

# Half-year 2017 Financial Results

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# Solid results in-line with guidance

## Environment

- Continued low interest rates ... inflation turning positive
- Consumer confidence improving ... consumer loan market showing sign of recovery
- First twelve months with new interest rate caps (10% and 12%)
- Domestic interchange fee to be reduced from 70bp to 44bp as of 1 August 2017

## Managing business

- Asset growth of 2% across all business lines
- Successful launch of new Cumulus MC generation
- Swissbilling integration progressing
- Stable loss performance: 30+ DPD at 1.9% / NPL at 0.4% ... loss rate @ 1.0%
- Cost discipline focus with cost/income ratio of 43.3%

## Solid results

- Net income of CHF 69.4mn or CHF 2.46 per share in-line with guidance
- Return on equity (ROE) of 16.9%
- Delivering on all mid-term targets

## Strongly capitalised

- Tier 1 capital ratio of 20.2%<sup>1</sup> ... resulting in excess capital of CHF 83mn above Tier 1 target of 18%
- Invest excess capital in growth or return to shareholders as per refined capital policy

<sup>1</sup> Includes net income adjusted for expected dividend distribution

# Consumer finance market update

## Markets in H1'17

Personal loan market stabilised in H1'17 – unchanged aggressive competition

Number of **credit cards** up 2% and transaction volumes up 8% – NFC volume doubled<sup>1</sup>

New **car** sales slightly up (159k; +0.6%); used car market stable on high level (442k; +0.1%)<sup>2</sup>

**Payment technology** moving:  
 - Market entry of SamsungPay  
 - TWINT was relaunched in Q2  
 - ApplePay active in Swiss market

## Cembra's performance

- Cembra managed to stabilise assets while defending price ... branch closures not affecting volume ... more online
- Defending market share ... aggressive peers with very low teaser rates (starting at 4.7%)
- Customers requesting more flexibility ... combination with cards

- Number of credit cards up 6% to 768,000 (up 11% y-o-y) – market share increased to 12%
- Credit card fees up 16% y-o-y
- Volumes grew at twice the market growth

- Maintaining pricing despite pressure from captives
- Stable market share in auto business

- Still many players and no winners ... Cembra sticks to “smart follower” strategy
- Leading on NFC ... 20% of NFC transactions<sup>1</sup> in H1'17 by Cembra

Combined receivables:  
 CHF 2,510 million (+3%)

Auto receivables:  
 CHF 1,658 million (+1%)

<sup>1</sup> Source: SNB Monthly Banking Statistics (Jan-May)

<sup>2</sup> Sources: auto-schweiz; Eurotax

# Business development

## Cumulus Mastercard renewed

- Updated programme live since 1 June addressing upcoming lower domestic interchange regulation (44 bps vs 70bps) which comes into effect 1 August
- Major changes include:
  - Increased interest rate on overdrafts to 11.95% (from 9.9%)
  - Reduced loyalty points for transactions outside Migros stores to 1:3 (from 1:2 before)
  - Free cash withdrawal at Migros cashier
  - Changes to certain fees
- Overall non-material financial impact expected



## Refinancing of personal loan portfolio

- Strategic financing partnership with eny Finance AG, a pure online provider
- Personal loan portfolio of CHF 42mn to be refinanced by an SPV fully owned and consolidated by Cembra
- eny Finance AG will continue to service the portfolio on behalf of the SPV and originate new assets
- New personal loan assets continue to be refinanced by SPV
- Cembra will provide debt, equity and a range of services to the SPV
- eny Finance AG will remain an independent player in the Swiss personal loan market



## Swissbilling

- On-track – investing in expanding the franchise and building new products
- Good pipeline of prospective merchants and working already with more than 280 merchants
- Financed 190,000 invoices in H1'17
- Scaling the business to become material in the future
- Expected to be loss making in FY'17 due to investments in infrastructure and personnel



# P&L

Income statement (in CHF mn)	H1'17	H1'16	V%
Interest income	151.1	164.5	(8)
Interest expense	(12.6)	(14.2)	(12)
Net interest income	<b>1</b> 138.6	150.3	(8)
Insurance	11.9	12.0	(0)
Credit card fees	<b>2</b> 34.5	29.7	16
Loans and leases	<b>3</b> 6.0	5.2	15
Other	1.4	0.3	361
Commission and fee income	53.8	47.1	14
<b>Total income</b>	<b>192.3</b>	<b>197.4</b>	(3)
Provision for losses	<b>4</b> (21.1)	(21.7)	(3)
Operating expense	<b>5</b> (83.3)	(84.8)	(2)
<b>Income before taxes</b>	<b>87.9</b>	<b>90.9</b>	(3)
Taxes	(18.5)	(19.1)	(3)
<b>Net income</b>	<b>69.4</b>	<b>71.8</b>	(3)
<b>Basic earnings per share (EPS)</b>	<b>2.46</b>	<b>2.55</b>	(3)

