958**	**331,984**
Commission and fee income	24	**122,273**	147,721
Net revenues		**497,231**	**479,705**
Provision for losses on financing receivables	**4**	**– 56,411**	**– 45,066**
Compensation and benefits		**– 129,541**	– 120,487
General and administrative expenses	25	**– 117,867**	– 111,277
Total operating expenses		**– 247,408**	**– 231,764**
Income before income taxes		**193,412**	**202,875**
Income tax expense	17	**– 40,490**	– 43,676
Net income		**152,922**	**159,199**
Earnings per share			
Basic	15	5.21	5.53
Diluted	15	5.20	5.53

See accompanying Notes to the Consolidated Financial Statements

Consolidated statements of comprehensive income

For the years ended 31 December (CHF in thousands)	2020	2019
Net income	**152,922**	159,199
Net prior service cost, net of tax	**– 1,283**	– 1,353
Actuarial gain / (loss), net of tax	**– 3,940**	– 736
Unrealised gains / (losses) on investment securities, net of tax	**– 7**	–
Total other comprehensive gain / (loss), net of tax	**– 5,230**	– 2,089
Comprehensive income	**147,693**	**157,110**

See accompanying Notes to the Consolidated Financial Statements

Consolidated statements of financial position

At 31 December (CHF in thousands)	Notes	2020	2019
Assets			
Cash and cash equivalents		**599,002**	542,579
Financing receivables, net	4	**6,292,563**	6,585,555
Investment securities	5	**0**	5,668
Property, plant and equipment, net	6	**35,376**	28,822
Thereof operating lease - right-of-use (ROU) assets	6	28,175	19,773
Intangible assets, net	7	**81,846**	93,021
Goodwill	8	**156,828**	156,828
Other assets	9	**78,877**	72,740
Total assets [1]		**7,244,491**	**7,485,213**
Liabilities and equity			
Deposits	10	**3,274,620**	3,495,152
Accrued expenses and other payables		**210,306**	202,158
Short-term debt	11	**275,216**	325,063
Long-term debt	11	**2,290,014**	2,313,541
Other liabilities		**66,618**	57,964
Thereof operating lease - lease liability	6	28,474	19,663
Deferred tax liabilities, net	17	**694**	788
Total liabilities [1]		**6,117,468**	**6,394,667**
Common shares		**30,000**	30,000
Additional paid in capital (APIC)		**259,046**	259,447
Retained earnings		**902,374**	859,685
Treasury shares		**– 35,843**	– 35,260
Accumulated other comprehensive loss (AOCI)		**– 28,555**	– 23,325
Total shareholders' equity		**1,127,023**	**1,090,547**
Total liabilities and shareholders' equity		**7,244,491**	**7,485,213**

[1] The Group's consolidated assets as at 31 December 2020 and 2019 include total assets of TCHF 633,653 and TCHF 626,547, 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 2020 and 2019 include liabilities of the VIEs of TCHF 503,639 and TCHF 455,749, 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	APIC	Retained earnings	Treasury shares	AOCI	**Total equity**
Balance at 1 January 2019	**30,000**	**209,590**	**816,069**	**– 100,972**	**– 21,235**	**933,451**
Net income	–	–	159,199	–	–	159,199
Dividends paid	–	–	– 105,734	–	–	– 105,734
Change due to share-based compensation	–	471	–	816	–	1,287
Treasury shares	–	45,161	– 9,852	64,896	–	100,204
Movements related to the Group's benefit plan obligation, net of deferred tax of 643	–	–	–	–	– 5,034	– 5,034
Reclassifications from accumulated other comprehensive loss net of deferred tax of –695 [1]	–	–	–	–	2,945	2,945
Change due to convertible bonds	–	4,200	–	–	–	4,200
Other	–	26	4	–	–	30
Balance at 31 December 2019	**30,000**	**259,447**	**859,685**	**– 35,260**	**– 23,325**	**1,090,547**
Balance at 1 January 2020	**30,000**	**259,447**	**859,685**	**– 35,260**	**– 23,325**	**1,090,547**
Net income	–	–	152,922	–	–	152,922
Dividends paid	–	–	– 110,233	–	–	– 110,233
Change due to share-based compensation	–	– 401	–	1,600	–	1,199
Treasury shares	–	–	–	– 2,182	–	– 2,182
Movements related to the Group's benefit plan obligation, net of deferred tax of 2,003	–	–	–	–	– 8,587	– 8,587
Reclassifications from accumulated other comprehensive loss net of deferred tax of -772 [1]	–	–	–	–	3,364	3,364
Unrealised gains / (losses) on available for sale debt securities, net of deferred tax of 2	–	–	–	–	– 7	– 7
Balance at 31 December 2020	**30,000**	**259,046**	**902,374**	**– 35,843**	**– 28,555**	**1,127,023**

[1] Reclassifications from accumulated other comprehensive loss related to the Group's benefit plan obligation are classified in the income statement under general and administrative expenses

See accompanying Notes to the Consolidated Financial Statements

Consolidated statements of cash flows

For the years ended 31 December (CHF in thousands)	Notes	2020	2019
Cash flows from operating activities			
Net income		**152,922**	159,199
Adjustments to reconcile net income to cash provided from operating activities:			
Provision for losses on financing receivables		**56,411**	45,066
Deferred income taxes		**1,116**	5,041
Depreciation		**3,346**	3,532
Amortisation of intangible assets		**23,176**	15,926
Decrease (–) / Increase in accrued expenses and other payables		**8,148**	23,523
Decrease / Increase (–) in tax receivables		**– 6,096**	2,189
Decrease / Increase (–) in other receivables		**4,283**	– 679
Decrease / Increase (–) in deferred expenses		**– 3,754**	– 1,932
All other operating activities		**– 6,288**	528
Net cash provided by operating activities		**233,264**	**252,391**
Cash flows from investing activities			
Net change in financing receivables	27	**236,581**	– 337,324
Proceeds from maturity of investment securities		**5,668**	4,890
Additions to property, plant and equipment		**– 1,114**	– 4,654
Additions to intangible assets		**– 12,920**	– 12,519
Investments in subsidiaries and other investments		**–**	– 255,216
All other investing activities		**919**	– 1,023
Net cash provided by / used in (-) investing activities		**229,134**	**– 605,846**
Cash flows from financing activities			
Net change in deposits		**– 220,533**	667,899
Issuance of short-term and long-term debt		**250,000**	1,723,699
Repayments of short-term and long-term debt		**– 325,063**	– 1,984,853
Dividends paid		**– 110,233**	– 105,734
Purchase of treasury shares		**– 2,182**	– 1,704
Net proceeds from sale of treasury shares		**–**	101,908
All other financing activities		**2,888**	– 2,327
Net cash provided by / used in (-) financing activities		**– 405,122**	**398,889**
Net increase / decrease (–) in cash and cash equivalents		**57,276**	**45,433**
Cash and cash equivalents, including restricted cash classified in "Other assets"			
Beginning of the period		**573,546**	528,113
thereof restricted cash		**30,967**	28,790
End of period		**630,822**	**573,546**
thereof restricted cash		**31,820**	30,967
Supplemental disclosure			
Interest paid		**– 24,880**	– 21,834
Income taxes paid		**– 55,614**	– 41,454

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 2015-1 GmbH in Liquidation, Swiss Auto Lease 2016-1 GmbH, Swiss Auto Lease 2019-1 GmbH, Swiss Auto Lease 2020-1 GmbH, Swissbilling SA, eny Credit GmbH, cashgate AG and Fastcap AG (collectively "the Group"). The Group is a leading provider of financing solutions and services in Switzerland. The main products comprise consumer finance products such as personal loans, auto leases and loans, credit cards as well as saving products.

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 in thousands of Swiss francs are rounded, 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 Topic 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 2021 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, long-lived and right-of-use 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. Full amount of residual values guaranteed by third party dealers are included in fixed lease payments when evaluating lease classification under ASC 842-10-25-2.

Other revenues

In accordance with ASC Topic 606, revenue is measured based on the consideration specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. The Group recognises revenue when it satisfies a contractual performance obligation. These performance obligations are typically satisfied as the services in the contract are rendered. The contract terms are generally such that they do not result in any contract assets. The contracts generally do not include a significant financing component or obligations for refunds or other similar obligations. The contracts generally do not include variable consideration, therefore there is no significant judgement required in this respect.

The Group offers insurance products to its customers. Those products are complementary to the Group's lending products and the Group acts as an agent to insurance companies. For arranging between the customer and the insurer, the Group is entitled to keep a part of the insurance premium as its commission, which is recognised on a net basis as the services are rendered. 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. Depreciation of leasehold improvements is recorded on a straight-line basis over the estimated useful lives of the assets or the period of the underlying lease agreement, when shorter.

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 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 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 has minimal exposure to TDRs as this type of restructuring only would be granted in exceptional individual cases.

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. Unsecured closed-end instalment loans originated by the Bank or cashgate with term duration less than 60 months and consumer auto finance leases are written off on the monthly write-off date after the contract reaches 120 days contractually past due. Unsecured closed-end instalment loans originated by the Bank or cashgate with term duration of 60 months or greater and commercial auto finance leases are written off 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 on a written-off account at the time cash is received or when an asset has been repossessed, the estimated remarketing gain may be booked as recovery.

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 Topic 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 Topic 842. Direct financing leases are carried at the aggregate of lease payments receivable plus the guaranteed residual value of the leased object less unearned income.

In line with ASC Topic 842, right-of-use assets represent the Group's right to use an underlying asset for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease.

Operating lease right-of-use assets and liabilities are recognised at the commencement date of a lease based on the present value of lease payments over the lease term. The Group determines if an arrangement is a lease at inception. Operating lease right-of-use assets are included in property, plant and equipment whereas operating lease liabilities are recognised in accrued expenses and other payables and other liabilities in the Group's consolidated statements of financial position. No material finance leases have been recognised.

As most of the Group's leases do not provide an implicit rate, the Group uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Group uses the implicit rate when readily determinable. The operating lease right-of-use asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate leases. When it is reasonably certain that the Group will exercise an option to extend or terminate a lease, the amended term is included in the lease calculation. Lease expense for lease payments is recognised on a straight-line basis over the lease term. Variable lease payments are expensed in the period in which they occur.

The Group has lease agreements with lease and non-lease components. For real estate leases, the Group has elected to account for the lease and non-lease components as a single lease component. For automobile and IT asset leases, the Group has elected to account for the lease and non-lease components as separate components.

The Group accounts for all short-term leases by recognising lease payments in net income on a straight-line basis over the lease term and will not recognise any right-of-use assets and lease liabilities in the Group's consolidated statements of financial position.

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. The measurement periods for the valuation of assets acquired and liabilities assumed end as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available, but do not exceed 12 months. Adjustments in purchase price allocations may require a change in the amounts allocated to goodwill during the periods in which the adjustments are determined within this 12 month period. 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, customer relationships and trademarks. 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 separate vesting portion of the award. The programmes are described in detail in note 26.

