Your Swiss Bank

Financial Report 2021

Consolidated Financial Statements

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Consolidated statements of income

For the years ended 31 December (CHF in thousands)	Notes	2021	2020
Interest income	21	**382,701**	401,814
Interest expense	22	**– 26,032**	– 26,856
Net interest income		**356,668**	**374,958**
Commission and fee income	23	**130,350**	122,273
Net revenues		**487,018**	**497,231**
Provision for losses on financing receivables	**4**	**– 40,282**	**– 56,411**
Compensation and benefits		**– 132,207**	– 129,541
General and administrative expenses	24	**– 114,048**	– 117,867
Total operating expenses		**– 246,255**	**– 247,408**
Income before income taxes		**200,481**	**193,412**
Income tax expense	16	**– 38,987**	– 40,490
Net income		**161,495**	**152,922**
Earnings per share			
Basic	14	**5.50**	5.21
Diluted	14	**5.49**	5.20

See accompanying Notes to the consolidated financial statements

Consolidated statements of comprehensive income

For the years ended 31 December (CHF in thousands)	2021	2020
Net income	**161,495**	152,922
Net prior service cost, net of tax	**– 924**	– 1,283
Actuarial gain / (loss), net of tax	**23,139**	– 3,940
Unrealised gains / (losses) on investment securities, net of tax	**–**	– 7
Total other comprehensive gain / (loss), net of tax	**22,215**	– 5,230
Comprehensive income	**183,710**	**147,693**

See accompanying Notes to the consolidated financial statements

Consolidated statements of financial position

At 31 December (CHF in thousands)	Notes	2021	2020
Assets			
Cash and cash equivalents		**544,769**	599,002
Financing receivables, net	4	**6,206,995**	6,292,563
Property, plant and equipment, net	5	**28,863**	35,376
thereof operating lease - right-of-use (ROU) assets	5	**23,678**	28,175
Intangible assets, net	6	**70,127**	81,846
Goodwill	7	**156,828**	156,828
Other assets	8	**87,717**	78,877
Total assets [1]		**7,095,299**	**7,244,491**
Liabilities and equity			
Deposits	9	**3,199,397**	3,274,620
Accrued expenses and other payables		**167,323**	210,306
Short-term debt	10	349,994	275,216
Long-term debt	10	**2,142,064**	2,290,014
Other liabilities	12	**30,567**	66,618
thereof operating lease - lease liability	5	**23,785**	28,474
Deferred tax liabilities, net	16	**5,678**	694
Total liabilities [1]		**5,895,022**	**6,117,468**
Common shares		**30,000**	30,000
Additional paid in capital (APIC)		**257,683**	259,046
Retained earnings		**953,689**	902,374
Treasury shares		**– 34,540**	– 35,843
Accumulated other comprehensive loss (AOCI)		**– 6,556**	– 28,555
Total shareholders' equity		**1,200,276**	**1,127,023**
Total liabilities and shareholders' equity		**7,095,299**	**7,244,491**

[1] The Group's consolidated assets as at 31 December 2021 and 2020 include total assets of TCHF 608,949 and TCHF 633,653, 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 2021 and 2020 include liabilities of the VIEs of TCHF 503,181 and TCHF 503,639, 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 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 TCHF 2,003	–	–	–	–	**– 8,587**	**– 8,587**
Reclassifications from accumulated other comprehensive loss net of deferred tax of TCHF -447 [1]	–	–	–	–	**3,364**	**3,364**
Unrealised gains / (losses) on available for sale debt securities, net of deferred tax of TCHF 2	–	–	–	–	**– 7**	**– 7**
Balance at 31 December 2020	**30,000**	**259,046**	**902,374**	**– 35,843**	**– 28,555**	**1,127,023**
Balance at 1 January 2021	**30,000**	**259,046**	**902,374**	**– 35,843**	**– 28,555**	**1,127,023**
Net income	–	–	**161,495**	–	–	**161,495**
Dividends paid	–	–	– 110,181	–	–	**– 110,181**
Change due to share-based compensation	–	– 1,363	–	1,814	–	**451**
Treasury shares	–	–	–	– 511	–	**– 511**
Movements related to the Group's benefit plan obligation, net of deferred tax of TCHF -4,289	–	–	–	–	17,896	**17,896**
Reclassifications from accumulated other comprehensive loss net of deferred tax of TCHF -957 [1]	–	–	–	–	4,103	**4,103**
Balance at 31 December 2021	**30,000**	**257,683**	**953,689**	**– 34,540**	**– 6,556**	**1,200,276**