## Key ratios

Net interest income / financing receivables	6.7%	7.3%
Cost/income	43.3%	42.9%
Effective tax rate	21.0%	21.0%
Return on average equity (ROE)	16.9%	18.2%
Return on average assets (ROA)	2.8%	3.1%

## Comments

- 1**
  - Lower interest income driven by lower APR following the introduction of rate caps
  - Partially offset by lower interest expenses due to favourable repricing
- 2**
  - Credit Cards fee increase driven by the increase in the number of cards issued and by fee initiatives
  - Interchange (after contributions for loyalty) accounted for c. 12% of credit card fee income
- 3**
  - New disclosure: Increase in "Other" driven by fee income from consolidation of Swissbilling
- 4**
  - Loss rate of 1.0% reflecting the continued risk management discipline
- 5**
  - Decrease in opex due to reduced marketing spend and lower rental expenses

# Operating expenses

Income statement (in CHF mn)	H1'17	H1'16	V%	Comments
Compensation and benefits	1 50.7	49.9	2	1 ■ Increase in salaries & wages mainly due to higher headcount (Swissbilling acquisition)
Professional services	2 5.3	3.9	36	
Marketing	3 3.3	5.0	(34)	2 ■ Driven by an increase in investment in digitisation and simplification
Collection fees	4 2.9	3.1	(6)	
Postage and stationery	4.3	4.2	2	3 ■ Lower marketing cost following large-scale advertising campaign in H1'16 to promote new rates in personal loans
Rental expenses under operating leases	5 2.2	3.1	(29)	
Information technology	6 10.8	11.5	(6)	4 ■ Lower handling fees for Post payment
Depreciation and amortisation	7 4.2	3.9	8	5 ■ Lower cost driven by H1'16 branch closings one-off (0.4mn) and lower branch/HQ rent
Other	(0.5)	0.1	nm	
<b>Total operating expenses</b>	<b>83.3</b>	<b>84.8</b>	<b>(2)</b>	6 ■ Lower cost driven by timing and expected to catch up in H2'17
<b>Cost/income ratio (reported)</b>	<b>43.3%</b>	<b>42.9%</b>		
<b>Full-time equivalent employees</b>	<b>8 715</b>	<b>702</b>	<b>2</b>	7 ■ Increase in amortisation following Swissbilling acquisition
<i>Cembra Money Bank</i>	701	702	(0)	
<i>Swissbilling</i>	14	-		8 ■ Increase in FTE driven by Swissbilling

# Balance sheet

Assets (in CHF mn)	30-06-17	31-12-16	V%
Cash and equivalents	1 613	669	(8)
Net financing receivables	2 4,171	4,073	2
Personal loans	1,738	1,720	1
Auto leases and loans	1,658	1,641	1
Credit cards	772	711	9
Other (Swissbilling)	3	-	nm
Other assets	123	115	7
<b>Total Assets</b>	<b>4,907</b>	<b>4,857</b>	<b>1</b>

Liabilities (in CHF mn)	30-06-17	31-12-16	V%
3rd party funding	3 3,977	3,874	3
Deposits	2,356	2,355	0
Short- & long-term debt	1,621	1,520	7
Other liabilities	136	135	1
<b>Total liabilities</b>	<b>4,113</b>	<b>4,009</b>	<b>3</b>
Shareholders' equity	4 794	848	(6)
<b>Total liabilities and equity</b>	<b>4,907</b>	<b>4,857</b>	<b>1</b>

Risk-weighted assets	3,840	3,758	2
Tier 1 capital ratio <sup>1</sup>	20.2%	20.0 %	

## Comments

**1**

- Lower cash position due to higher receivables
- High liquidity ahead of debt maturities in H2'17

**2**

- Financing receivables driven by growth in all product lines – Other includes Swissbilling

**3**

- Slightly lower retail deposits replaced by institutional
- Deposits accounted for 59% of total funding
- Long-term debt increased by issuing an 8-year bond in June

