Half-year 2016 Financial Results

18 August 2016

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Strong results in challenging environment

Challenging environment

- Modest growth of Swiss economy … interest rates at record lows
- Customers remain cautious … consumer loan market not growing
- Consumer finance industry preparing for new interest rate cap valid as of 1st July

Managing business

- Financing receivables increased 1%: strong Cards performance offsetting decline in Personal Loans
- Defending price in challenging environment
- Repaid GE term loan in July … completely independent funding
- Stable loss performance: 30+ DPD at 2.0% / NPL at 0.4% … loss rate @ 1.05%
- Maintaining competitive cost/income ratio of 42.9%

Strong results

- Best first half-year results since the IPO with net income of CHF 71.8mn or CHF 2.55 a share … EPS up 8%
- Above average return on average equity (ROE) of 18.2%
- Meeting all our mid-term targets

Strongly capitalised

- Tier 1 capital ratio of 20.1%[1] … resulting in excess capital of CHF 78mn
- Preference to invest excess capital to support growth of business

[1] Includes net income adjusted for expected dividend distribution

Consumer Finance Market Update

Markets

- Personal loan market continued to decrease slightly in H1’16 – Aggressive competition due to new pricing

- New car sales normalising on high level of previous year (-2%); used car market growing (4%)

- Number of credit cards up 1% and transaction volumes up 7%

- Payment technology moving:
  - Twint and Paymit joining forces
  - Apple Pay comes into Switzerland
  - NFC transactions growing >50%

Cembra’s performance

- Maintaining market share and pricing in H1’16 … landscape changes since May
- Increased advertising (incl. TV) in Q2 to promote new rates
- Closed 4 satellites (smaller branches)
- Customers requesting more flexibility … combination with cards

- Stable market share in auto business
- Pricing stable … not competing with captive promotions
- Combining technology (new system) with personal service approach

- Number of credit cards up 6% to 693,000 – gaining market share
- Cumulus MasterCard again rated best-in-class by moneyland.ch
- Maintaining strong growth with Migros
- Renewed contract with Conforama – new customer FNAC

- Continue to be smart follower – will join the winning technology
- Leader on NFC … 20% of NFC transactions in H1’16 by Cembra

Balance Sheet

Assets (in CHF mn)		30-06-16	31-12-15	V%
Cash and equivalents	1	441	572	*(23)*
Net financing receivables	2	4,100	4,063	*1*
Personal loans		1,756	1,784	*(2)*
Auto loans and leases		1,670	1,661	*1*
Credit cards		673	617	*9*
Other assets		108	109	*(1)*
Total Assets		**4,649**	**4,745**	***(2)***

Liabilities (in CHF mn)				
3rd party funding	3	3,744	3,817	*(2)*
Deposits		2,324	2,246	*3*
Short- & long-term debt		1,420	1,571	*(10)*
Other liabilities		126	129	*(2)*
Total liabilities		**3,870**	**3,946**	*(2)*
Shareholders' equity	4	779	799	*(3)*
Total liabilities and equity		**4,649**	**4,745**	*(2)*
Risk-weighted assets		**3,755**	**3,703**	*1*
Tier 1 capital ratio[1]		**20.1 %**	**19.8%**	

Comments

1
- Strong liquidity position used to repay remaining CHF 100mn GE term loan in July 2016

2
- Financing receivables up 1%: Continued strong growth in Cards (up 9%) was partially offset by decline in Personal loans – Auto stable in a normalising market

3
- Continued growth in deposits, reaching 62% of total funding, driven by strong retail demand (up 8%)
- Short- & long-term debt down due to CHF 150mn repayment to GE in January; further reduced by another CHF 100mn in July

4
- Equity down as a result of dividend payment (CHF 94.5mn) partially offset by net income (CHF 71.8mn)