Debt

Loans that the Bank intends to hold to maturity are carried at amortised cost as the outstanding principal balance plus accrued interest, net of the following items: unamortised discounts, deferred loan origination fees. Interest income is accrued on the unpaid balance, and net deferred discounts and fees are amortised as an adjustment to the loan yield over the term of the related loans. For capital management purposes, the Bank issued hybrid capital instruments, either with a Tier 1 capital trigger or a write-off or contingent share conversions features. The embedded conversion option as linked to the Bank's shares is bifurcated for accounting purposes as measured separately via equity. The host contract is accounted for under the amortised cost method.

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

Recently adopted accounting standards

On 28 August 2018, the FASB issued ASU 2018-13 “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement”, which simplifies required fair value disclosures. Under the new guidance, the disclosure requirements on fair value measurements are modified. Certain disclosure requirements regarding transfers between Level 1 and 2, as well as the valuation processes for Level 3 measurements, are removed. Other modifications relate to the Level 3 disclosures or specific disclosures on investments in assets using net asset values. New disclosures will also be required for unrealised gains or losses and unobservable inputs related to Level 3 assets. The guidance is effective for fiscal years beginning after 15 December 2019, including interim periods therein. The adoption of this standard did not have a material impact on the fair value measurement and related disclosures.

Recently issued accounting standards to be effective in future periods

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.

Subsequently, the FASB has issued several additional amendments to ASU 2016-13, which affect certain aspects related to clarification and updates to a variety of topics, as well as allowing for an irrevocable election of the fair value option for certain financial assets previously measured on an amortised cost basis upon transition. Additionally, the amendments also deferred the effective date to annual periods beginning after 15 December 2022, and interim periods therein. The Group is evaluating the effect of 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 two 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 does not expect there to be a material impact from the adoption of the new standard on its financial statements.

On 18 December 2019, the FASB issued ASU 2019-12 “Simplifying the Accounting for Income Taxes”. The amendments in the update simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application of and simplify GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The new guidance is effective for the Group starting in fiscal years beginning after December 2020, including interim periods within those fiscal years. The Group plans to adopt the guidance as of 1 January 2021 and is currently assessing the impact of this guidance on its financial statements.

On 5 August 2020, the FASB issued ASU 2020-06 “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity”. The ASU reduces the number of models used to account for convertible instruments, eliminating two out of five existing separation models (i.e. the convertible debt with a cash conversion feature and the convertible instrument with a beneficial conversion feature). The ASU furthermore provides more consistent guidance on calculating the dilutive impact on earnings per share. The ASU is expected to reduce complexity and improve comparability of financial reporting associated with accounting for convertible instruments and contracts in an entity’s own equity. The new guidance is effective for the Group for fiscal years beginning after 15 December 2023, including interim periods within those fiscal years. The Group plans to adopt the guidance as of 1 January 2024 and is currently assessing the impact of this guidance on its financial statements.

3. Business developments

In February 2020, the liquidation process for Swiss Auto Lease 2013-1 GmbH in Liquidation was completed with the cancellation of the company from the register of commerce of Zurich.

On 3 March 2020, the Group launched its sixth auto lease asset-backed security (ABS) transaction (Swiss Auto Lease 2020-1 GmbH) and issued fixed-rate senior notes of TCHF 250,000 on the Swiss capital market with a contractual maturity of ten years and an optional redemption date of four years from the date of issuance. Most of the proceeds from this issuance were used to refinance the fourth ABS issued in 2016. On 23 March 2020, the TCHF 200,000 outstanding senior notes issued in 2016 were fully repaid with no further amounts due to noteholders.

In May 2020, the Group decided to close four branches in Aarau, Chur, Neuchâtel and Solothurn during 2020 reducing the number of branches to 13.

In June 2020, Swiss SME Loans 2018-1 GmbH was merged with the Bank.

4. Financing receivables and allowance for losses

The Group's credit risk appetite and strategy have been consistent over many years. This has assisted it to remain resilient through economic turbulences, including the 2009 downturn and in the current covid-19 pandemic. In light of the prevailing economic uncertainty, the Group's credit risk strategy continues to be cautious, and it reacted swiftly and continuously assesses the potential impact of various macroeconomic scenarios.

As part of this response, additional resources were allocated to support collections strategies, and new tools, such as repayment plans and payment holidays, were introduced to affected customers on an individual basis. It should be noted that the utilisation of these tools did not change the original contractual payments terms, and therefore the reported amountes regarding the over 30 days past due receivables and nonaccrual receivables is not affected.

Additionally, the underwriting processes were reviewed and adjusted to limit unexpected credit losses. Lastly, an environmental reserve of CHF 2.2 million was recorded on the unsecured closed end instalment loans to further strengthen the allowance for losses of the personal loan portfolio, and to reflect the changing economic environment under the existing incurred loss model.

At 31 December 2020 and 2019, 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)	2020	2019
Loans	**3,696,458**	4,021,306
Deferred costs, net	**43,659**	46,500
Total loans, including deferred costs, net	**3,740,117**	**4,067,806**
Investment in financing leases, net of deferred income	**2,573,674**	2,580,392
Other [1]	**62,827**	17,631
Financing receivables before allowance for losses	**6,376,617**	**6,665,829**
Less allowance for losses [2]	**– 84,055**	– 80,274
Financing receivables, net	**6,292,563**	**6,585,555**

[1] Other includes Swissbilling SA
[2] Includes covid-19 environmental reserve of TCHF 2,165

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)	2020	2019
Total minimum lease payments receivable	**2,770,331**	2,785,042
Deferred income [1]	**– 196,657**	– 204,650
Investment in direct financing leases	**2,573,674**	**2,580,392**
Less allowance for losses	**– 9,654**	– 9,140
Net investment in direct financing leases	**2,564,020**	**2,571,252**

[1] Includes TCHF 25,602 and TCHF 25,298 of initial direct costs on direct financing leases as at 31 December 2020 and 31 December 2019, respectively

The subsidiaries held TCHF 601,766 and TCHF 595,581 of net financing receivables as at 31 December 2020 and 2019, respectively, as collateral to secure third-party debt in securitisations. See note 20 to the consolidated financial statements for further details of securitisations.

As at 31 December 2020, the Group's contractual maturities for loans and financing leases were:

Due in (CHF in thousands)	Loans	Minimum lease payments receivable
2021	**95,082**	**225,847**
2022	**234,926**	**461,969**
2023	**389,718**	**681,944**
2024	**511,827**	**821,407**
2025	**604,339**	**523,993**
2026 and later	**853,908**	**55,171**
Consumer revolving loans	**1,006,658**	**–**
Total	**3,696,458**	**2,770,331**

Actual maturities may differ from contractual maturities.

The following table provides further information about financing receivables:

At 31 December (CHF in thousands)	2020	2019
Personal loans	**2,472,644**	2,685,349
Auto leases and loans	**2,865,029**	2,927,204
Credit cards	**976,117**	1,035,645
Other [1]	**62,827**	17,631
Financing receivables, before allowance for losses	**6,376,617**	**6,665,829**
Allowance for losses [2]	**–84,055**	–80,274
Financing receivables, net	**6,292,563**	**6,585,555**

1 Other includes Swissbilling SA
2 Includes Covid-19 environmental reserve of TCHF 2,165

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

At 31 December (CHF in thousands)	Balance at 1 January 2020	Provision for losses	Amounts written off	Recoveries	Other	Balance at 31 December 2020
Personal loans [1]	**60,532**	**32,186**	**–74,550**	**46,233**	**–**	**64,401**
Auto leases and loans	**11,800**	**14,942**	**–34,603**	**19,959**	**–**	**12,097**
Credit cards	**7,051**	**7,621**	**–18,826**	**10,530**	**–**	**6,375**
Other [2]	**891**	**1,663**	**–1,909**	**536**	**–**	**1,180**
Total [1]	**80,274**	**56,411**	**–129,888**	**77,258**	**–**	**84,055**
As a % of total financing receivables, net						**1.3%**

1 Includes covid-19 environmental reserve of TCHF 2,165
2 Other includes Swissbilling SA

At 31 December (CHF in thousands)	Balance at 1 January 2019	Provision for losses	Amounts written off	Recoveries	Other	Balance at 31 December 2019
Personal loans	33,779	24,363	– 58,557	44,426	16,521	60,532
Auto leases and loans	10,262	10,352	– 27,968	16,453	2,701	11,800
Credit cards	7,342	9,111	– 19,638	10,236	–	7,051
Other [1]	629	1,240	– 1,316	337	–	891
Total	**52,013**	**45,066**	**– 107,479**	**71,453**	**19,222**	**80,274**
As a % of total financing receivables, net						**1.2 %**

[1] Other includes Swissbilling SA

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 financing receivables as a percentage of loans and investment in direct financing leases:

	2020		2019	
	Over 30 days past due	**Over 90 days past due**	Over 30 days past due	Over 90 days past due
Personal loans	**3.3 %**	**1.4 %**	3.0 %	1.2 %
Auto leases and loans	**0.7 %**	**0.1 %**	0.9 %	0.2 %
Credit cards	**1.0 %**	**0.4 %**	1.1 %	0.4 %
Total [1]	**1.8 %**	**0.7 %**	**1.8 %**	**0.6 %**

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

Non-accrual financing receivables

The following table provides further information about financing receivables that are classified as non-accrual:

At 31 December (CHF in thousands)	2020	2019
Personal loans	**33,674**	32,804
Auto leases and loans	**3,544**	4,497
Credit cards	**3,587**	4,228
Total [1]	**40,804**	**41,530**
Nonperforming loan coverage [2]	**206.0 %**	193.3 %

[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.

	2020				
At 31 December (CHF in thousands)	CR1	CR2	CR3	CR4	CR5
Personal loans	**1,045,608**	**776,452**	**417,852**	**121,177**	**45,537**
Auto leases and loans	**1,476,555**	**885,265**	**405,127**	**70,851**	**27,231**
Credit cards	**719,542**	**184,761**	**65,332**	**6,392**	**89**
Total [1]	**3,241,705**	**1,846,478**	**888,311**	**198,420**	**72,858**
As a % of total financing receivables before allowance for losses [1]	**51.8 %**	**29.6 %**	**14.2 %**	**3.2 %**	**1.2 %**

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

At 31 December (CHF in thousands)	2019 CR1	CR2	CR3	CR4	CR5
Personal loans	**1,243,149**	**802,966**	**404,483**	**120,161**	**7,915**
Auto leases and loans	**1,485,086**	**920,142**	**412,579**	**72,980**	**36,418**
Credit cards	**761,584**	**196,319**	**70,194**	**7,509**	**39**
Total [1]	**3,489,818**	**1,919,427**	**887,255**	**200,650**	**44,373**
As a % of total financing receivables before allowance for losses [1]	**53.3 %**	**29.3 %**	**13.6 %**	**3.1 %**	**0.7 %**

[1] Does not include eny Credit GmbH, Swissbilling SA and Swiss SME Loans 2018-1 GmbH. There is no material impact on the Group's consumer ratings

5. Investment securities

Any investment securities which are comprised of debt securities available for sale matured in 2020.