**4**

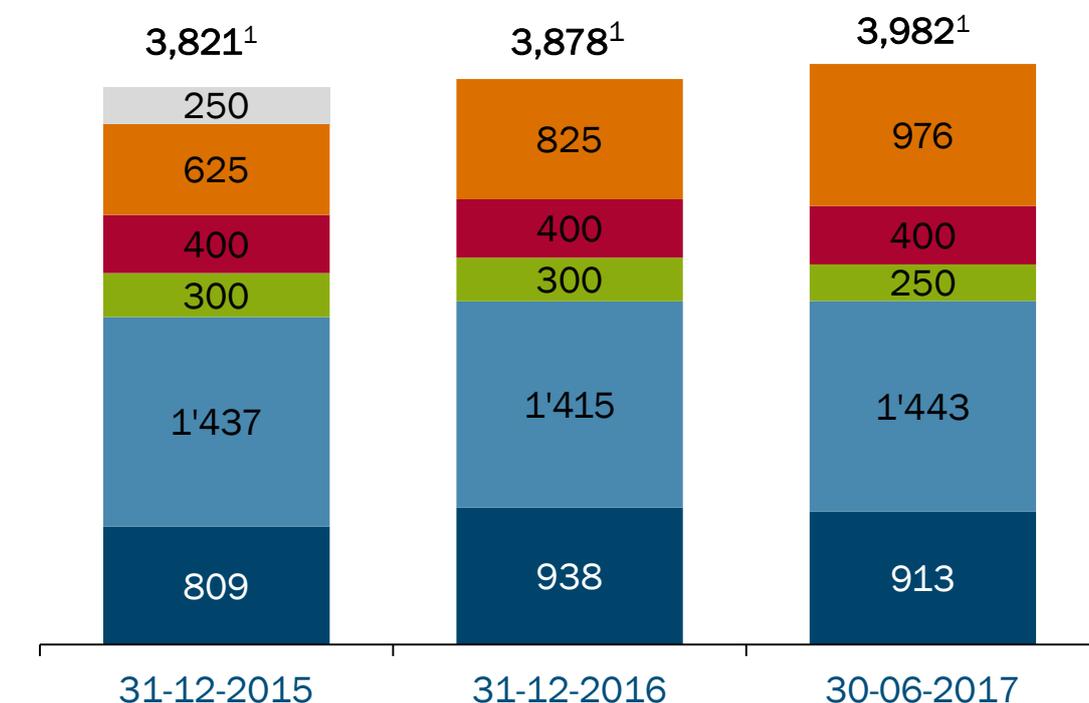
- Equity was down due to the dividend payments (97.3mn ordinary and 28.2mn extraordinary), partially offset by the half-year net income

<sup>1</sup> Includes net income adjusted for expected dividend distribution

# Funding

## Diversified, local funding sources

(in CHF mn)



End of period funding cost	0.82%	0.66%	0.62%
Avg. remaining term (yrs)	2.4	2.7	2.9
LCR	2540%	1908%	695%
NSFR <sup>2</sup>	>100%	>100%	>100%
Leverage ratio	15.4%	15.4%	15.6%
Undrawn credit lines	500mn	350mn	350mn

## Funding programs

Non-Deposits – 41%	Senior unsecured	<ul style="list-style-type: none"> <li>Six issuances of between 100mn to 250mn each</li> <li>Avg. remaining term of 4.2 yrs / avg. rate of 0.68%*</li> </ul>
	ABS	<ul style="list-style-type: none"> <li>Two AAA-rated issuances of CHF 200mn each</li> <li>Avg. remaining term of 2.3 yrs / avg. rate of 0.23%*</li> </ul>
	Bank loans	<ul style="list-style-type: none"> <li>Two loans of 100 mn and 150mn respectively</li> <li>Avg. remaining term of 0.6 yrs / avg. rate of 0.67%</li> </ul>
Deposits – 59%	Institutional term deposits	<ul style="list-style-type: none"> <li>Diversified portfolio across sectors and maturities</li> <li>Book of 100+ investors</li> </ul>
	Retail term deposits and saving accounts	<ul style="list-style-type: none"> <li>Circa 32,000 depositors</li> <li>Fixed term offerings of 5 – 8 years</li> <li>Saving accounts are on-demand deposits</li> </ul>
		Avg. rate of 0.55% / Avg. remaining term of 2.6 yrs
Off-BS	Committed revolving credit lines	<ul style="list-style-type: none"> <li>Four facilities of between CHF 50mn to 100mn each</li> <li>Avg. remaining term of 1.1 yrs / avg. rate of 0.24%*</li> </ul>

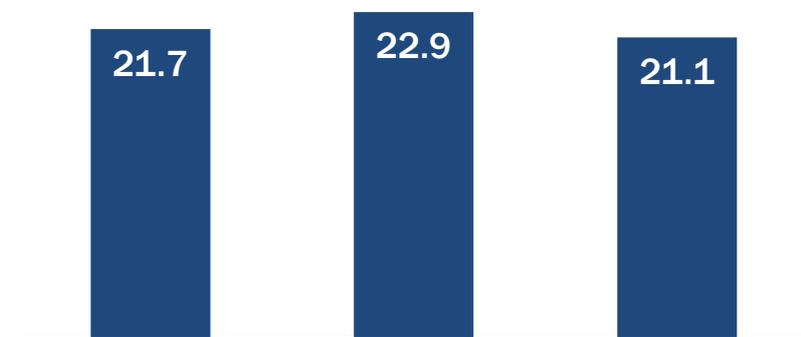
<sup>1</sup> 3,817mn, CHF 3,874mn, CHF 3,977 mn including deferred debt issuance costs on long- & short-term debt (US GAAP)