[1] Reclassifications from accumulated other comprehensive loss related to the Group's pension 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	2021	2020
Cash flows from operating activities			
Net income		**161,495**	152,922
Adjustments to reconcile net income to cash provided from operating activities:			
Provision for losses on financing receivables		**40,282**	56,411
Deferred income taxes		**– 261**	1,116
Depreciation		**2,825**	3,346
Amortisation of intangible assets		**22,220**	23,176
(Decrease) / Increase in accrued expenses and other payables		**– 42,983**	8,148
Decrease / (Increase) in tax receivables		**– 3,875**	– 6,096
Decrease / (Increase) in other receivables		**– 193**	4,283
Decrease / (Increase) in deferred expenses		– 437	– 3,754
All other operating activities		**– 4,463**	– 6,288
Net cash provided by operating activities		**174,609**	**233,264**
Cash flows from investing activities			
Net change in financing receivables	26	**37,077**	236,581
Proceeds from sale of loss certificates	4	**8,209**	–
Proceeds from maturity of investment securities		**–**	5,668
Additions to intangible assets		**– 9,968**	– 12,920
All other investing activities		**– 867**	– 195
Net cash provided by investing activities		**34,450**	**229,134**
Cash flows from financing activities			
Net change in deposits		**– 75,223**	– 220,533
Issuance of short-term and long-term debt		**200,000**	250,000
Repayments of short-term and long-term debt		**– 275,216**	– 325,063
Dividends paid		**– 110,181**	– 110,233
Purchase of treasury shares		**– 511**	– 2,182
All other financing activities		**2,496**	2,888
Net cash used for financing activities		**– 258,635**	**– 405,122**
Net increase / (decrease) in cash and cash equivalents		**– 49,576**	**57,276**
Cash and cash equivalents, including restricted cash classified in "Other assets"			
Beginning of the period		**630,822**	573,546
thereof restricted cash		**31,820**	30,967
End of period		**581,245**	**630,822**
thereof restricted cash		**36,476**	31,820
Supplemental disclosure			
Interest paid		**– 23,152**	– 24,880
Income taxes paid		**– 52,043**	– 55,614

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 2016-1 GmbH in Liquidation, Swiss Auto Lease 2019-1 GmbH, Swiss Auto Lease 2020-1 GmbH, Swissbilling SA, eny Credit GmbH 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 are rounded in thousands of Swiss francs, therefore rounding differences can occur.

Consolidation

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

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

In accordance with ASC 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 the reporting period and beyond actual conditions could alter, 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 takes into account our historical experience, adjusted for current conditions with each product and customer type, and our judgment concerning the probable effects of relevant observable data, trends and market factors. The Group's loan portfolio consists of smaller-balance, homogenous pools of 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 to estimate the likelihood that a loan will progress through the various stages of delinquency. The considerations in these analyses include historical loss performance on actual defaulted loans, historical behaviour of different account vintages, roll rate movements, risk management techniques applied to various accounts, recent trends in delinquencies, bankruptcy filings, account collection management, policy changes, seasoning, trends in new loan volume and lending terms, payment rates and a review process of the adequacy of the allowance for losses. Management also considers current economic conditions, forecasting uncertainties, behaviour on specific accounts 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. The underlying assumptions, estimates and assessments are updated periodically to reflect our view of current conditions and are subject to the Group's end user computing (EUC) governance.

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 (until merger in June 2021) 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 (until merger in June 2021) 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.

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 7. Goodwill for further details.

Intangible assets and amortisation

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 6. Intangible assets 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 25. Share-based compensation.

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 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 addoption of the standard as of 1 January 2021 did not had an impact the Group's financial position, results of operations and related notes.

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 addoption of the standard as of 1 January 2021 did not had a material impact on the Group.

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, estimating an increase of allowance for credit losses of CHF 50 million to CHF 70 million, which will be recognised as cumulative effect adjustment to opening retained earnings as of 1 January 2023. Under US GAAP, provisions for losses on the income statement are not affected on the day one of adoption of CECL.

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

Following a successful business integration, in June 2021 cashgate AG was legally merged with the Bank, as planned.

On 23 August 2021, we announced that after a 15-year partnership, Cembra and Migros would terminate their cooperation agreement for the Cumulus-Mastercard credit card as of June 2022.

In December 2021, the liquidation process for Swiss Auto Lease 2015-1 GmbH in Liquidation was completed with the cancellation of the company from the register of commerce of Zurich.

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.

The environmental reserve, which was recorded on personal loans with the scope to further strengthen the allowance for losses in light of Covid-19 related macroeconomic impacts, remains in place at CHF 2.1 million and CHF 2.2 million for the years ended 31 December 2021 and 2020, respectively, considering continuous uncertainties and potential second-round effects on the Swiss macro economy related to the pandemic. The environmental reserves are calculated by applying migration analysis that is based on past performance and historical behaviour during similar periods of economic downturn.

In the first half of 2021, previously written off financing receivables were sold to a third party. The proceeds were recorded as recoveries impacting the activity in the allowance for losses, which resulted in a reduction in the provision for losses of TCHF 8,209 in the Group’s financial results of the reported period.