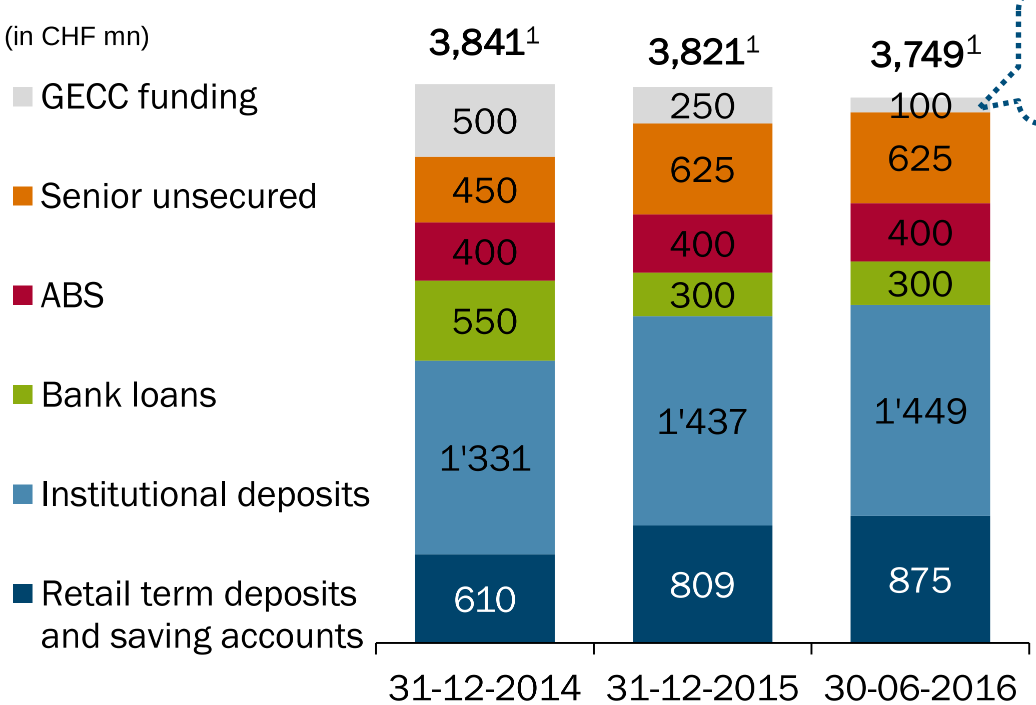
[1] Includes net income adjusted for expected dividend distribution

Funding

Diversified, local funding sources

	31-12-2014	31-12-2015	30-06-2016
Standalone funding	87%	93%	97%
End of period Funding cost	1.08%	.82%	.74%

100% standalone funding in July '16



Fully paid in July '16

	31-12-2014	31-12-2015	30-06-2016
Avg. remaining term (yrs)	2.2	2.4	2.5
LCR	864%	2540%	414%
NSFR[2]	>100%	>100%	>100%
Undrawn credit lines	550mn	500mn	450mn

Reduced to 350mn in July 16

Existing funding programs

CHF 200mn replaced in June '16: 3.75yrs @ 0.22%

Long-term debt

ABS
- Two issuances of CHF 200mn each
- Avg. remaining term of 3.3 yrs / avg. rate of 0.23%*

Bank loans & committed revolving credit lines

Bank Loans
- Two loans of CHF 150mn each
- Avg. remaining term of 1.5 yrs / avg. rate of 0.69%

Revolving Credit Facilities (RCF)
- Four facilities of between CHF 50mn to 100mn each
- Avg. remaining term of 2.1 yrs / avg. rate of 0.24%*

Senior unsecured
- Four issuances of between CHF 100 mn to 250mn each
- Avg. remaining term of 3.6 yrs / avg. rate of 0.91%*

Deposits

Institutional term deposits
- Diversified portfolio across sectors & maturities
- Book of 100+ investors

Retail term deposits and saving accounts
- Circa 32,000 active depositors
- Fixed term offerings of 3 – 8 years
- Saving accounts are on demand deposits

Avg. rate of 0.65% / Avg. remaining term of 2.2 yrs

GECC funding

GE Capital
- 2013/2018: CHF 100mn term facility *(fully repaid in July '16)*
- 2013/2018: CHF 100mn revolving facility of which CHF 0mn drawn as of June '16 *(fully cancelled in July '16)*
- All-in rate @ 1.85% of the drawn balance as of June '16