<sup>2</sup> Based on the revised NSFR framework published by the Basel Committee on Banking Supervision in January 2014

\* Additional charges apply related to fees and debt issuance costs

# Provision for losses

Provision for losses (in CHF mn)



Period	Loss rate <sup>1</sup>	30+ days past due	Non-performing loans (NPL) <sup>2</sup>
H1'16	1.1%	2.0%	0.4%
H2'16	1.1%	1.8%	0.4%
H1'17	1.0%	1.9%	0.4%

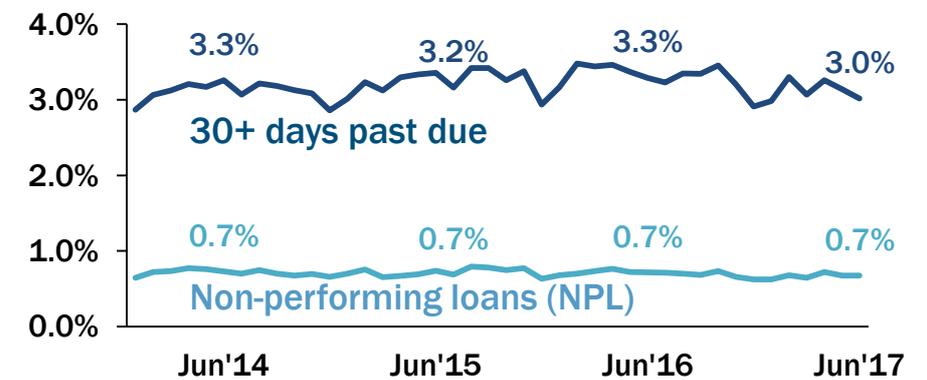
## Comments

- Loss performance in line with prior years
- Robust asset quality demonstrated by stable delinquencies, though small variations by product
- Loss guidance for 2017 reaffirmed

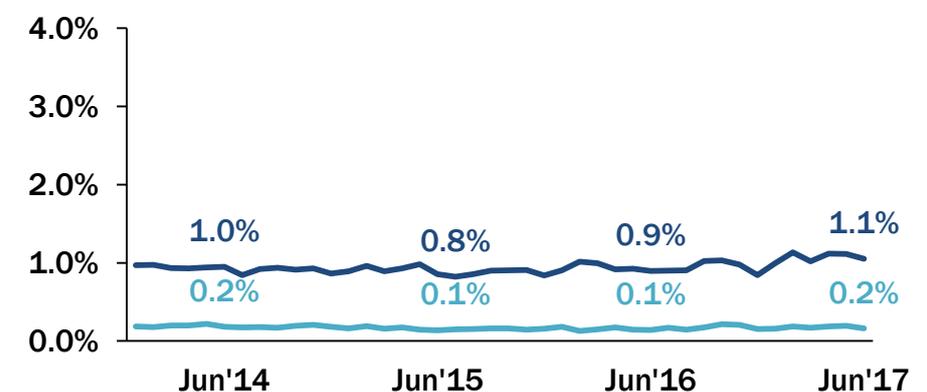
<sup>1</sup> Loss rate defined as ratio of provision for losses on financing receivables to average financing receivables (net of deferred income and before allowance for losses). H1'17 loss provision include Swissbilling.

<sup>2</sup> Non-performing loans (NPL) ratio defined as ratio of non-accrual financing receivables (at period-end) divided by financing receivables.