At 31 December 2021 and 2020, 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)	2021	2020
Loans	**3,611,064**	3,696,458
Deferred costs, net	**42,467**	43,659
Total loans, including deferred costs, net	**3,653,531**	**3,740,117**
Investment in financing leases, net of deferred income	**2,574,761**	2,573,674
Other [1]	**66,484**	62,827
Financing receivables before allowance for losses	**6,294,776**	**6,376,617**
Less allowance for losses [2]	**– 87,781**	– 84,055
Financing receivables, net	**6,206,995**	**6,292,563**

[1] Other includes Swissbilling SA
[2] Includes Covid-19 environmental reserve of TCHF 2,089 and TCHF 2,165 as at 31 December 2021 and 2020, respectively

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)	2021	2020
Total minimum lease payments receivable	**2,778,034**	2,770,331
Deferred income [1]	**– 203,274**	– 196,657
Investment in direct financing leases	**2,574,761**	**2,573,674**
Less allowance for losses	**– 10,849**	– 9,654
Net investment in direct financing leases	**2,563,912**	**2,564,020**

[1] Includes TCHF 25,721 and TCHF 25,602 of initial direct costs on direct financing leases as at 31 December 2021 and 2020, respectively

The subsidiaries held TCHF 572,473 and TCHF 601,766 of net financing receivables as at 31 December 2021 and 2020, respectively, as collateral to secure third-party debt in securitisations. See note 19. Variable interest entities for further details of securitisations.

As at 31 December 2021, the Group's contractual maturities for loans and financing leases were:

Due in (CHF in thousands)	Loans	Minimum lease payments receivable
2022	**91,745**	**257,538**
2023	**207,060**	**466,981**
2024	**346,079**	**662,368**
2025	**439,856**	**789,069**
2026	**566,938**	**544,917**
2027 and thereafter	**901,657**	**57,161**
Consumer revolving loans	**1,057,731**	**–**
Total	**3,611,064**	**2,778,034**

Actual maturities may differ from contractual maturities.

The following table provides further information about financing receivables:

At 31 December (CHF in thousands)	2021	2020
Personal loans	**2,356,414**	2,472,644
Auto leases and loans	**2,833,437**	2,865,029
Credit cards	**1,038,442**	976,117
Other [1]	**66,484**	62,827
Financing receivables, before allowance for losses	**6,294,776**	**6,376,617**
Allowance for losses [2]	**– 87,781**	– 84,055
Financing receivables, net	**6,206,995**	**6,292,563**

[1] Other includes Swissbilling SA
[2] Includes Covid-19 environmental reserve of TCHF 2,089 and TCHF 2,165 as at 31 December 2021 and 2020, respectively

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

CHF in thousands	Balance at 1 January 2021	Provision for losses [3]	Amounts written off	Recoveries [3]	Other	Balance at 31 December 2021
Personal loans [1]	**64,401**	**18,400**	**– 67,401**	**48,765**	**–**	**64,164**
Auto leases and loans	**12,097**	**12,467**	**– 35,046**	**23,963**	**–**	**13,482**
Credit cards	**6,375**	**7,538**	**– 16,591**	**11,081**	**–**	**8,403**
Other [2]	**1,180**	**1,876**	**– 1,989**	**665**	**–**	**1,732**
Total [1]	**84,055**	**40,282**	**– 121,028**	**84,474**	**–**	**87,781**
As a % of total financing receivables, net						**1.4 %**

1 Includes Covid-19 environmental reserve of TCHF 2,089
2 Other includes Swissbilling SA
3 Includes recoveries of TCHF 8,209 from previously written off financing receivables that were sold to a third party

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**	**–**	**6,376**
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

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. Basis of presentation and summary of significant accounting policies.

Past due financing receivables

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

	2021		2020	
	Over 30 days past due	**Over 90 days past due**	Over 30 days past due	Over 90 days past due
Personal loans	**3.1%**	**1.3%**	3.3%	1.4%
Auto leases and loans	**0.6%**	**0.1%**	0.7%	0.1%
Credit cards	**1.0%**	**0.3%**	1.0%	0.4%
Total [1]	**1.6%**	**0.6%**	**1.8%**	**0.7%**

[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)	2021	2020
Personal loans	**29,361**	33,674
Auto leases and loans	**2,473**	3,544
Credit cards	**3,463**	3,587
Total [1]	**35,297**	**40,804**
Nonperforming loan coverage [2]	**249%**	206%

[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 non-accrual 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.

	2021				
At 31 December (CHF in thousands)	CR1	CR2	CR3	CR4	CR5
Personal loans	978,938	766,406	419,507	114,927	38,539
Auto leases and loans	1,487,647	913,173	356,697	58,917	17,003
Credit cards	782,643	185,372	65,101	5,252	74
Total [1]	3,249,227	1,864,950	841,306	179,096	55,616
As a % of total financing receivables before allowance for losses [1]	52.5%	30.1%	13.6%	2.9%	0.9%

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

	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	719,543	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

5. Property, plant and equipment

At 31 December (CHF in thousands)	Estimated useful lives (years)	2021	2020
Original cost			
Buildings and improvements	(5-40)	8,486	9,598
Office equipment	(3-10)	16,842	15,916
Total		25,328	25,514
Accumulated depreciation			
Buildings and improvements		– 6,512	– 6,733
Office equipment		– 13,631	– 11,580
Total		– 20,143	– 18,313
Net carrying value			
Buildings and improvements		1,974	2,865
Office equipment		3,211	4,336
Total		5,185	7,201

Depreciation expense was TCHF 2,825 and TCHF 3,346 for the year ended 31 December 2021 and 2020, respectively. The Group did not recognise any impairment losses in both 2021 and 2020.