At 31 December (CHF in thousands)	**2020**	2019
Debt securities available for sale	–	5,668
Total investment securities	**–**	**5,668**

All investment securities are Level 1 instruments in the fair value hierarchy. The following table summarises amortised cost, fair value and unrealised gains and losses of debt securities available for sale by category.

	2020				2019			
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	–	–	–	–	–	25	– 25	–
Debt securities issued by Swiss mortgage institutions	–	–	–	–	5,659	177	– 168	5,668
Debt securities available for sale	**–**	**–**	**–**	**–**	**5,659**	**202**	**– 193**	**5,668**

6. Property, plant and equipment

At 31 December (CHF in thousands)	Estimated useful lives (years)	**2020**	2019
Original cost			
Buildings and improvements	(5-40)	**9,598**	8,847
Office equipment	(3-10)	**15,916**	15,553
Total		**25,514**	**24,400**
Accumulated depreciation			
Buildings and improvements		**– 6,733**	– 5,565
Office equipment		**– 11,580**	– 9,786
Total		**– 18,313**	**– 15,351**
Net carrying value			
Buildings and improvements		**2,865**	3,282
Office equipment		**4,336**	5,767
Total		**7,201**	**9,049**

Depreciation expense was TCHF 3,346 in 2020 and TCHF 3,532 in 2019, respectively. The Group did not recognise any impairment losses in both 2020 and 2019.

The Group holds operating leases primarily related to real estate and automobiles. Due to the renewal of one of the existing real estate leases, which at the earliest can be terminated after an additional period of 5 years, additional operating lease right-of-use assets and liabilities of TCHF 14,893 have been recognized in 2020.

At 31 December (CHF in thousands)	**2020**	2019
Components of the lease liability		
Operating lease - ROU assets	**28,175**	19,773
Operating lease - lease liability	**28,474**	19,663
Short-term classification	**6,636**	7,006
Long-term classification	**21,838**	12,658
Supplemental information		
ROU assets obtained for new lease liabilities	**14,893**	2,743
Weighted average remaining lease term (in years)	**4.56**	3.48
Weighted average discount rate	**0.20 %**	0.23 %

For the years ended 31 December (CHF in thousands)	2020	2019
Components of the lease expense		
Operating lease expense[1]	**7,880**	7,164
Supplemental information		
Operating cash flows paid for operating leases	**7,188**	6,556
Operating cash flows paid for short-term	**563**	1,021

[1] Includes impairment loss of TCHF 575 on operating leases

At 31 December (CHF in thousands)	2020
Maturities table	
2021	**6,251**
2022	**6,266**
2023	**4,944**
2024	**4,457**
2025	**3,743**
Thereafter	**2,923**
Total lease payments	**28,585**
Less: imputed interest	**– 110**
Total	**28,474**

7. Intangible assets

At 31 December (CHF in thousands)	Estimated useful lives (years)	2020	2019
Original cost			
Capitalised software	(1-5)	**91,065**	79,168
Customer relationships	(5 - 5.5)	**48,087**	48,087
Trademarks	(5)	**10,964**	10,964
Total		**150,117**	**138,220**
Accumulated amortisation			
Capitalised software		**– 53,532**	– 41,401
Customer relationships		**– 11,815**	– 3,066
Trademarks		**– 2,924**	– 731
Total		**– 68,271**	**– 45,199**
Net carrying value			
Capitalised software		**37,533**	37,767
Customer relationships		**36,273**	45,021
Trademarks		**8,040**	10,233
Total		**81,846**	**93,021**

Amortisation expense related to intangible assets was TCHF 23,176 in 2020 and TCHF 15,926 in 2019. As at 31 December 2020, the Group estimates the annual pre-tax amortisation for intangible assets over the next five years to be as follows:

CHF in thousands	2021	2022	2023	2024	2025 and later
Estimated pre-tax amortisation	22,491	20,669	18,492	15,399	4,795

8. Goodwill

On 16 February 2017, the Group acquired 100% of the 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. On 2 September 2019, the Group acquired 100% of the shares of cashgate AG, a leading consumer finance provider in Switzerland, for total consideration of CHF 277 million. Goodwill related to these acquisitions is presented below.

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 it's goodwill impairment analysis as of 30 September 2020 and follow up procedures performed covering the last quarter 2020, the Group concluded that the estimated fair value for all the reporting units with goodwill substantially exceeded the related carrying values and no impairment was necessary at 31 December 2020. There are no deferred taxes booked related to goodwill.

CHF in thousands	**Balance at 1 January 2020**	**Goodwill acquired during the period**	**Other**	**Balance at 31 December 2020**
Gross amount of goodwill	**156,828**	**–**	**–**	**156,828**
Accumulated impairment	**–**	**–**	**–**	**–**
Net book value	**156,828**	**–**	**–**	**156,828**

CHF in thousands	Balance at 1 January 2019	Goodwill acquired during the period	Other	Balance at 31 December 2019
Gross amount of goodwill	15,877	140,951	–	156,828
Accumulated impairment	–	–	–	–
Net book value	**15,877**	**140,951**	**–**	**156,828**

9. Other assets

At 31 December (CHF in thousands)	**2020**	2019
Restricted cash	**31,820**	30,967
Tax receivables	**30,733**	24,637
Other receivables	**7,586**	11,869
Deferred expenses	**7,157**	3,403
Other	**1,581**	1,865
Total other assets	**78,877**	**72,740**

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 31,820 and TCHF 30,967 of restricted cash related to the consolidated VIEs (see note 20) as at 31 December 2020 and 2019, respectively. The tax receivables at 31 December 2020 consisted of VAT input tax.

10. Deposits

The following table shows the maturities of the Group's customers' saving deposits, term deposits and prepaid card balances as at 31 December 2020 and 2019, respectively:

At 31 December (CHF in thousands)	**2020**	2019
On demand	**167,124**	158,755
Less than 3 months	**328,852**	443,843
3 to less than 6 months	**327,727**	306,284
6 to less than 12 months	**820,039**	856,601
12 months plus, thereof	**1,630,878**	1,729,669
due in 2021	**–**	518,143
due in 2022	**578,330**	412,346
due in 2023	**359,629**	312,718
due in 2024	**341,649**	247,620
due in 2025	**120,802**	69,733
due in 2026 and later	**230,469**	169,110
Total	**3,274,620**	**3,495,152**

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 0.41% as at 31 December 2020 and was comparable to that of the prior year.

11. Short-term and long-term debt

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

At 31 December (CHF in thousands)	Maturity	2020 Amount	2020 Contractual interest rate [2]	2019 Amount	2019 Contractual interest rate [2]
Short-term portion					
Non-recourse borrowings (Auto ABS) [1]	2020	–	–	200,000	0.22 %
External debt (floating rate note)	2020	–	–	50,063	0.00 %
External debt (bridge facility)	2020	–	–	75,000	
External debt (senior unsecured floating rate notes)	2021	**50,055**	**0.00 %**	–	–
External debt (unsecured bond)	2021	**175,000**	**0.50 %**	–	–
External debt (senior unsecured floating rate notes)	2021	**50,161**	**0.00 %**	–	–
Long-term portion					
External debt (unsecured bond)	2021	–	–	175,000	0.50 %
External debt (senior unsecured floating rate notes)	2021	–	–	50,383	0.00 %
External debt (senior unsecured floating rate notes)	2021	–	–	50,337	0.00 %
Non-recourse borrowings (Auto ABS) [1]	2022	**250,000**	**0.15 %**	250,000	0.15 %
External debt (unsecured bond)	2022	**99,988**	**1.25 %**	99,980	1.25 %
External debt (unsecured bond)	2023	**200,000**	**0.18 %**	200,000	0.18 %
External debt (unsecured bond)	2023	**250,000**	**0.00 %**	250,000	0.00 %
Non-recourse borrowings (Auto ABS) [1]	2024	**250,000**	**0.00 %**	–	–
External debt (unsecured bond)	2024	**200,136**	**0.25 %**	200,175	0.25 %
External debt (perpetual tier 1 capital bond)	2024	**150,000**	**2.50 %**	150,000	2.50 %
External debt (unsecured bond)	2025	**150,533**	**0.38 %**	150,652	0.38 %
External debt (unsecured bond)	2026	**125,179**	**0.88 %**	125,213	0.88 %
External debt (senior convertible bond)	2026	**248,420**	**0.00 %**	247,978	0.00 %
External debt (unsecured bond)	2026	**200,000**	**0.15 %**	200,000	0.15 %
External debt (unsecured bond)	2027	**175,000**	**0.29 %**	175,000	0.29 %
Debt issuance costs		**–9,242**		–11,178	
Total short-term and long-term debt		**2,565,230**		**2,638,604**	

[1] Related to consolidated VIEs, refer to note 20 for further details
[2] Rounded to two decimal places

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 2020, the Group had mostly fixed rate funding, except of two floating rate notes over TCHF 50,000 each, which were issued in August 2019 and November 2019.

The Group defers the debt issuance costs and amortises them over the expected lifetime of the relevant debt instrument. As per 31 December 2020 and 2019, unamortised debt issuance costs amounted to TCHF 9,242 and TCHF 11,178, respectively. Commitment fees are recognised as incurred over the commitment period.

On 23 January 2019, the Group signed a revolving credit facility with an international bank with a committed term until 2022. The facility consists of a TCHF 100,000 unsecured commitment. The facility has an applicable contractual commitment fee of 0.25% per annum.

On 22 November 2018, the Group signed a revolving credit facility with a Swiss bank with a committed term until 2022. The facility consists of a TCHF 50,000 unsecured commitment. The facility has an applicable contractual commitment fee of 0.20% per annum.

On 4 July 2018, the Group signed a revolving credit facility with as Swiss bank with a committed term until 2021. 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 2020, the Group signed a revolving credit facility with a Swiss bank with a committed term until end of 2023. The facility consists of a TCHF 150,000 unsecured commitment. The facility has an applicable contractual commitment fee of 0.25% per annum.

As at 31 December 2020, the Group maintained TCHF 400,000 of undrawn committed facilities. The weighted average contractual commitment fee for all facilities was 0.24% at 31 December 2020 and 2019, respectively.

On 14 November 2019, the Group issued a TCHF 50,000 floating rate note at 100.70% with a maturity of two years and a quarterly coupon of 0.0% floored respectively 0.05% capped for the entire period depending on the Libor fixings.