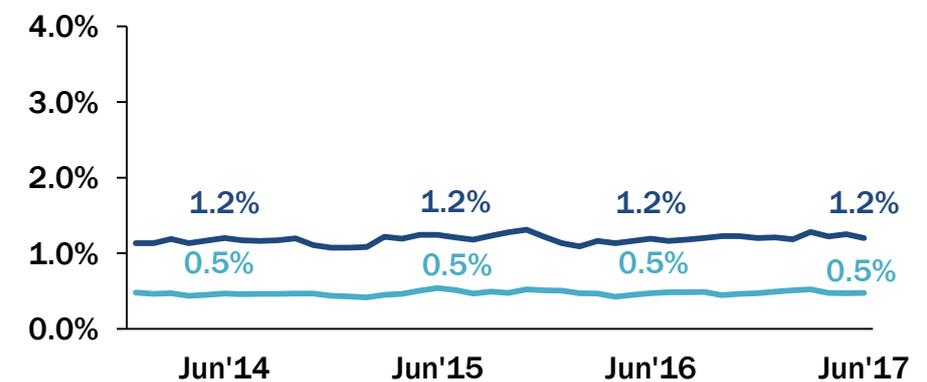
## Personal loans



## Auto loans and leasing

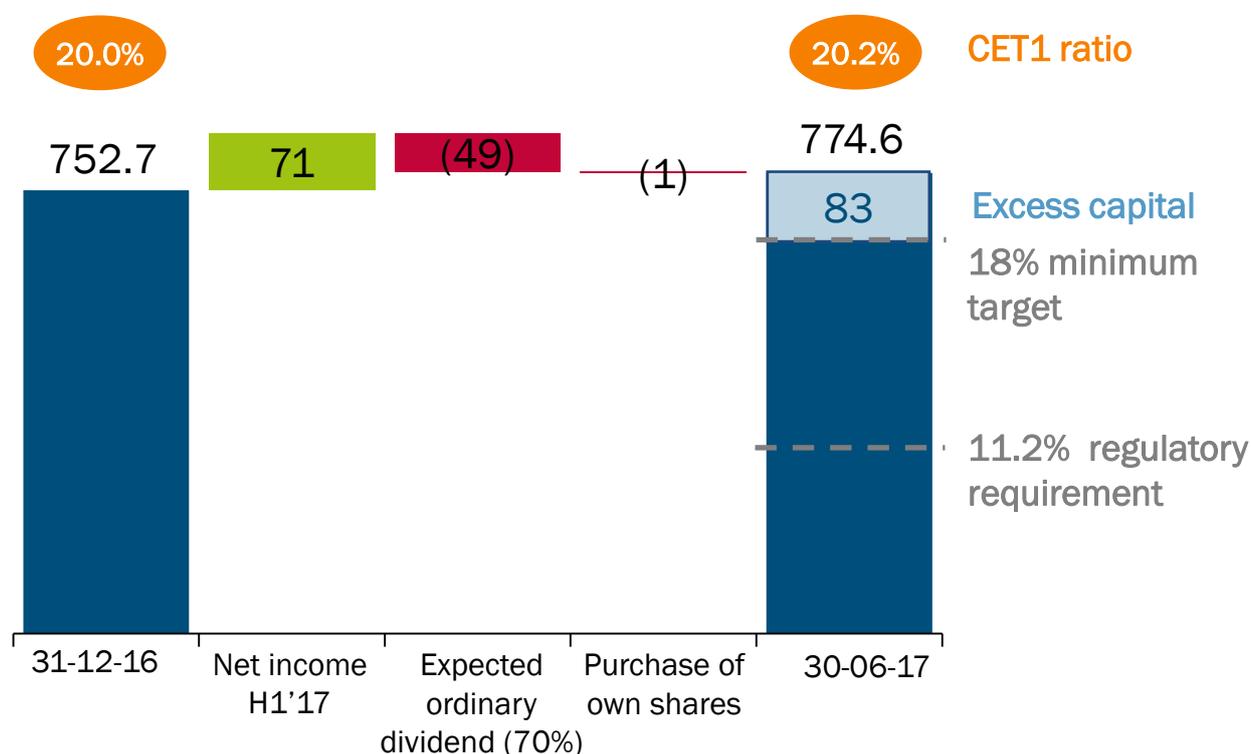


## Credit cards



# Strong capital position

## CET 1 capital walk (in CHF mn)<sup>1</sup>



## Comments

- Excess capital stood at CHF 83mn as of 30 June 2017
- Reserves from capital contributions of CHF 84.8mn (June 2017) designated for future ordinary dividend payments (Swiss withholding tax exempt)
- any Finance transaction will consume circa CHF 6mn capital (@18% T1) and add RWA of circa CHF 32mn (75% risk-weight)

RWA and capital (in CHF mn)	31-12-16	30-06-17
Risk-weighted assets (RWA)	3,758	3,840
Tier 1 capital <sup>2</sup>	753	775
Tier 1 capital ratio	20.0%	20.2%

Per share data	H1'16	H1'17
Basic earnings per share (EPS) <sup>3</sup>	2.55	2.46
Number of shares	30,000,000	30,000,000
Treasury shares	1,803,627	1,814,170
Shares outstanding	28,196,373	28,185,830
Weighted-average numbers of shares outstanding	28,196,340	28,191,458

<sup>1</sup> Derived from the Bank's statutory consolidated financial statements which were prepared in accordance with Swiss GAAP

<sup>2</sup> Includes full-year net income adjusted for expected dividend distribution