The Group holds operating leases primarily related to real estate and automobiles.

At 31 December (CHF in thousands)	2021	2020
Components of the lease liability		
Operating lease - right-of use (ROU) assets	**23,678**	28,175
Operating lease - lease liability	**23,785**	28,474
Short-term classification	6,445	6,636
Long-term classification	17,340	21,838
Supplemental information		
Right-of-use (ROU) assets obtained for new lease liabilities	–	14,893
Weighted average remaining lease term (in years)	4.32	4.56
Weighted average discount rate	0.19 %	0.20 %

For the years ended 31 December (CHF in thousands)	**2021**	2020
Components of the lease expense		
Operating lease expense [1]	**6,787**	7,880
Supplemental cash flow information		
Operating cash flows paid for operating leases	6,358	7,188
Operating cash flows paid for short-term	389	563

[1] Includes impariment loss of TCHF 0 and TCHF 575 on operating leases for the year ended 31 December 2021 and 2020, respectively

At 31 December (CHF in thousands)	2021
Maturities of operating lease liabilities	
2022	**6,475**
2023	**5,581**
2024	**4,220**
2025	**4,432**
2026	**3,172**
Total lease payments	**23,879**
Less: imputed interest	**– 93**
Total	**23,785**

6. Intangible assets

CHF in thousands	Estimated useful lives (years)	2021	2020
Original cost			
Capitalised software	(1-5)	**101,040**	91,065
Customer relationships	(5 - 5.5)	**48,087**	48,087
Trademarks	(5)	**10,957**	10,964
Total		**160,085**	**150,117**
Accumulated amortisation			
Capitalised software		**– 64,278**	– 53,532
Customer relationships		**– 20,563**	– 11,815
Trademarks		**– 5,117**	– 2,924
Total		**– 89,958**	**– 68,271**
Net carrying value			
Capitalised software		**36,762**	37,533
Customer relationships		**27,524**	36,273
Trademarks		**5,840**	8,040
Total		**70,127**	**81,846**

Amortisation expense related to intangible assets was TCHF 22,220 and TCHF 23,176 for the year ended 31 December 2021 and 2020, respectively. As at 31 December 2021, the Group estimates the annual pre-tax amortisation for intangible assets over the next five years to be as follows:

CHF in thousands	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**
Estimated pre-tax amortisation	**22,660**	**20,482**	**17,388**	**6,749**	**2,847**

7. 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 the goodwill impairment analysis as of 30 September 2021 and follow up procedures performed covering the last quarter 2021, 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 2021. There are no deferred taxes booked related to goodwill.

CHF in thousands	Balance at 1 January 2021	Goodwill acquired during the period	Other	Balance at 31 December 2021
Gross amount of goodwill	156,828	–	–	156,828
Accumulated impairment	–	–	–	–
Net book value	**156,828**	**–**	**–**	**156,828**

At 31 December (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**

8. Other assets

At 31 December (CHF in thousands)	2021	2020
Restricted cash	**36,476**	31,820
Tax receivables	**34,608**	30,733
Other receivables	**7,779**	7,586
Deferred expenses	**7,594**	7,157
Other	**1,260**	1,581
Total other assets	**87,717**	**78,877**

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 36,476 and TCHF 31,820 of restricted cash related to the consolidated VIEs (see note 19. Variable interest entities) as at 31 December 2021 and 2020, respectively. The tax receivables at 31 December 2021 consisted of VAT input tax.

9. Deposits

The following table shows the maturities of the Group's customers' saving deposits, term deposits and prepaid card balances as at 31 December 2021 and 2020, respectively:

At 31 December (CHF in thousands)	2021	2020
On demand	**167,915**	167,124
Less than 3 months	**347,803**	328,852
3 to less than 6 months	**172,364**	327,727
6 to less than 12 months	**901,878**	820,039
12 months plus, thereof	**1,609,437**	1,630,878
due in 2022	–	578,330
due in 2023	**576,872**	359,629
due in 2024	**412,032**	341,649
due in 2025	**263,565**	120,802
due in 2026	**126,978**	66,601
due in 2027 and thereafter	**229,991**	163,868
Total	**3,199,397**	**3,274,620**

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 0.37% as at 31 December 2021 and was comparable to that of the prior year.