On 14 August 2019, the Group issued a TCHF 50,000 floating rate note at 100.99% with a maturity of one and half years and a quarterly coupon of 0.0% floored for the entire period depending on the Libor fixings.

On 1 October 2019, the Group issued a TCHF 200,000 senior unsecured bond at 100% with a maturity of seven years and a coupon of 0.15%.

On 8 July 2019, the Group issued a TCHF 250,000 senior unsecured bond at 100% with maturity of three and three quarter years and a coupon of 0.0% and a TCHF 175,000 senior unsecured bond at 100% with a maturity of eight years and a coupon of 0.29%.

On 4 July 2019, the Group issued a TCHF 150,000 additional tier1 bond at 100% with perpetual maturity (earliest call in November 2024) and a coupon of 2.5%. The bond is eligible for tier1 capital, and will be written-off if a pre-specified trigger event occurs in relation to the regulatory capital adequacy ratio (>5.125% Common Equity Tier 1). If capital triggering occurs, the investor receives a write-down of the outstanding amount of the debt, which may be defined as either fixed or variable (depending upon the point of conversion). Given the extremely low likelihood of conversion, no separate derivative was recorded related to the value of the conversion option.

On 2 July 2019, the Group issued a TCHF 250,000 convertible bond at 100.88% with a maturity of seven years and a coupon of 0.0%. The effective interest rate on the debt component for the period ended 31 December 2020 was 0.11%. The conversion right allows the bondholders to convert their bonds any time 41 days after settlement up to and including 40 days before maturity. When conversion rights are exercised, holders who convert their bonds will receive a) if the conversion value is lower than or equal to the aggregate principal amount of the bonds converted by the same holder at any one time, the cash conversion amount; or b) if the conversion value is greater than the aggregate principal amount of the bonds converted by the same holder at any one time the cash conversion amount and the net shares. Upon conversion, it is at the discretion of Cembra Money Bank AG to deliver net shares or its equivalent in cash. The convertible bond has an initial conversion price of CHF 122.20. The embedded conversion option met the criteria for a cash conversion option via ASC Topic 470 and is measured separate via equity at TCHF 4,200.

On 6 March 2019, the Group launched its fifth auto lease asset backed security (“ABS”) transaction and issued a fixed-rate senior notes of TCHF 250,000 on the Swiss capital market with a legal maturity of ten years and an optional redemption date of 3 years from the date of issuance. Most of the proceeds from this issuance were used to refinance the third ABS issued in 2015. On 23 March 2019, the TCHF 200,000 outstanding senior notes issued in 2015 were fully repaid with no further amounts due to noteholders.

On 3 March 2020, the Group launched its sixth auto lease asset backed security ("ABS") transaction and issued a fixed-rate senior notes of TCHF 250,000 on the Swiss capital market with a legal maturity of ten years and an optional redemption date of 4 years from the date of issuance. Most of the proceeds from this issuance were used to refinance the third ABS issued in 2016. On 23 March 2020, the TCHF 200,000 outstanding senior notes issued in 2016 were fully repaid with no further amounts due to noteholders.

The Group has a total outstanding of TCHF 2,425,000 of senior unsecured bonds (including ABS and Convertible) and TCHF 150,000 subordinated additional tier 1 bond issued as at 31 December 2020. These bonds have been issued in 2014 (maturing in 2022), 2015 (maturing in 2021), 2016 (maturing in 2023), 2017 (maturing in 2024 and 2025) and 2018 (maturing in 2026) and 2019 (maturing in 2021, 2022, 2023, 2026 and 2027). All debt instruments are repayable in full at maturity or at the earliest possible redemption date.

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.

For the plans the Group recognises an asset for the 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 2020 and 2019, respectively, were as follows:

At 31 December	2020	2019
Active employees	**982**	1,016
Beneficiaries and pensioners	**155**	142
Total	**1,137**	**1,158**

The cost of the pension plans is presented below:

For the years ended 31 December (CHF in thousands)	Consolidated statements of income line item	2020	2019
Service cost for benefits earned	Compensation and benefits	**8,678**	6,746
Prior service credit amortisation	General and administrative expenses	**– 1,590**	– 1,675
Expected return on plan assets	General and administrative expenses	**– 7,316**	– 6,052
Interest cost on benefit obligations	General and administrative expenses	**642**	1,864
Net actuarial loss amortisation	General and administrative expenses	**5,726**	5,315
Pension plan cost		**6,140**	**6,198**

The actuarial assumptions 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	2020	2019
Discount rate	**0.10 %**	0.20 %
Compensation increases	**1.85 %**	2.12 %
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 experienced 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 10,437 to the pension plan in 2021.

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. In 2019, the Group committed to the transfer of employees from the pension plan acquired as part of the cashgate acquisition to the existing Cembra plan, which resulted to an adjustment as a plan change to the accumulated benefit obligation.

The accumulated benefit obligation was TCHF 330,439 and TCHF 318,272 for 31 December 2020 and 2019, respectively. The changes in the projected benefit obligation are presented below:

CHF in thousands	2020	2019
Balance at 1 January	**328,499**	**258,702**
Service cost for benefits earned	**8,678**	6,746
Interest cost on benefit obligations	**642**	1,864
Participant contributions	**6,850**	6,005
Actuarial loss / gain (–), net	**9,795**	26,824
Benefits paid (–) / received, net	**– 14,889**	– 4,714
Business combinations	**–**	35,129
Plan change	**–**	– 2,057
Balance at 31 December	**339,575**	**328,499**

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	2020	2019
Balance at 1 January	**293,832**	**236,248**
Actual return on plan assets	**6,521**	25,141
Employer contributions	**12,582**	9,055
Participant contributions	**6,850**	6,005
Benefits paid (–) / received, net	**– 14,889**	– 4,714
Business combinations	**–**	22,097
Balance at 31 December	**304,896**	**293,832**

The asset allocations are described below:

At 31 December	2020 Target allocation	2020 Actual allocation
Equity securities		
Swiss equity securities	**13 %**	**16 %**
Non-Swiss equity securities	**23 %**	**27 %**
Debt securities		
Swiss bonds	**18 %**	**14 %**
Non-Swiss bonds	**17 %**	**20 %**
Real estate funds	**19 %**	**22 %**
Other investments	**10 %**	**2 %**

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 equity securities 16%, non-Swiss equity securities 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:

	2020			
At 31 December (CHF in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities				
Swiss equity securities	**47,673**	**–**	**–**	**47,673**
Non-Swiss equity securities	**82,411**	**–**	**–**	**82,411**
Debt securities				
Swiss bonds	**42,772**	**–**	**–**	**42,772**
Non-Swiss bonds	**59,389**	**–**	**–**	**59,389**
Real estate funds	**–**	**65,490**	**–**	**65,490**
Other investments [1]	**1,857**	**4,879**	**–**	**6,736**
Total investments	**234,101**	**70,369**	**–**	**304,470**
Other				**426**
Total assets				**304,896**

[1] Primarily includes infrastructure funds and cash.

	2019			
At 31 December (CHF in thousands)	Level 1	Level 2	Level 3	Total
Equity securities				
Swiss equity securities	40,706	–	–	40,706
Non-Swiss equity securities	69,748	–	–	69,748
Debt securities				
Swiss bonds	50,059	–	–	50,059
Non-Swiss bonds	51,342	–	–	51,342
Real estate funds	–	53,738	–	53,738
Other investments [1]	2,573	2,301	–	4,875
Total investments	**214,428**	**56,039**	**–**	**270,467**
Other				**23,365**
Total assets				**293,832**

[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)	**2020**	2019
Funded status	**– 34,679**	– 34,667
Pension liability recorded in the statement of financial position		
Other liabilities		
Due after one year	**– 34,679**	– 34,667
Net amount recognised	**– 34,679**	**– 34,667**
Amounts recorded in shareholders' equity (unamortised)		
Prior service credit	**– 4,435**	– 5,935
Net actuarial loss	**39,669**	34,805
Total	**35,234**	**28,870**

In 2021, the Group estimates that it will amortise TCHF 1,413 of prior service credit and TCHF 6,473 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	2021	2022	2023	2024	2025	2026-2030
Pension plan	22,003	21,884	20,826	20,022	21,211	81,670

13. Other liabilities

This section primarily reflects the pension plans funded status of TCHF 34,679 and TCHF 34,667 as at 31 December 2020 and 2019, respectively. It also comprises deferred compensation related to the Group's jubilee plan amounting to TCHF 3,464 and TCHF 3,643 as at 31 December 2020 and 2019, respectively. The jubilee plan is a voluntary benefit provided by the Group to its employees based on their years of service.

For detailed information on operating lease - lease liability please refer to note 6.

14. Capital adequacy

The Group is subject to FINMA regulations. 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.

The Group is applying the definite Basel III rules effective since 1 January 2013. Under Basel III, a variety of basic approaches are available to banks for the calculation of capital adequacy requirements for credit, market and operational risks. The Group uses the International standard approach ("SA-BIS" approach) to calculate the minimum requirement for covering credit risk. It is entitled to use a standardised approach to calculate the capital charge for market risk. The Group also applies a standardised approach to calculate the capital charge for operational risk management. Thus it fulfils the qualitative and quantitative requirements of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO, SR 952.03).

The total eligible regulatory capital of the Group comprises Tier 1, Common Equity Tier 1 (CET1), additional Tier 1 capital (AT1) 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, goodwill 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 2020, 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.

Further information on capital adequacy is contained in the separate document "Basel III Pillar 3 disclosures 2020" published on the Cembra website (www.cembra.ch/financialreports).

At 31 December (CHF in thousands)	2020	2019
Eligible regulatory capital		
Tier 1 capital	**1,000,436**	962,297
of which CET1 capital	**850,436**	812,297
of which additional Tier 1 capital	**150,000**	150,000
Total eligible capital	**1,000,436**	**962,297**
Risk-weighted assets		
Credit risk	**4,861,055**	5,100,663
Non counterparty risk	**42,215**	56,642
Market risk	**3,452**	5,482
Operational risk	**755,157**	745,326
Total risk-weighted assets	**5,661,879**	**5,908,114**
Capital ratios		
CET1 ratio	**15.0 %**	13.7 %
Tier 1 ratio	**17.7 %**	16.3 %
Total capital ratio	**17.7 %**	**16.3 %**

15. Earnings per share and additional share information

Basic earnings per share ("EPS") is calculated based on the weighted average number of common shares outstanding during the period. Diluted EPS is computed based on the weighted average number of common shares plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding restricted stock units ("RSUs") and performance share units ("PSUs").