<sup>3</sup> Based on weighted-average numbers of common shares outstanding

# Outlook and guidance for 2017

Medium-term targets		H1'17		Outlook for full-year 2017	
<b>Asset growth</b>	Net customer loan growth to be moderate and in line with Swiss GDP growth	2.4%	✓	<b>Revenues</b>	<ul style="list-style-type: none"> <li>■ Lower interest income from personal loans due to the introduction of the rate cap for new business since 1 July 2016</li> <li>■ Continued growth in credit cards and new card generation (since June 2017) with positive impact on revenues</li> </ul>
<b>Profitability</b>	RoE target of at least 15%	16.9% <sup>1</sup>	✓	<b>Cost base</b>	<ul style="list-style-type: none"> <li>■ Continued cost discipline with investments in digitization leading to slightly higher cost/income ratio</li> </ul>
<b>Capitalisation</b>	Target Tier 1 capital ratio of minimum 18%	20.2%	✓	<b>Guidance for full-year 2017 confirmed</b>	
<b>Dividend payout</b>	Target payout ratio for ordinary dividend between 60% and 70% of net income	70% <sup>2</sup>	✓	<b>Earnings per share</b>	<ul style="list-style-type: none"> <li>■ EPS in the range between CHF 4.70 – 5.00</li> </ul>
				<b>Provision for losses</b>	<ul style="list-style-type: none"> <li>■ In line with prior years' performance</li> </ul>

<sup>1</sup> Annualised

<sup>2</sup> Assumed distribution to determine Tier 1 capital; to be revisited at year-end 2017

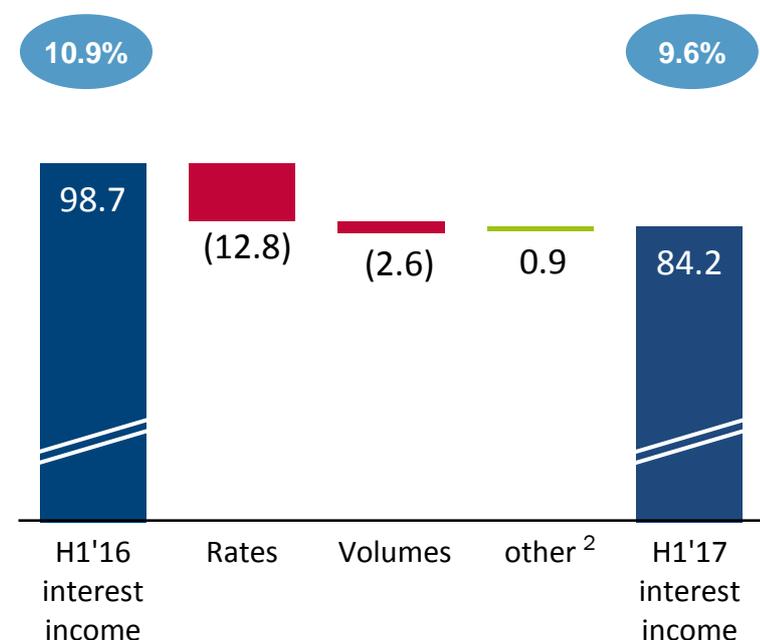
# Appendix

# Interest income & yield by product

Average financing receivables <sup>1</sup> (in CHF mn)	H1'17	H1'16	V%	Interest income (in CHF mn)	H1'17	H1'16	V%
Personal loans	1,760	1,803	(2)	Personal loans	84.2	98.7	(15)
Auto leases and loans	1,657	1,673	(1)	Auto leases and loans	41.4	41.8	(1)
Credit cards	748	651	15	Credit cards	27.2	25.0	9
Other	2	-	nm	Other	(1.7)	(1.0)	70
<b>Total financing receivables</b>	<b>4,166</b>	<b>4,127</b>	<b>1</b>	<b>Total interest income</b>	<b>151.1</b>	<b>164.5</b>	<b>(8)</b>

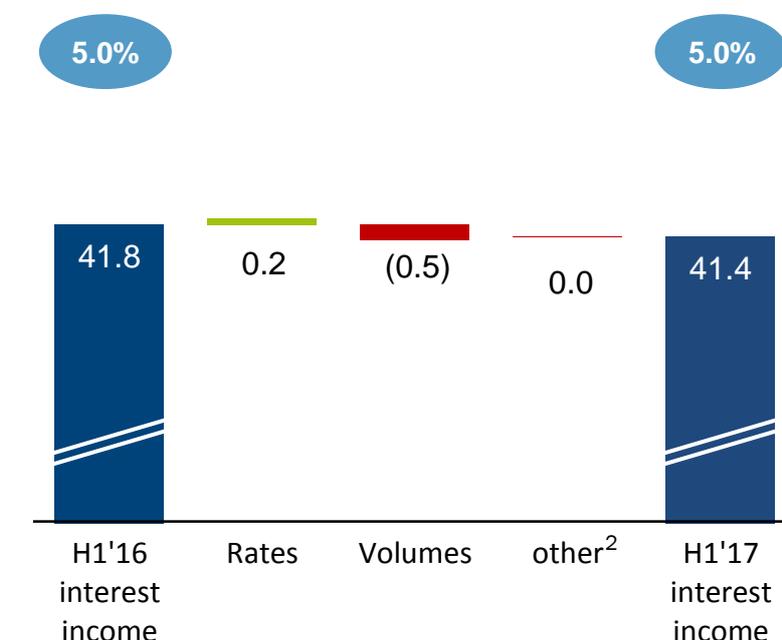
## Change in personal loans interest income