10. Short-term and long-term debt

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

		2021		2020	
At 31 December (CHF in thousands)	Maturity	**Amount**	**Contractual interest rate** [2]	Amount	Contractual interest rate [2]
Short-term portion					
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 %
Non-recourse borrowings (Auto ABS) [1]	2022	**250,000**	**0.15 %**	–	–
External debt (unsecured bond)	2022	**99,994**	**1.25 %**	–	–
Long-term portion					
Non-recourse borrowings (Auto ABS) [1]	2022	–	–	250,000	0.15 %
External debt (unsecured bond)	2022	–	–	99,988	1.25 %
External debt (unsecured bond)	2023	**250,000**	**0.00 %**	250,000	0.00 %
External debt (unsecured bond)	2023	**200,000**	**0.18 %**	200,000	0.18 %
Non-recourse borrowings (Auto ABS) [1]	2024	**250,000**	**0.00 %**	250,000	0.00 %
External debt (unsecured bond)	2024	**200,095**	**0.25 %**	200,136	0.25 %
External debt (perpetual tier 1 capital bond)	2024	**150,000**	**2.50 %**	150,000	2.50 %
External debt (unsecured bond)	2025	**150,413**	**0.38 %**	150,533	0.38 %
External debt (unsecured bond)	2026	**125,147**	**0.88 %**	125,179	0.88 %
External debt (senior convertible bond)	2026	**248,709**	**0.00 %**	248,420	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 %
External debt (unsecured bond)	2028	**200,000**	**0.42 %**	–	–
Debt issuance costs		**–7,301**		–9,242	
Total short-term and long-term debt		**2,492,058**		**2,565,230**	

[1] Related to consolidated VIEs, for further details refer to note 19. Variable interest entities
[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 2021, the Group had fixed rate funding only.

The Group defers the debt issuance costs and amortises them over the expected lifetime of the relevant debt instrument. As per 31 December 2021 and 2020, unamortised debt issuance costs amounted to TCHF 7,301 and TCHF 9,242, respectively. Commitment fees are recognised as incurred over the commitment period.

On 16 December 2021, the Group signed a revolving credit facility with a Swiss bank with a committed term until 2025. 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 2021, the Group signed a revolving credit facility with as Swiss bank with a committed term until 2024. 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.

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.

As at 31 December 2021, 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 2021 and 2020, respectively.

On 21 October 2021, the Group issued at TCHF 200,000 senior unsecured bond at 100% with maturity of seven years and a coupon of 0.4175%.

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 2021 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 3 March 2020, the Group launched its sixth auto lease asset backed security ("ABS") transaction and issued fixed rate senior notes of TCHF 250,000 on the Swiss capital market with a contractual maturity of ten years, an optional redemption date of four years from the date of issuance and coupon of 0.00%.

On 6 March 2019, the Group launched its fifth auto lease asset backed security ("ABS") transaction and issued fixed rate senior notes of TCHF 250,000 on the Swiss capital market with a legal maturity of ten years , an optional redemption date of 3 years from the date of issuance and coupon of 0.15%.

The Group has a total outstanding of TCHF 2,350,000 of senior unsecured bonds (including ABS and Convertible) and TCHF 150,000 subordinated additional tier 1 bond issued as at 31 December 2021. These bonds have been issued in 2014 (maturing in 2022), 2016 (maturing in 2023), 2017 (maturing in 2024 and 2025) and 2018 (maturing in 2026), 2019 (maturing in 2021, 2022, 2023, 2026 and 2027), 2020 (maturing in 2024) and 2021 (maturing 2028). All debt instruments are repayable in full at maturity or at the earliest possible redemption date.

11. 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 2021 and 2020, respectively, were as follows:

At 31 December	**2021**	2020
Active employees	**972**	982
Beneficiaries and pensioners	**162**	155
Total	**1,134**	**1,137**

The cost of the pension plans is presented below:

For the years ended 31 December (CHF in thousands)		2021	2020
Service cost for benefits earned	Compensation and benefits	**8,479**	8,678
Prior service credit amortisation	General and administrative expenses	**–1,413**	–1,590
Expected return on plan assets	General and administrative expenses	**–7,565**	–7,316
Interest cost on benefit obligations	General and administrative expenses	**332**	642
Net actuarial loss amortisation	General and administrative expenses	**6,473**	5,726
Net periodic benefit cost		**6,306**	**6,140**

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	**2021**	2020
Discount rate	**0.20%**	0.10%
Compensation increases	**1.79%**	1.85%
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. Management expects to contribute approximately TCHF 10,610 to the pension plan in 2022.

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

The accumulated benefit obligation was TCHF 335,985 and TCHF 330,439 for 31 December 2021 and 2020, respectively. The changes in the projected benefit obligation are presented below:

CHF in thousands	2021	2020
Balance at 1 January	**339,575**	**328,499**
Service cost for benefits earned	**8,479**	8,678
Interest cost on benefit obligations	**332**	642
Participant contributions	**6,903**	6,850
Actuarial (gain)/loss, net	**–3,675**	9,795
Benefits (paid)/received, net	**–7,057**	–14,889
Balance at 31 December	**344,557**	**339,575**

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. Basis of presentation and summary of significant accounting policies.