The components of basic and dilutive EPS are as follows:

For the years ended 31 December (CHF in thousands)	**2020**	2019
Net income attributable to shareholders for basic earnings per share (CHF in thousands)	**152,922**	159,199
Net income attributable to shareholders for diluted earnings per share (CHF in thousands)	**152,922**	159,199
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	**624,270**	1,219,496
Weighted-average numbers of common shares outstanding for basic earnings per share	**29,375,730**	**28,780,504**
Dilution effect number of shares	**20,740**	22,473
Weighted-average numbers of common shares outstanding for diluted earnings per share	**29,396,470**	**28,802,977**
Basic earnings per share (in CHF)	**5.21**	**5.53**
Diluted earnings per share (in CHF)	**5.20**	**5.53**

The amount of common shares outstanding has changed as follows:

	2020	2019
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	**621,644**	**1,813,249**
Sale	**–**	– 1,200,000
Share-based compensation	**– 17,109**	– 9,605
Purchase	**25,000**	18,000
Balance at end of period	**629,535**	**621,644**
Common shares outstanding	**29,370,465**	**29,378,356**

16. Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Group from a customer, are excluded from revenue. The Group recognises revenue when it satisfies a contractual performance obligation.

These performance obligations are typically satisfied as the services in the contract are rendered. The contract terms are generally such that they do not result in any contract assets. The contracts generally do not include a significant financing component or obligations for refunds or other similar obligations. The contracts generally do not include variable consideration, therefore there is no significant judgement required in this respect.

Nature of services
The Group provides finance solutions to its customers. The main revenue streams of the Group arise from personal loans, leases and credit cards as well as from insurance products. Certain credit card related fees and insurance commissions are in the scope of ASC Topic 606.

Commission and fee income related to credit cards include certain transaction-based and service fees. Those fees are recognised as the services are rendered, which is when the transaction happens and is processed. In case of credit cards, the Group additionally earns interchange fees calculated as a percentage of total credit card transaction volume. Those fees are recognised when the transactions are processed.

The Group also offers insurance products to its customers. Those products are complementary to the Group's lending products, and the Group acts as an agent to insurance companies. For arranging between the customer and the insurer, the Group is entitled to keep a part of the insurance premium as its commission, which is recognised on a net basis as the services are rendered.

Disaggregation of revenues

For the years ended 31 December (CHF in thousands)	2020	2019
Insurance	**23,953**	21,638
Credit cards	**71,382**	101,117
Total	**95,335**	**122,755**

The table above differs from note 24 – Commissions and Fee Income as it includes only contracts with customers that are in scope of ASC Topic 606 – Revenue from Contracts with Customers.

17. Income tax expense

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

For the years ended 31 December (CHF in thousands)	2020	2019
Current tax expense	**39,374**	38,635
Deferred tax expense / benefit (-) from temporary differences	**1,116**	5,041
Income tax expense	**40,490**	**43,676**

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 were approximately 21%, including the impact of tax law changes in 2019.

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

At 31 December (CHF in thousands)	**2020**	2019
Assets		
Pension plans	**6,561**	5,740
Operating lease - lease liability	**5,467**	3,754
Loss carried forward	**285**	1,569
Other	**686**	711
Total deferred tax assets	**12,999**	**11,774**
Liabilities		
Deferred loan origination fees and costs	**–860**	–773
Intangibles	**–7,425**	–8,011
Operating lease - right-of-use assets	**–5,410**	–3,775
Other	**–**	–2
Total deferred tax liabilities	**–13,694**	**–12,562**
Net deferred tax assets / (liabilities)	**–694**	**–788**

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.

18. 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 6,674 and TCHF 6,838 as at 31 December 2020 and 2019, respectively. The deposit insurance is a guarantee and exposes the Group to additional risk. As at 31 December 2020, the Group considers the probability of a material loss from this obligation to be remote.

The Bank has issued a comfort letter (guarantee) towards Swisscom Directories AG as part of a factoring agreement between the subsidiary Swissbilling SA and Swisscom Directories AG. The guarantee covers the net financial obligations of Swissbilling SA to Swisscom Directories AG up to a maximum amount of TCHF 35,000, in the event Swissbilling SA is not able to meet its financial obligations. The commitment is irrevocable until all net financial obligations have been settled with Swisscom Directories AG. Exposure as at 31 December 2020 amounts to TCHF 35,000 and management assesses that the probability of payout is remote.

For details on rental commitments under non-cancellable operating leases refer to note 6.

19. 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 non-financial assets and liabilities and convertible bonds. For the most part, the assets and liabilities discussed below are considered to be Level 3.

	2020		2019	
At 31 December (CHF in thousands)	**Carrying amount net**	**Estimated fair value**	Carrying amount net	Estimated fair value
Assets				
Loans	**3,666,896**	**3,741,341**	3,995,022	4,080,186
Liabilities				
Deposits	**–3,274,620**	**–3,308,535**	–3,495,152	–3,535,302
Borrowings	**–2,565,230**	**–2,334,796**	–2,638,604	–2,423,790

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 cash equivalents, investment securities, other assets, accrued expense and other liabilities.

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

20. 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 six securitisations, all through consolidated VIEs, to obtain funding backed by its auto lease receivables. Four transactions of TCHF 200,000 each, issued between March 2012 and June 2016 were all fully repaid at their optional redemption dates. In March 2019, the Group launched its fifth securitisation transaction (Swiss Auto Lease 2019-1 GmbH) and issued fixed-rate senior notes of TCHF 250,000 with a coupon of 0.15% per annum and an optional redemption date of three years from the date of issuance. In March 2020, the Group launched its sixth securitisation transaction (Swiss Auto Lease 2020-1 GmbH) and issued fixed-rate senior notes of TCHF 250,000 with a coupon of 0.00% per annum and an optional redemption date of four years from the date of issuance.

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 the primary 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)	2020	2019
Assets		
Financing receivables, net	**601,766**	595,581
Financing leases	**545,920**	497,869
Loans	**55,846**	97,712
Other assets	**31,887**	30,967
Total assets	**633,653**	**626,547**
Liabilities		
Accrued expenses and other payables	**5,035**	6,738
Non-recourse borrowings	**498,604**	449,010
Total liabilities	**503,639**	**455,749**

Revenues from the consolidated VIEs amounted to TCHF 30,955 In 2020 and TCHF 29,143 in 2019, respectively. Related expenses consisted primarily of provisions for losses of TCHF 3,465 and TCHF 4,455 and interest expense of TCHF 1,254 and TCHF 1,685 for the years ended 31 December 2020 and 2019, 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.

21. Related-party transactions

The Group had no related-party transactions in 2020 and 2019 outside the normal course of business.

22. Interest income

The details of interest income are shown below:

For the years ended 31 December (CHF in thousands)	2020	2019
Personal loans	**190,684**	172,646
Auto leases and loans	**129,358**	110,607
Credit cards	**83,649**	79,437
Other	**– 1,877**	– 2,916
Total	**401,814**	**359,775**

23. Interest expense

The details of interest expense are shown below:

For the years ended 31 December (CHF in thousands)	2020	2019
Interest expense on ABS	**1,469**	1,864
Interest expense on deposits	**13,132**	13,092
Interest expense on debt	**12,255**	12,835
Total	**26,856**	**27,791**

24. Commission and fee income

The details of commission and fee income are shown below:

For the years ended 31 December (CHF in thousands)	2020	2019
Insurance	**23,953**	21,638
Credit cards	**71,382**	101,117
Loans and leases	**15,708**	14,530
Other	**11,229**	10,436
Total	**122,273**	**147,721**

25. General and administrative expenses

The details of general and administrative expenses are shown below:

For the years ended 31 December (CHF in thousands)	**2020**	2019
Professional services	**17,788**	22,352
Marketing [1]	**10,936**	11,823
Collection fees	**11,653**	10,857
Postage and stationery	**10,082**	11,198
Rental expense under operating leases	**7,880**	7,164
Information technology	**39,101**	31,352
Depreciation and amortisation	**26,522**	19,457
Other	**– 6,095**	– 2,928
Total	**117,867**	**111,277**

1 Marketing includes advertising costs, which are expensed as incurred

26. 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 as part of the EVCP 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 9,911 based on the share price of CHF 59.50 at the grant date 1 March 2015 and 9,839 with a share price of CHF 65.58 at the grant date 1 March 2016. 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 2020 and 2019, respectively:

	2020		2019	
	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	**5,552**	**411,783**	8,439	599,726
Granted	**–**	**–**	–	–
Vested	**– 2,514**	**– 163,661**	– 2,864	– 186,446
Forfeited	**–**	**–**	– 23	– 1,497
RSUs outstanding at 31 December	**3,038**	**248,121**	5,552	411,783
RSUs expected to vest	**3,038**	**248,121**	**5,552**	**411,783**

The total recognised compensation cost was TCHF 90 and TCHF 132 for the years 2020 and 2019, respectively. The remaining unrecognised cost of TCHF 48 is expected to be recognised over a weighted-average period of 7 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 look-back 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 the Compensation Report on page 94.

	2020		2019	
	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	**17,001**	**1,377,323**	11,844	964,123
Granted	**6,353**	**717,254**	5,925	475,778
Vested	**– 6,056**	**– 447,236**	– 533	– 42,459
Forfeited	**– 1,753**	**– 174,956**	– 235	– 20,119
PSUs outstanding at 31 December	**15,545**	**1,472,385**	17,001	1,377,323
PSUs expected to vest	**19,285**	**1,245,493**	**26,509**	**2,044,886**

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. A PSU was calculated at CHF 112.90 and CHF 80.30 at the grant date of 1 February 2020 and 2019, respectively, and one PSU was equal to one ordinary share of the Bank.

At 31 December 2020, the weighted-average conversion ratio of one PSU was 124% based on performance conditions. The total recognised compensation cost was TCHF 761 and TCHF 708 for the years 2020 and 2019, respectively. The remaining unrecognised cost of TCHF 450 is expected to be recognised over a weighted-average period of 21 months.

27. Supplemental cash flow information

Certain supplemental information related to cash flows is shown below:

For the years ended 31 December (CHF in thousands)	**2020**	2019
Increase in loans to customers	**– 1,746,412**	– 1,904,242
Principal collections from customers – loans	**1,984,109**	1,849,887
Investment in equipment for financing leases	**– 1,277,066**	– 1,225,533
Principal collections from customers – financing leases	**1,271,288**	1,050,703
Net change in credit card receivables and other	**4,662**	– 108,139
Net change in financing receivables	**236,581**	**– 337,324**

28. Off-balance sheet arrangements

At 31 December 2020 and 2019, 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)	**2020**	2019
Ordinary course of business lending commitments	**58,405**	99,422
Unused revolving loan facilities	**78,669**	68,684
Unused credit card facilities	**3,658,331**	3,453,582

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.

29. Subsequent events

The Group has evaluated subsequent events from the financial position date through 17 March 2021, the date at which the financial statements were available to be issued.

The latest emergence of the coronavirus and its economic restrictions is having an adverse impact on the global and the Swiss economy and it may affect the Group's performance and results in the first half of 2021 and going forward.