Avg. yield:



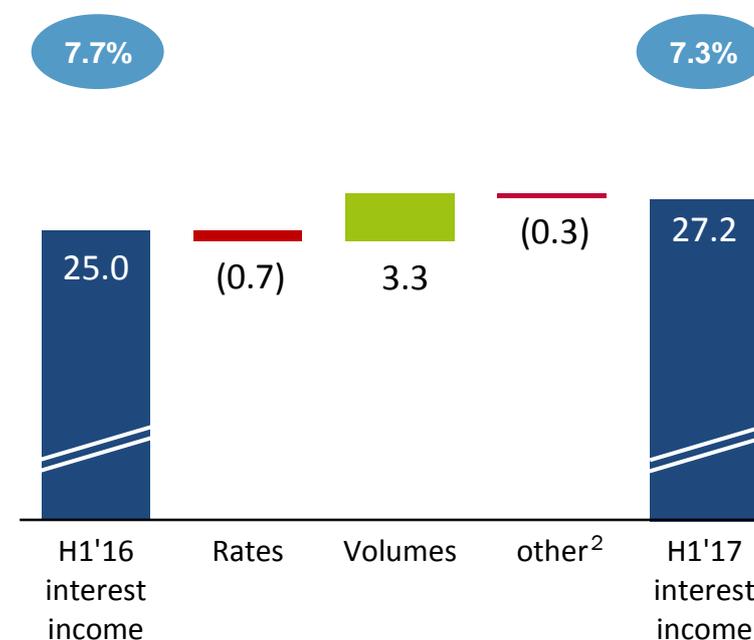
- Significantly reduced pricing since June 2016
- Lower average receivables (-2%)

## Change in auto leases/loans interest income



- Slightly lower receivables
- Defending rates

## Change in credit cards interest income



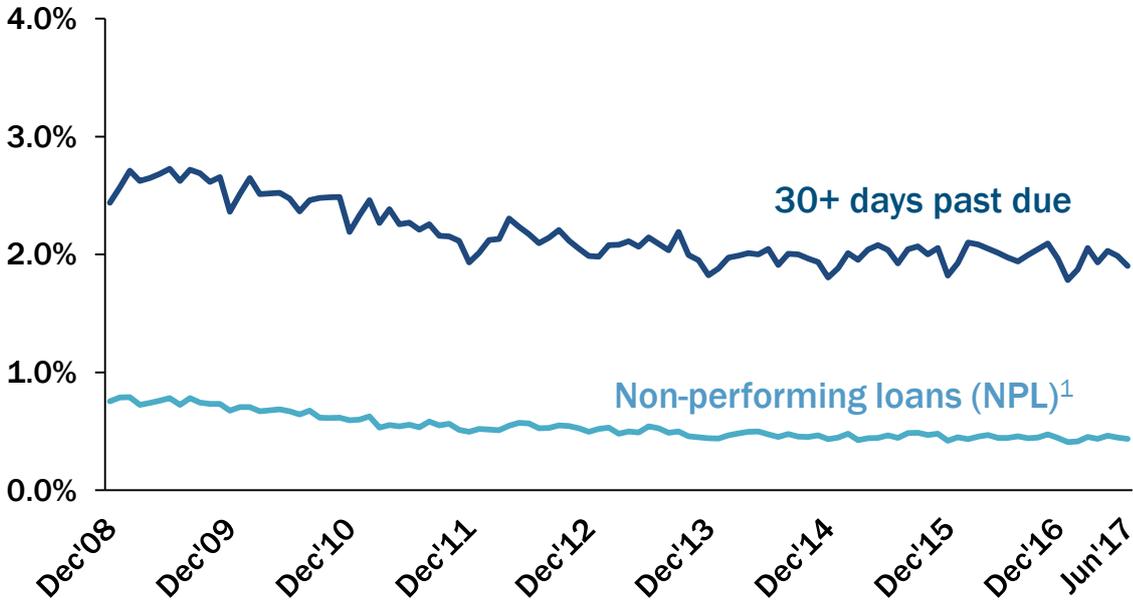
- Higher average receivables (+15%)
- New rate cap of 12% for credit cards

<sup>1</sup> Average receivables calculated on a yearly basis (2-point average)