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

CHF in thousands	2021	2020
Balance at 1 January	**304,896**	**293,832**
Actual return on plan assets	**26,075**	6,521
Employer contributions	**10,385**	12,582
Participant contributions	**6,903**	6,850
Benefits (paid) / received, net	**–7,057**	–14,889
Balance at 31 December	**341,202**	**304,896**

The asset allocations are described below:

At 31 December	2021 Target allocation	2021 Actual allocation
Equity securities		
Swiss equity securities	**13%**	**13%**
Non-Swiss equity securities	**23%**	**24%**
Debt securities		
Swiss bonds	**18%**	**21%**
Non-Swiss bonds	**17%**	**18%**
Real estate funds	**19%**	**21%**
Other investments	**10%**	**4%**

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:

	2021			
At 31 December (CHF in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities				
Swiss equity securities	**44,481**	**–**	**–**	**44,481**
Non-Swiss equity securities	**80,352**	**–**	**–**	**80,352**
Debt securities	**–**	**–**	**–**	**–**
Swiss bonds	**71,106**	**–**	**–**	**71,106**
Non-Swiss bonds	**60,668**	**–**	**–**	**60,668**
Real estate funds	**–**	**69,868**	**–**	**69,868**
Other investments [1]	**6,524**	**7,780**	**–**	**14,304**
Total investments	**263,132**	**77,648**	**–**	**340,780**
Other				**422**
Total assets				**341,202**

1 Primarily includes infrastructure funds and cash

	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

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

At 31 December (CHF in thousands)	**2021**	2020
Funded status	**– 3,355**	– 34,679
Pension liability recorded in the statement of financial position		
Other liabilities		
Due after one year	**– 3,355**	– 34,679
Net amount recognised	**– 3,355**	**– 34,679**
Amounts recorded in shareholders' equity (unamortised)		
Prior service credit	**– 3,022**	– 4,435
Net actuarial loss	**11,011**	39,669
Net amount recognised	**7,989**	**35,234**

In 2022, the Group estimates that it will amortise TCHF 1,413 of prior service credit and TCHF 1,769 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	2022	2023	2024	2025	2026	2027-2031
Pension plan	22,561	21,638	20,854	21,970	21,899	84,167

12. Other liabilities

This section primarily reflects the pension plans funded status of TCHF 3,355 and TCHF 34,679 as at 31 December 2021 and 2020, respectively. It also comprises deferred compensation related to the Group's jubilee plan amounting to TCHF 3,427 and TCHF 3,464 as at 31 December 2021 and 2020, 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 5. Property, plant and equipment.

13. 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 arragements converted into credit equivalents, non-counterparty risk, market risk and operational risk from processes, people, systems and external events.

As of 31 December 2021, 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 2021" available at www.cembra.ch/financialreports.

At 31 December (CHF in thousands)	2021	2020
Eligible regulatory capital		
Tier 1 capital	**1,056,594**	1,000,436
of which CET1 capital	**906,594**	850,436
of which additional Tier 1 capital	**150,000**	150,000
Total eligible capital	**1,056,594**	**1,000,436**
Risk-weighted assets		
Credit risk	**4,821,675**	4,861,055
Non counterparty risk	**39,289**	42,215
Market risk	**1,385**	3,452
Operational risk	**737,719**	755,157
Total risk-weighted assets	**5,600,068**	**5,661,879**
Capital ratios		
CET1 ratio	**16.2 %**	15.0 %
Tier 1 ratio	**18.9 %**	17.7 %
Total capital ratio	**18.9 %**	**17.7 %**

14. 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)	2021	2020
Net income attributable to shareholders for basic earnings per share (CHF in thousands)	**161,495**	152,922
Net income attributable to shareholders for diluted earnings per share (CHF in thousands)	**161,495**	152,922
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	**621,475**	624,270
Weighted-average numbers of common shares outstanding for basic earnings per share	**29,378,525**	**29,375,730**
Dilution effect number of shares	**16,219**	20,740
Weighted-average numbers of common shares outstanding for diluted earnings per share	**29,394,745**	**29,396,470**
Basic earnings per share (in CHF)	**5.50**	**5.21**
Diluted earnings per share (in CHF)	**5.49**	**5.20**

The amount of common shares outstanding has changed as follows:

	2021	2020
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	**629,535**	**621,644**
Share-based compensation	**– 20,604**	– 17,109
Purchase	**5,000**	25,000
Balance at end of period	**613,931**	**629,535**
Common shares outstanding	**29,386,069**	**29,370,465**

15. 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)	2021	2020
Insurance	**22,971**	23,953
Credit cards	**80,429**	71,382
Total	**103,400**	**95,335**

The table above differs from note 23. Commissions and Fee Income as it includes only contracts with customers that are in scope of ASC Topic 606 – Revenue from Contracts with Customers.

16. Income tax expense

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

For the years ended 31 December (CHF in thousands)	2021	2020
Current tax expense	**39,248**	39,374
Deferred tax expense / (benefit) from temporary differences	**– 261**	1,116
Income tax expense	**38,987**	**40,490**

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 were approximately 19% and 21% for the years ended 31 December 2021 and 2020, respectively. The lower effective tax rate in 2021 reflects the impact of tax law changes in 2019 and a one-off participation relief on dividend income.