Besides that, 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 accompanying consolidated financial statements of Cembra Money Bank AG and subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows, and notes thereto (pages 115 to 157) for the years ended December 31, 2020 and 2019.

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 judgement, 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, 2020 and 2019 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 judgement, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2020. 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, 2020 gross financing receivables (smaller-balance, homogenous loans, including primarily credit card receivables, personal loans as well as auto leases and loans) amount to CHF 6,376.6 million (representing 88% of total assets). At the same time, the Group has recorded an allowance for losses on financing receivables of CHF 84.1 million.

The valuation of collective allowance for losses on financing receivables relies on the application of significant management judgement in determining the methodology and parameters in calculating the allowance. The Group uses various modelling techniques and assumptions, which are based on credit loss experience and historical delinquency data as well as current trends, conditions and macroeconomic factors.

In particular, the valuation of the collective allowance for losses on financing receivables is based on significant estimates, such as future client payment behavior, which is subject to management judgement. These judgements require specific knowledge of developments in the Group's financing receivables portfolio as well as relevant competencies in determining allowances.

Our response

We assessed and tested the design and operating effectiveness of the key controls 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. Our testing also comprised controls over reserving model approval, validation and approval of key data inputs as well as qualitative considerations for potential impairment that were not captured by management's models.

For a selected sample of allowances for losses on financing receivables calculated on a collective basis, we developed our independent expectation, by calculating the respective coverage rates and allowance for losses balance. Furthermore, we evaluated the reasonableness of the inputs to those models, such as delinquency and payment behavior, by comparing data and assumptions made to historical accuracy of estimates.

With the involvement of our valuation specialists, we examined the methodology of the selected reserving models and challenged the underlying assumptions used.

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

- Note 1 (Basis of presentation and summary of significant accounting policies, Allowance for losses)
- Note 4 (Financing receivables and allowance for losses)

Valuation of goodwill

Key Audit Matter

As at December 31, 2020 the Group reports goodwill of CHF 156.8 million arising from three acquisitions in the previous periods.

Due to the inherent uncertainty of forecasting and discounting future cash flows in relation with the Group's recognized goodwill, this is deemed a significant area of judgement.

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 response

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.

With the assistance of our own valuation specialists, we critically assessed the assumptions and methodologies used to determine the fair value for those RUs where goodwill was found sensitive to changes in those assumptions. On an overall basis, we also evaluated the aggregate fair values determined by the Group to its market capitalization.

Additionally, we considered whether the Group's disclosures of the application of judgement 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:

— Note 1 (Basis of presentation and summary of significant accounting policies, Goodwill)

— Note 8 (Goodwill)

Report on Other Legal and Regulatory 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

Ertugrul Tüfekci
Licensed Audit Expert
Auditor in Charge

Malea Bourquin
Licensed Audit Expert

Zurich
March 17, 2021

Individual Financial Statements

162 **Individual Financial Statements**

163 Balance sheet

164 Income statement

165 Appropriation of profit

166 Statement of changes in equity

167 Notes to the individual financial statements

184 Report of the statutory auditor to the general meeting of Cembra Money Bank AG, Zurich

Balance sheet

At 31 December (CHF in thousands)	Notes	2020	2019
Assets			
Liquid assets		**586,833**	526,858
Amounts due from banks		**7,131**	4,856
Amounts due from customers	7.1	**5,725,987**	6,093,571
Financial investments	7.2	**404**	20,706
Accrued income and prepaid expenses		**80,705**	80,784
Participations		**218,283**	282,384
Tangible fixed assets		**40,994**	42,102
Intangible assets	7.3	**4,441**	6,662
Other assets	7.4	**12,856**	22,614
Total assets		**6,677,634**	**7,080,537**
Total subordinated claims		**90,601**	78,043
Liabilities			
Amounts due to banks		**20,000**	115,000
Amounts due in respect of customer deposits		**1,418,730**	1,557,527
Cash bonds		**1,944,996**	2,026,897
Bond issues and central mortgage institution loans		**2,074,472**	2,124,782
Accrued expenses and deferred income		**63,057**	83,832
Other liabilities	7.4	**44,496**	75,099
Provisions	7.7	**3,421**	7,683
Bank's capital	7.8	**30,000**	30,000
Statutory capital reserves		**171**	171
of which reserve from tax-free capital contribution		**171**	171
Statutory retained earnings reserves		**15,000**	15,000
Voluntary retained earnings reserves		**969,353**	932,877
Own shares	7.12	**– 35,843**	– 35,260
Profit carried forward		**86**	177
Profit (result of the period)		**129,693**	146,753
Total liabilities		**6,677,634**	**7,080,537**
Total subordinated liabilities		**150,000**	150,000
Off-Balance-Sheet Transactions			
Contingent liabilities	7.1	**93,405**	99,422
Irrevocable commitments	7.1	**6,674**	6,838

Income statement

For the years ended 31 December (CHF in thousands)	Notes	2020	2019
Result from interest operations			
Interest and discount income	8.1	**435,308**	383,041
Interest and dividend income from financial investments		**1,789**	2,948
Interest expense	8.1	**–25,616**	–26,106
Gross result from interest operations		**411,482**	**359,884**
Changes in value adjustments for default risks and losses from interest operations		**–40,997**	–29,618
Subtotal net result from interest operations		**370,485**	**330,265**
Result from commission business and services			
Commission income from other services		**150,262**	165,585
Commission expense		**–78,313**	–75,792
Subtotal result from commission business and services		**71,949**	**89,793**
Other result from ordinary activities			
Income from participations		**63,692**	257
Other ordinary income		**1,118**	2,456
Subtotal other result from ordinary activities		**64,811**	**2,713**
Operating expenses			
Personnel expenses	8.2	**–125,417**	–121,106
General and administrative expenses	8.3	**–136,116**	–95,651
Subtotal operating expenses		**–261,533**	**–216,757**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		**–79,437**	–16,382
Changes to provisions and other value adjustments, and losses		**–454**	–1,060
Operating result		**165,822**	**188,572**
Extraordinary income	8.4	**149**	146
Taxes	8.5	**–36,277**	–41,965
Profit (result of the period)		**129,693**	**146,753**

Appropriation of profit

For the years ended 31 December (CHF in thousands)	**2020**	2019
Profit	**129,693**	146,753
Profit carried forward	**86**	177
Distributable profit	**129,779**	**146,929**
Appropriation of profit		
Allocations to voluntary retained earnings reserves	**– 19,500**	– 36,600
Dividends declared	**– 110,243**	– 110,243
New profit carried forward	**36**	**86**

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 2020	**30,000**	**171**	**15,000**	**933,054**	**– 35,260**	**146,753**	**1,089,717**
Appropriation of profit 2019							
Allocation to legal reserves	–		–	–	–		**–**
Allocation to voluntary reserves	–	–	–	146,843		– 146,843	**–**
Dividends	–	–	–	– 110,240	–		**– 110,240**
Net change in profit carried forward	–	–	–	– 90	–	90	**–**
Change of own shares	–	–	–	7	– 582	–	**– 575**
Other	–	–	–	– 134	–	–	**– 134**
Profit (result of the period)	–	–	–	–	–	129,693	**129,693**
Equity at 31 December 2020	**30,000**	**171**	**15,000**	**969,440**	**– 35,843**	**129,693**	**1,108,461**

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 Bank is headquartered in Zurich and operates across Switzerland through a network of branches, online distribution, as well as credit card partners, independent intermediaries and car dealers.

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 20/1 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 on a written-off account at the time cash is received or when an asset has been repossessed, the estimated remarketing gain may be booked as recovery.

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 the Income Statement under position "Change in value adjustments for default risks and losses 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 tangible 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

Intangible assets

Intangible assets are of a non-monetary nature and without any physical substance. They can be either acquired or generated internally. Intangible assets may also originate from acquisitions of business units and companies. The intangible asset reported is goodwill.

Intangible assets are recognised as assets and are valued at no more than the acquisition cost. Amortisation 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, intangible assets are tested on impairment. 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 goodwill is five 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 2020 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. Risks might also negatively impact the strength of the Bank’s balance sheet, its market capitalisation or its brand and reputation. In the process of performing its function as a financial intermediary, the Bank is exposed to various categories of risk, such as credit risk, asset and liability management risk (including market and liquidity risk), operational risk and other risks.

Within the risk appetite and tolerance limits and in accordance with its strategic objectives, the Bank takes on and manages risks, and controls and monitors them prudently. The Bank actively, comprehensively and systematically manages risk and promotes a strong risk and control culture across all business areas. The established risk management process comprises four core elements:
- Identification of risks across all business activities
- Assessment and measurement of risks, including stress testing
- Limitation and mitigation of risks; and
- Effective controls, monitoring and reporting.

The Board of Directors is ultimately responsible for determining the risk strategy, risk appetite and corresponding tolerance levels. It has established an effective internal control system that: (i) ensures that material risks are assessed and controlled; (ii) oversees the risk profile to ensure it is correctly monitored and managed; and (iii) ensures that the risk management framework and strategies are correctly implemented.

The Bank has put in place regulations that govern the risk management and control processes to ensure that all material risks are recorded and supervised. These processes are supported by a framework of approved policies and directives, which set out the the principles guiding the Bank’s attitude to risk and the amount of risk it is willing to take on.

The Bank has set up a risk appetite framework, which includes integrated tolerance limits to control overall risk taking. It contains a diverse set of quantitative metrics and qualitative statements covering various risk categories and serves as a decision-making tool for the Management Board. As part of the Group risk policy, it is reviewed annually by the Board of Directors and takes into account strategic objectives and business plans. The risk profile is assessed relative to the Bank's risk appetite, and risk exposures are monitored relative to risk tolerance limits on a regular basis. Summary reports are reviewed by the Audit and Risk Committee and reported to the Board of Directors.

Four working committees have been set up. Members of the Management Board are required to attend regular committee meetings:

Committee	Risk Category
Credit Committee	Credit Risk
Asset & Liability Management Committee (ALCO)	Asset & liability management, market & liquidity risk, capital management
Risk & Controllership Committee (RCC)	Risk framework, internal control system, compliance & operational risk management, information security, data privacy, business continuity management
Sustainability Committee	Sustainability, related opportunities and risks, monitoring of environmental, social, and governance (ESG) trends and ratings

The Bank's risk and control framework operates along three lines of defence:
- First Line: business functions are responsible for ensuring that a risk and control environment is in place and maintained as part of day-to-day operations
- Second Line: control functions provide independent control and oversight of risks, and
- Third Line: the Internal Audit function evaluates the overall effectiveness of the control environment and provides additional independent assurance.

This three-lines-of-defence model ensures that direct accountability for risk decisions, implementation and oversight of risk management, and the independent control of the effectiveness of risk management are segregated. Internal policies and directives further detail the expected principles of risk management and control for each risk category.