[1] CHF 3,837mn, 3,817mn and CHF 3,744mn including deferred debt issuance costs on long- & short-term debt (US GAAP)
[2] 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

P&L

Income statement (in CHF mn)	H1'16	H1'15	V%
Interest income	164.5	167.1	*(2)*
Interest expense	(14.2)	(19.8)	*(28)*
Net interest income	1 150.3	147.3	*2*
Insurance	2 12.0	10.7	*11*
Credit card fees	3 29.7	27.0	*10*
other	5.5	5.3	*5*
Commission and fee income	47.1	43.0	*10*
Total income	**197.4**	**190.3**	*4*
Provision for losses	4 (21.7)	(20.8)	*4*
Operating expense	5 (84.8)	(81.4)	*4*
Income before taxes	**90.9**	**88.1**	*3*
Taxes	(19.1)	(18.5)	*3*
Net income	**71.8**	**69.6**	*3*
Basic earnings per share (EPS)	6 2.55	2.37	*8*

Key ratios

Net interest income / financing receivables	7.3%	7.1%
Cost/income	42.9%	42.8%
Effective tax rate	21.0%	21.0%
Return on average equity (ROE)	18.2%	17.7%
Return on average assets (ROA)	3.1%	2.9%

Comments

1
- Interest income includes CHF 1.0mn charges from SNB on cash held
- Funding mix and re-pricing driving interest expense down

2
- Higher profit share driving insurance income

3
- Credit Cards fee growth driven by expanding portfolio and strong international spend
- Fully offsetting lower domestic interchange fee (H1'15: 95bps; H1'16: 70bps)

4
- Loss rate of 1.05% in-line with 2015 performance

5
- Operating expense driven by pension cost, depreciation and higher IT run-rate

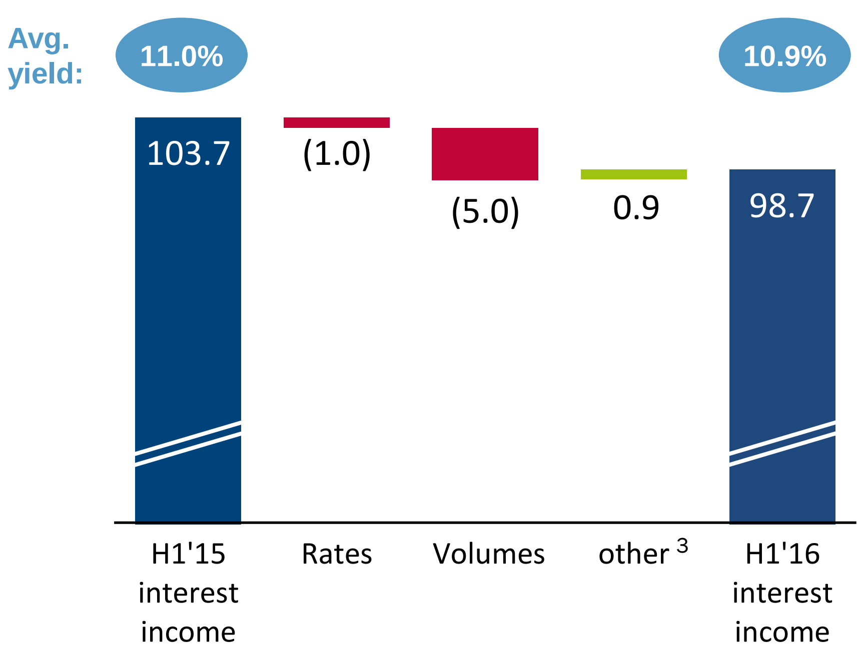
6
- EPS up 8% supported by share buyback (5%) and performance (3%)

Interest Income by Product Lines

Average financing receivables[1] (in CHF mn)	H1'16	H1'15	V%
Personal loans	1,802	1,883	*(4)*
Auto loans and leasing	1,673	1,672	*0*
Credit cards	651	580	*12*
Total financing receivables	**4,126**	**4,135**	