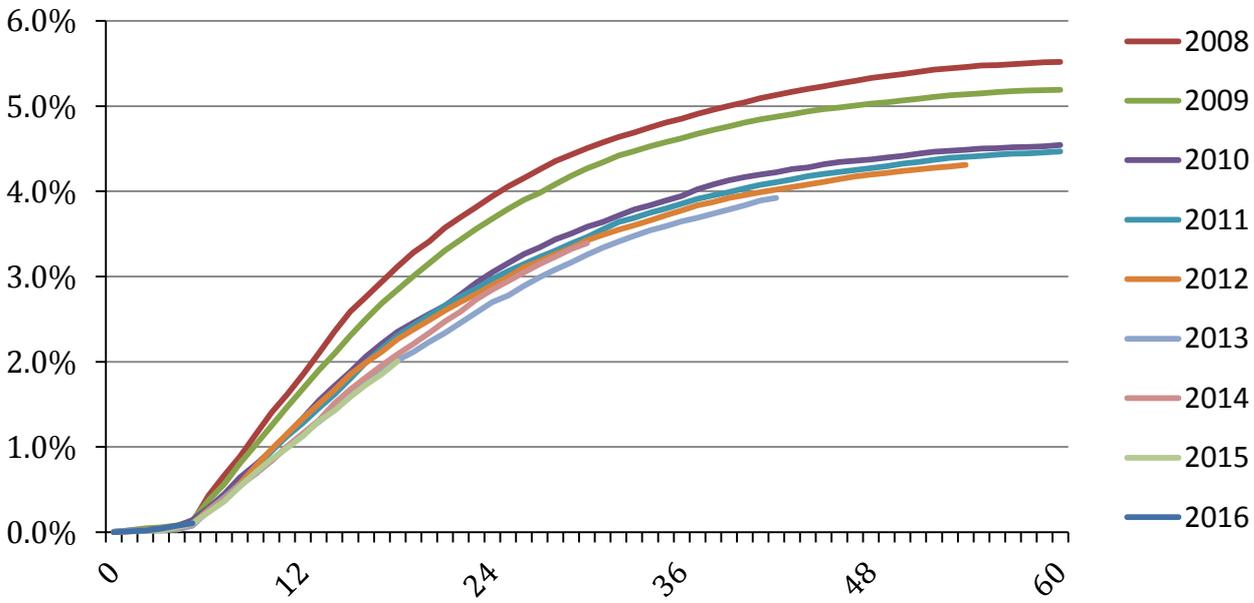
<sup>2</sup> 'Other' includes deferred income and excess recoveries

# Stable asset quality

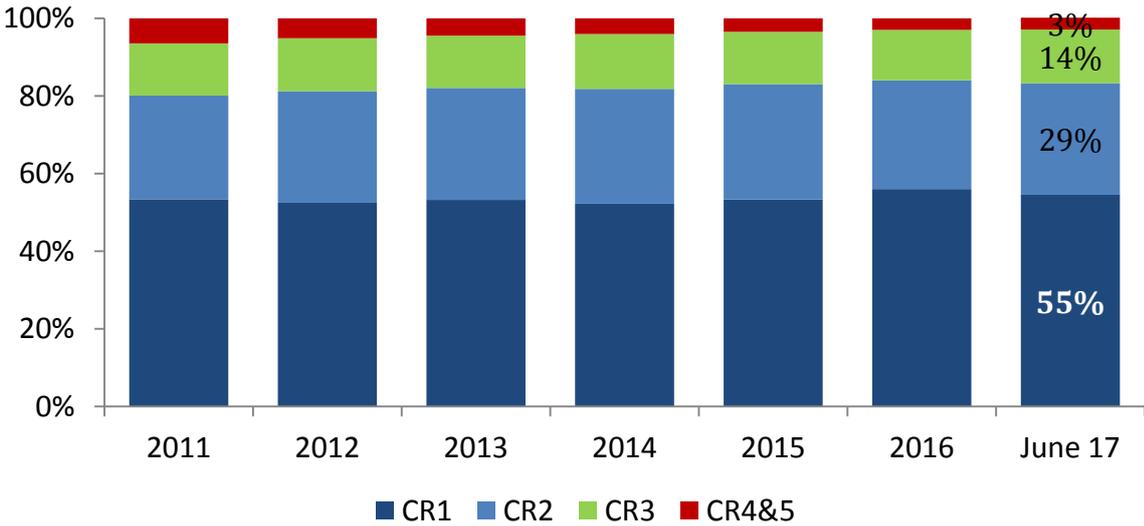
## Delinquencies



## Write-Off Performance by Year of Origination<sup>2</sup>



## Credit Grade



Note: The five consumer ratings (CR) and their associated probabilities of default are: CR1: 0.00%–1.20%; CR2: 1.21%–2.97%; CR3: 2.98%–6.99%; CR4: 7.00%–13.16%; CR5: 13.17% and greater

## Comments

- Stable risk appetite and customer profile
- Strong asset quality
- Stable write-off performance in recent years

<sup>1</sup> Non-performing loans (NPL) ratio is defined as the ratio of non-accrual financing receivables (at period-end) divided by the financing receivables  
<sup>2</sup> Based on Personal Loans and Auto Leases & Loans portfolios