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 their contractual obligations. The obligations include, for example, principal repayment, interest and fees. 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.

The Credit Committee serves as the main decision-making body concerning credit strategies and exposures and regularly reviews the Bank's credit risk performance. The Credit Committee is responsible for making lending decisions on individual counterparties and lending programmes that are not under the authority of the Chief Risk Officer (CRO) or specific subsidiaries, but under the authority of the Board of Directors. The Credit Committee is chaired by the CRO.

The guidelines for the approval of lending programmes, as well as the individual counterparty lending approvals are set out in the credit risk policy. Lending authority that has been delegated is actively monitored and reviewed regularly.

The Bank maintains stringent underwriting processes, which are continually monitored and optimised to ensure that credit risk is adequately and responsibly 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 credit risk rating system, which includes the use of scorecards and leverages available information about the customer. This ensures consistent and systematic decision-making across all lending products.

Where applicable, the credit capacity of consumers is also evaluated in accordance with the legal requirements of the Swiss Consumer Credit Act. Internal models determine the credit amount based on the customer's risk profile. Segments that are particularly exposed to credit risk are actively restricted beyond the requirements of the Swiss Concumer Credit Act thorugh specific internal rules that aim to effectively implement and ensure responsible lending to customers. 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. Specifically in the area of vehicle leasing the Group is exposed to risks related to the valuation of underlying assets or objects. Contractual residual values might differ from actual values of lease objects and distribution partners might fail to honour

their contractual obligations. In addition to the consistent setting of residual values at lease origination the Group regularly monitors its exposure to this type of risk and makes use of external data sources to verify results. The quality and performance of new business are 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 backtested to ensure their performance remains within expected levels and, if required, changes are made to the models. 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 regular monitoring of process and performance metrics ensures diligent and responcible execution and supports the fair treatment of customers across a variety of servicing processes.

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

Credit risk metrics, portfolio and collection performance reports, as well as macroeconomic trends, are reviewed on a monthly basis by the Credit Committee. Summary reports of the Bank's credit risk profile are reviewed by the Audit and Risk Committee quarterly and reported to the Board of Directors.

ALM, market and liquidity risk

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 ALCO is the decision-making committee for asset and liability management activities and has overall responsibility for the administration of respective policies, their monitoring and reporting. The ALCO is chaired by the CFO.

Liquidity and funding risk

Liquidity risk is defined as the risk of the Bank not having sufficient funds to meet its contractual obligations when they fall due and support normal business activities, or only being able to secure such funds at excessive costs. 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, reputational, credit, regulatory or macroeconomic risks.

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.

As it is headed by a 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 in order 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 markets, 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.

For effective risk controlling, the overall condition of funding markets is regularly monitored and assessed against market-wide and Bank-specific early warning indicators to ensure the Bank ability to access funding. This approach is designed to provide management with timely warning of events that might have a potentially unfavourable impact on its access to funding in the near future and, in turn, increase liquidity risk. Consequently, the Bank has developed a comprehensive liquidity stress testing process to ensure it can adequately manage its liquidity during times of market stress of differing, yet plausible, magnitudes. This ensures the Bank has sufficient controls and mitigation procedures in place to prevent or alleviate the consequences of stressed market conditions. The Bank contingency funding plan is based on the results of stress-testing scenarios and integrated into the Business Continuity Management (BCM) framework. The plan is tested annually, and results are reviewed within ALCO and reported to the RCC. Stress-testing results,

along with other regulatory liquidity measures, such as the minimum reserve, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), are essential components of the Bank's liquidity management approach and are reviewed regularly by the ALCO and the Board of Directors.

Further information on capital adequacy is contained in the separate document "Basel III Pillar 3 disclosures 2020" published on the Cembra website (www.cembra.ch/financialreports).

Market risk

Market risk encompasses the risk of financial losses due to adverse movements in market prices. The Bank's business model leads to limited exposure to market risk factors. The Bank's main source of market risk is interest rate risk in the banking book (IRRBB). IRRBB is the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates. Movements in interest rates might change the underlying value of assets, liabilities and off-balance-sheet items and hence their economic value. They might also affect net interest income and earnings by altering interest-rate-sensitive income and expenses. Excessive IRRBB can pose a significant threat to a group's current capital base and/or future earnings if not managed appropriately. The Bank has implemented an effective interest rate risk management framework to limit the potential effects on the Bank's current capital base or future earnings and to keep interest rate risk at an acceptable level.

Given the Bank's predominantly fixed interest rate assets and liabilities, it is mainly exposed to repricing risk. This is the risk of there being adverse consequences of increasing or decreasing interest rates because of time differences in when these rate changes affect the Bank's assets and liabilities. The Bank faces relatively low option and basis risk. Consequently, the Bank focuses IRRBB monitoring on repricing risk.

The Bank actively manages and monitors IRRBB performance. As per the regulatory requirement, the Bank applies different interest rate shock scenarios and reports the impact on the economic value of equity (lifetime) and net interest income (next 12 months) on a monthly basis. At 31 December 2020, the Bank did not use any hedging instruments to manage IRRBB.

Another type of market risk is foreign exchange (FX) risk, which is defined as the financial risk from adverse movements in the exchange rate on transactions denominated in a currency other than the base currency of the institution. The Bank operates predominantly in the Swiss consumer lending market, and borrows and lends exclusively in Swiss francs. Therefore, the Bank's exposure to FX risk is minimal and limited to supplier invoices denominated in foreign currencies. FX exposure is monitored closely against internally set triggers, and the Bank takes immediate corrective action if limits are exceeded. At 31 December 2020, the Bank did not use any hedging instruments to manage its FX risk.

Further quantitative information is provided in the separate document “Basel III Pillar 3 disclosures 2020” published on the Cembra website (www.cembra.ch/financialreports).

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 a robust framework and appropriate processes to manage them. Key instruments include:

- Operational risk assessments: regular identification and assessment of the likelihood and potential impact of operational risks
- Control catalogue: execution of a set of documented controls aligned with business processes and their inherent 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
- Analysis of external events: analysis of external operational risk events applicable to the Group’s risk profile to identify emerging risks and evaluate controls.

The Bank is exposed to a wide variety of operational risks, including technology and cyber-security risk that stem from dependencies on information technology and third-party suppliers. The Bank acknowledges the evolving cyber risk landscape and has therefore developed a comprehensive information security framework to effectively manage and control this type of risk. This framework addresses regulatory requirements, is based on international standards and is supported by a cyber-security strategy that ensures continuous improvements. Relevant cyber threats are regularly identified and assessed, and corresponding measures are considered. Specific response plans are maintained. The Bank has implemented this framework with the overall goal to ensure the Bank's critical information, client identifying data and related information technology are protected. These defined technical and organisational measures include specifically training relevant staff, assessing data confidentiality and privacy risks, and making use of vulnerability and penetration tests to protect sensitive data and systems.

The Bank is aware that severe events beyond its control (such as natural disasters) may result in an inability to fulfil some or all of its business obligations, particularly where its physical, telecommunications or IT infrastructure would be damaged or made inaccessible. In compliance with the Recommendation for Business Continuity Management (BCM) issued by the Swiss Bankers Association, the Bank has implemented a BCM programme, which involves identifying critical processes and their dependency on systems, applications and external vendors. The Bank's BCM framework encompasses planning, testing and other related activities. The framework aims to ensure that business-critical functions will either continue to operate in spite of a serious incident, or will be recovered to an operational state within a reasonably short period of time after such an incident occurs. Comprehensive crisis management plans are in place and define the processes to be followed in case of a business emergency. The aim is to safeguard the continuity of the Bank's business-critical activities and to keep major damage under control in the event of a significant business interruption. The status of the BCM programme and the status of the operational risk, cyber and information security control framework are regularly reviewed by the RCC and a summary report provided to the Audit and Risk Committee.

The Bank has chosen to use external service providers to support its business activities. With the implementation of directives governing this area and an ongoing monitoring process, the Bank ensures compliance with relevant regulatory requirements.

Compliance risk is the risk of legal or regulatory sanctions, reputational damage and financial forfeiture or material loss deriving from violations of laws and regulations, internal policies, prescribed best practice, or professional and ethical standards. The Bank is exposed to this type of risk as a consequence of being a market participant in the financial services industry, with its legal and regulatory requirements and the changes made to them. To ensure operational independence, the Bank has a separate Legal & Compliance function. This function effectively manages, controls, monitors and reports on legal and compliance risks and ensures that the Bank's business activities adhere to all relevant legal requirements, regulatory standards and requirements for effective corporate governance. The Bank acknowledges the increasing importance of behavioural compliance related to conduct risk in the banking sector and addresses this within the provisions of the Bank's Code of Conduct.

Strategic risk is defined as possible losses that arise from uncertainties or untapped opportunities inherent in the Bank's strategic goals. This context includes risks that the environment and climate change might pose on the Bank's business model. Environmental risks are generally considered to be rather low due to being a financial services provider operating exclusively in Switzerland (see also chapter Our approach to sustainability page 29). Reputational risk is the risk of losses resulting from damages to the Bank's reputation. The Management Board directly manages and supervises strategic risk, business risk and reputational risk. Recognising the fact that reputational risk can be difficult to quantify and arises as a consequence of another materialised risk, the Bank manages reputational risk jointly with other risks by assessing the inherent reputational impact of those risks.

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 17 March 2021, the date at which the financial statements were available to be issued. The latest emergence of the coronavirus and its economic restrictions is having an adverse impact on the global and the Swiss economy and it may affect the Banks's performance and results in the first half of 2021 and going forward. Besides that, 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 2020 (CHF in thousands)	Secured by mortgage	Other collateral	Unsecured	Total
Financing receivables				
Amounts due from customers (before netting with value adjustments)	–	**918,727**	**4,880,470**	**5,799,198**
Total financing receivables (before netting with value adjustments)	**–**	**918,727**	**4,880,470**	**5,799,198**
Prior year	–	540,478	5,624,208	6,164,687
Amounts due from customers (after netting with value adjustments)	–	**915,236**	**4,810,751**	**5,725,987**
Total financing receivables (after netting with value adjustments)	**–**	**915,236**	**4,810,751**	**5,725,987**
Prior year	–	537,776	5,555,794	6,093,571
Off-balance sheet				
Contingent liabilities	–	–	**93,405**	**93,405**
Irrevocable commitments	–	–	**6,674**	**6,674**
Total off-balance sheet	**–**	**–**	**100,079**	**100,079**
Prior year	–	–	106,260	106,260

Impaired financing receivables are as follows:

At 31 December 2020 (CHF in thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments [1]
Impaired loans / receivables	**30,143**	**1,820**	**28,323**	**–**
Prior year	30,796	2,659	28,137	–

[1] The Bank has only allowance for losses that is calculated on the total of financing receivables. See note 7.7. for details.