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

At 31 December (CHF in thousands)	2021	2020
Assets		
Pension plans	**532**	6,561
Operating lease - lease liability	**4,567**	5,467
Loss carried forward	**95**	285
Other	**658**	686
Total deferred tax assets	**5,852**	**12,999**
Liabilities		
Deferred loan origination fees and costs	**–720**	–860
Intangibles	**–6,264**	–7,425
Operating lease - right-of-use assets	**–4,546**	–5,410
Total deferred tax liabilities	**–11,530**	**–13,694**
Net deferred tax assets / (liabilities)	**–5,678**	**–694**

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

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

17. Commitments and guarantees

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

Swiss banking law and the deposit insurance system require Swiss banks and securities dealers to jointly guarantee an amount of up to CHF 6 billion for privileged client deposits in the event that a Swiss bank or securities dealer becomes insolvent. Upon occurrence of a payout event triggered by a specified restriction of business imposed by FINMA or by the compulsory liquidation of another deposit-taking bank, the Group's contribution will be calculated based on its share of privileged deposits in proportion to total privileged deposits. Based on FINMA's estimate, the Group's share in the deposit insurance guarantee programme was TCHF 6,388 and TCHF 6,674 as at 31 December 2021 and 2020, respectively. The deposit insurance is a guarantee and exposes the Group to additional risk. As at 31 December 2021, 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 2021 amounts to TCHF 33,789 and management assesses that the probability of payout is remote.

For details on rental commitments under non-cancellable operating leases refer to note 5. Property, plant and equipment.

18. Financial instruments

The following table provides information about the assets and liabilities not carried at fair value in the statement of financial position.

The table excludes finance leases and non-financial assets and liabilities and convertible bonds. For the most part, the assets and liabilities discussed below are considered to be Level 3.

	2021		2020	
At 31 December (CHF in thousands)	**Carrying amount net**	**Estimated fair value**	Carrying amount net	Estimated fair value
Assets				
Loans	**3,578,038**	**3,656,409**	3,666,896	3,741,341
Liabilities				
Deposits	**– 3,199,397**	**– 3,228,807**	– 3,274,620	– 3,308,535
Borrowings	**– 2,492,058**	**– 2,259,965**	– 2,565,230	– 2,334,796

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 11. Pension plans for further details on pension funds.

19. Variable interest entities

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

The Group completed 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 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)	2021	2020
Assets		
Financing receivables, net	**572,473**	601,766
Financing leases	**542,504**	545,920
Loans	**29,969**	55,846
Other assets	**36,476**	31,887
Total assets	**608,949**	**633,653**
Liabilities		
Accrued expenses and other payables	**3,878**	5,035
Non-recourse borrowings	**499,303**	498,604
Total liabilities	**503,181**	**503,639**

Revenues from the consolidated VIEs amounted to TCHF 30,638 and TCHF 30,955 for the years ended 31 December 2021 and 2020, respectively. Related expenses consisted primarily of provisions for losses of TCHF 1,942 and TCHF 3,465, general and administrative expenses releated to porftolio service costs of TCHF 1,714 and TCHF 770 and interest expense of TCHF 1,099 and TCHF 1,254 for the years ended 31 December 2021 and 2020, respectively. These amounts did not include intercompany revenues and costs, principally fees and interest between the Bank and the VIEs, which are eliminated for consolidation purposes.

20. Related-party transactions

The Group had no related-party transactions in 2021 and 2020 outside the normal course of business.

21. Interest income

The details of interest income are shown below:

For the years ended 31 December (CHF in thousands)	2021	2020
Personal loans	**169,359**	190,684
Auto leases and loans	**130,106**	129,358
Credit cards	**84,484**	83,649
Other	**– 1,249**	– 1,877
Total	**382,701**	**401,814**

22. Interest expense

The details of interest expense are shown below:

For the years ended 31 December (CHF in thousands)	2021	2020
Interest expense on ABS	**1,328**	1,469
Interest expense on deposits	**12,736**	13,132
Interest expense on debt	**11,968**	12,255
Total	**26,032**	**26,856**

23. Commission and fee income

The details of commission and fee income are shown below:

For the years ended 31 December (CHF in thousands)	2021	2020
Insurance	**22,971**	23,953
Credit cards	**80,429**	71,382
Loans and leases	**14,603**	15,708
Other	**12,347**	11,229
Total	**130,350**	**122,273**

24. General and administrative expenses

The details of general and administrative expenses are shown below:

For the years ended 31 December (CHF in thousands)	2021	2020
Professional services	**17,763**	17,788
Marketing [1]	**8,134**	10,936
Collection fees	**10,517**	11,653
Postage and stationery	**10,826**	10,082
Rental expense under operating leases	**6,787**	7,880
Information technology	**41,449**	39,101
Depreciation and amortisation	**25,045**	26,522
Other	**– 6,472**	– 6,095
Total	**114,048**	**117,867**

1 Marketing includes advertising costs, which are expensed as incurred

25. Share-based compensation

Under the Executive Variable Compensation Plan (EVCP) that was set up for the senior management team in 2013 each member of the Group's senior management team received at grant a number of restricted stock units (RSUs) as part of their annual variable compensation. Vesting for the RSUs takes place in three equal tranches. The last grant of RSUs 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 have been all 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 2021 and 2020, respectively:

	2021		2020	
	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	**3,038**	**248,121**	5,552	411,783
Granted	–	–	–	–
Vested	**– 3,038**	**– 248,121**	– 2,514	– 163,661
Forfeited	–	–	–	–
RSUs outstanding at 31 December	–	–	3,038	248,121
RSUs expected to vest	–	–	**3,038**	**248,121**

The total recognised compensation cost was TCHF 48 and TCHF 90 for the years ended 31 December 2021 and 2020, respectively. There is no remaining unrecognised cost as of 31 December 2021.