7.2 Financial investments

At 31 December (CHF in thousands)	Book value		Fair value	
	2020	2019	**2020**	2019
Debt securities held to maturity	**–**	14,600	**–**	14,600
Debt securities available for sale	**–**	5,659	**–**	5,659
Repossessed vehicles held for sale	**404**	447	**404**	447
Total	**404**	**20,706**	**404**	**20,706**

The breakdown of counterparties by rating is following:

At 31 December 2020 (CHF in thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	Lower than B-	Not rated
Book value of debt securities	**–**	**–**	**–**	**–**	**404**

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

7.3 Intangible assets

CHF in thousands	Cost Value	Accumulated amortisation	Book value as per 31 December 2019	Current Year			Book value as per 31 December 2020
				Additions	Disposals	Amortisation	
Goodwill	11,103	– 4,441	6,662	–	–	– 2,221	4,441
Total intangible assets	**11,103**	**– 4,441**	**6,662**	**–**	**–**	**– 2,221**	**4,441**

7.4 Other assets and liabilities

At 31 December (CHF in thousands)	**2020**		2019	
	Other assets	**Other liabilities**	Other assets	Other liabilities
Indirect taxes	**6,442**	**– 24**	3,861	1,003
Settlement accounts	**73**	**42,622**	7,001	72,955
Amounts due from the sale of insurance products	**1,301**	**–**	1,282	–
Various assets and liabilities	**5,039**	**1,898**	10,469	1,141
Total other assets and liabilities	**12,856**	**44,496**	**22,614**	**75,099**

7.5 Liabilities to own pension plans

At 31 December (CHF in thousands)	**2020**	2019
Amounts due in respect of customer deposits	**–**	–
Total due to own pension plans	**–**	**–**

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

7.6 Economic position of own pension plans

At 31 December (CHF in thousands)			**2020**	2019	Influence of ECR on personnel expenses	
Employer contribution reserves (ECR)[1]	**Nominal value**	**Waiver of use**	**Net amount**	Net amount	**2020**	2019
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 2019 and 2018 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 31.12.2020**	Economic interest of the bank		Change in economic interest versus prior year	**Contributions paid 2020**	Pension expense in personnel expense	
CHF in thousands		**2020**	2019			**2020**	2019
Employer sponsored funds / schemes	**–**	**–**	–	–	**–**	**–**	–
Pension plans without overfunding / underfunding	**–**	**–**	–	–	**–**	**–**	–
Pension plans with overfunding	**35,975**	**–**	–	–	12,359	**8,151**	12,413
Pension plans with underfunding	**–**	**–**	–	–	**–**	**–**	–

[1] Based on audited financial statements 2019 and 2018 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.

7.7 Value adjustments and provisions

CHF in thousands	Balance as per 31 December 2019	Use in conformity with designated purpose	Reclassifications	Recoveries, past due interest	New provisions charged to income	Releases to income	**Balance as per 31 December 2020**
Value adjustments and provisions for default risks	71,116	– 124,043	–	74,652	73,727	– 22,241	**73,210**
Provision for pension benefit obligations	3,917	–	–	–	–	– 3,917	**–**
Other provisions	3,766	–	–	–	507	– 853	**3,421**
Total value adjustments and provisions	**78,799**	**– 124,043**	**–**	**74,652**	**74,234**	**– 27,010**	**76,631**

Value adjustments and provisions for default risks are related to financing receivables. Please refer to the Risk Management Report for details. Other provisions contain provisions for litigation, investigation, reconstruction costs and others.

7.8 Bank's capital

Bank's capital	2020 Total par value in CHF	2020 Number of shares	2020 Capital eligible for dividend in CHF	2019 Total par value in CHF	2019 Number of shares	2019 Capital eligible for dividend in CHF
Share capital	**30,000,000**	**30,000,000**	**29,370,465**	30,000,000	30,000,000	29,378,356
Total	**30,000,000**	**30,000,000**	**29,370,465**	**30,000,000**	**30,000,000**	**29,378,356**
Authorised capital	**3,000,000**	**3,000,000**	**–**	3,000,000	3,000,000	–
of which, capital increases completed	**–**	**–**	**–**	–	–	–
Conditional capital	**3,900,000**	**3,900,000**	**–**	3,900,000	3,900,000	–
of which, capital increases completed	**–**	**–**	**–**	–	–	–

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

7.9 Share and option holdings of the members of the Board of Directors, the Management Board and the employees

	Equity shares				Options (RSUs / PSUs)			
	Number as of 31 December		Value (CHF) at 31 December		Number as of 31 December		Value (CHF) at 31 December [1]	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Members of the Board of Directors	**31,496**	29,774	**3,376,371**	3,156,044	**–**	–	**–**	–
Members of the Management Board	**10,714**	21,478	**1,148,541**	2,276,668	**17,865**	18,427	**1,405,737**	1,387,843
Employees	**4,289**	4,639	**459,781**	491,734	**719**	4,126	**314,769**	401,262
Total	**46,499**	**55,891**	**4,984,693**	**5,924,446**	**18,584**	**22,553**	**1,720,506**	**1,789,106**

[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 look-back 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 the Compensation Report on page 84.

7.10 Related parties

At 31 December (CHF in thousands)	**2020**	2019
Amounts due from related companies	**160,356**	185,697
Amounts due to related companies	**106,154**	127,805

There are no off-balance-sheet 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)	**2020**	2019
Amounts due from members of governing bodies	**21**	28
Amounts due to members of governing bodies	**2,742**	1,898

The governing bodies conclude usual banking transactions at personnel conditions.

7.11 Holders of significant participations

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

			2020			2019
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 %
Black Rock Inc.	**1,740,271**	**1,740,271**	**5.8**	1,740,271	1,740,271	5.8
UBS Fund Management	**1,623,913**	**1,623,913**	**5.4**	1,623,913	1,623,913	5.4

7.12 Own shares

Treasury shares (number)	**2020**	Average transaction price (CHF)
Balance at 1 January	**621,644**	
Purchase	**25,000**	87.28
Sale	**–**	–
Share based compensation	**– 17,109**	93.51
Balance at 31 December	**629,535**	

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

Non-distributable reserves

At 31 December (CHF in thousands)	**2020**	2019
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.

7.13 Holdings of the governing bodies and compensation report

Board of Directors

At 31 December		2020		2019	
Name	Function	Number of shares	Number of blocked shares	Number of shares	Number of blocked shares
Dr Felix A. Weber	Chairman	7,250	6,810	7,250	5,433
Prof. Dr Peter Athanas	Vice Chairman	–	2,498	–	1,993
Urs D. Baumann	Member	7,200	2,271	7,200	1,812
Thomas Buess	Member	–	–	–	–
Denis Hall	Member	–	1,558	–	1,166
Katrina Machin	Member	–	1,864	–	1,487
Dr Monica Mächler	Member	–	2,045	–	1,631
Ben Tellings	Member until 31 December 2019	–	–	–	1,802

Management Board

At 31 December		2020			2019		
Name	Position	Number of shares	Number of RSUs	Number of PSUs	Number of shares	Number of RSUs	Number of PSUs
Robert Oudmayer	CEO	73	–	7,849	10,859	1,069	8,214
Jörg Fohringer	Managing Director B2B	–	–	560	–	–	–
Daniel Frei	Managing Director B2C	5,735	–	1,657	4,345	292	1,717
Volker Gloe	CRO	4,245	–	1,602	4,112	290	1,631
Dr Emanuel Hofacker	General Counsel	661	–	1,472	2,162	243	1,495
Niklaus Mannhart	COO	–	3,038	869	–	3,038	266
Pascal Perritaz	CFO	–	–	818	–	–	172

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)	2020	2019
Negative interest on assets (reduction of interest income)	**1,794**	2,681
Negative interest on liabilities (reduction of interest expense)	**342**	507

8.2 Personnel expenses

For the years ended 31 December (CHF in thousands)	2020	2019
Salaries	**106,433**	95,950
of which share-based compensation and alternative forms of variable compensation	**862**	852
Social security benefits	**16,263**	19,779
Other compensation	**2,722**	5,378
Compensation and benefits	**125,417**	**121,106**

In accordance with the requirements of Art. 13a of the Gender Equality Act (GEA), the Bank has performed an equal pay analysis for the reference month October 2020. The analysis confirmed that the Bank complies with the principle of "equal pay for work of equal value”.

8.3 General and administrative expenses

For the years ended 31 December (CHF in thousands)	2020	2019
Office space expenses	**7,501**	7,138
Expenses from furniture and fixtures	**1,294**	1,470
Expenses for information and communication technology	**35,373**	29,960
Audit fees	**1,219**	1,039
Other operating expense	**90,729**	56,043
Total	**136,116**	**95,651**

8.4 Explanatory notes on extraordinary income and value adjustments and provisions no longer required

For the years ended 31 December (CHF in thousands)	2020	2019
Other income	**149**	146
Total	**149**	**146**

8.5 Current and deferred taxes

For the years ended 31 December (CHF in thousands)	**2020**	2019
Current tax expense	**36,277**	41,965
Income tax expense	**36,277**	**41,965**

The effective tax rates of the Bank for each of the two years ended 31 December were 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 162 to 183) for the year ended December 31, 2020.

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 judgement, 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, 2020 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 judgement, 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, 2020 amounts due from customers (smaller-balance, homogenous loans, including primarily credit card receivables, personal loans as well as auto leases and loans) amount to CHF 5,726.0 million (representing 86% of total assets) and includes an allowance for losses of CHF 73.2 million.

The valuation of collective allowance for losses on financing receivables relies on the application of significant management judgement in determining the methodology and parameters in calculating the allowance. The Bank uses various modelling techniques and assumptions, which are based on credit loss experience and historical delinquency data as well as current trends, conditions and macroeconomic factors.

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 judgement. These judgements require specific knowledge of developments in the Bank's financing receivables portfolio as well as relevant competencies in determining allowances.

Our response

We assessed and tested the design and operating effectiveness of the key controls 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. Our testing also comprised controls over reserving model approval, validation and approval of key data inputs as well as qualitative considerations for potential impairment that were not captured by management's models.

For a selected sample of allowances for losses on financing receivables calculated on a collective basis, we developed our independent expectation, by calculating the respective coverage rates and allowance for losses balance. Furthermore, we evaluated the reasonableness of the inputs to those models, such as delinquency and payment behavior, by comparing data and assumptions made to historical accuracy of estimates.

With the involvement of our valuation specialists, we examined the methodology of the selected reserving models and challenged the underlying assumptions used.

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

— Note 2 (Accounting and valuation principles, Amounts due from banks/customers)

— Note 7.7 (Value adjustments and provisions)

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

Ertugrul Tüfekci Licensed Audit Expert Auditor in Charge	Malea Bourquin Licensed Audit Expert

Zurich
March 17, 2021