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.

	2021		2020	
	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	**15,545**	**1,472,385**	17,001	1,377,323
Granted	**3,738**	**392,681**	6,353	717,254
Vested	**– 11,215**	**– 1,049,146**	– 6,056	– 447,236
Forfeited	**– 1,063**	**– 114,468**	– 1,753	– 174,956
PSUs outstanding at 31 December	**7,005**	**701,452**	15,545	1,472,385
PSUs expected to vest	**870**	**84,169**	**19,285**	**1,245,493**

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 105.05 and CHF 112.90 at the grant date of 1 February 2021 and 2020, respectively, and one PSU was equal to one ordinary share of the Bank.

At 31 December 2021, the weighted-average conversion ratio of one PSU was 12% based on performance conditions. The total recognised compensation cost was TCHF 46 and TCHF 761 for the years ended 31 December 2021 and 2020, respectively. The remaining unrecognised cost of TCHF 19 is expected to be recognised over a weighted-average period of 13 months.

26. Supplemental cash flow information

Certain supplemental information related to cash flows is shown below:

For the years ended 31 December (CHF in thousands)	**2021**	2020
Increase in loans to customers	**– 1,804,323**	– 1,746,412
Principal collections from customers – loans	**1,923,025**	1,984,109
Investment in equipment for financing leases	**– 1,334,049**	– 1,277,066
Principal collections from customers – financing leases	**1,326,196**	1,271,288
Net change in credit card receivables and other	**– 73,771**	4,662
Net change in financing receivables	**37,077**	**236,581**

27. Off-balance sheet arrangements

At 31 December 2021 and 2020, 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)	**2021**	2020
Ordinary course of business lending commitments	**183,552**	58,405
Unused revolving loan facilities	**66,031**	78,669
Unused credit card facilities	**3,748,298**	3,658,331

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. The increase in lending commitments from the ordinary course of business, in current year, is related to a methodology change in how we estimate the undrawn part of approved commitments.

28. Subsequent events

The Group has evaluated subsequent events from the financial statements date through 15 March 2022, the date at which the financial statements were available to be issued. There were no subsequent events at that date.

Statutory Auditor's Report

To the General Meeting of Cembra Money Bank AG, Zurich

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Cembra Money Bank AG (and its subsidiaries) (the Group), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (pages 120 to 158).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group, and have fulfilled our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit, which include relevant ethical requirements in the United States of America, with the provisions of Swiss law and the requirements of the Swiss audit profession. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Valuation of allowance for losses on financing receivables

Valuation of goodwill

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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, 2021 gross financing receivables (smaller-balance, homogenous loans, including primarily credit card receivables, personal loans as well as auto leases and loans) amount to CHF 6,294.8 million (representing 88.7% of total assets). At the same time, the Group has recorded an allowance for losses on financing receivables of CHF 87.8 million.

The valuation of collective allowance for losses on financing receivables relies on the application of significant management judgment in determining the methodology and parameters in calculating the allowance. 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 behaviour, which is subject to management judgment.

These judgments 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 behaviour, by comparing data and assumptions made to historical accuracy of estimates.

With the involvement of our Financial Risk Management 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, 2021, Cembra Money Bank Group reports goodwill of CHF 156.8 million arising from three acquisitions in previous periods.

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

Goodwill impairment testing is performed at the Reporting Unit ("RU") level and involves a comparison of the estimated fair value of each RU to its carrying amount. The estimates of fair values are determined by discounting future projected cash flows.

Our 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.

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 capitalisation.

Additionally, we considered whether the Group's disclosures of the application of judgment in estimating key assumptions and the sensitivity of the results of those estimates adequately reflect the risk associated with the goodwill impairment.

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

- Note 1 (Basis of presentation and summary of significant accounting policies, Goodwill)
- Note 7 (Goodwill)

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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 provisions of Swiss law, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued; to disclose, as applicable, matters related to going concern; and to use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Swiss Law, and Swiss Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, Swiss Law, and Swiss Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances[6], but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group’s ability to continue as a going concern for a reasonable period of time.
- Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit of the Group. We remain solely responsible for our audit opinion. We are required to communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters, including any significant deficiencies, that we identified during the audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Information in the Annual Report

The Board of Directors is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the consolidated financial statements, the stand-alone financial statements of the company, the remuneration report, the sustainability report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. We have nothing to report in this regard.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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 recommend that the financial statements submitted to you be approved.

KPMG AG

Ertugrul Tüfekçi
Licensed Audit Expert
Auditor in Charge

Malea Bourquin
Licensed Audit Expert

Zurich, March 15, 2022