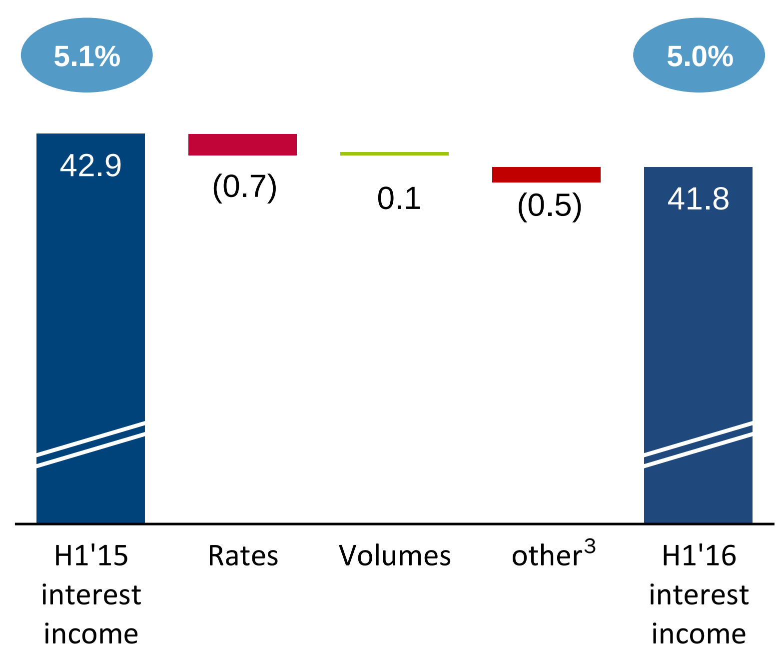
Interest income (in CHF mn)	H1'16	H1'15	V%
Personal loans	98.7	103.7	*(5)*
Auto loans and leasing	41.8	42.9	*(3)*
Credit cards	25.0	21.8	*14*
Total interest income[2]	**165.5**	**168.5**	

Change in personal loans interest income



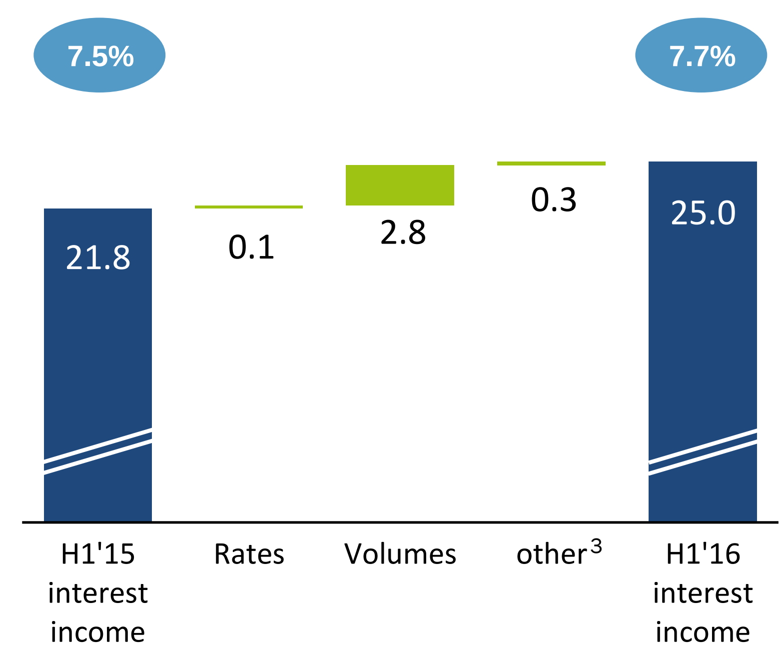
- Lower average receivables (-4%)
- Pricing kept stable until May

Change in auto loan/leasing interest income



- Receivables and pricing flat

Change in credit cards interest income



- Higher average receivables (+12%)
- Increasing revolve rate

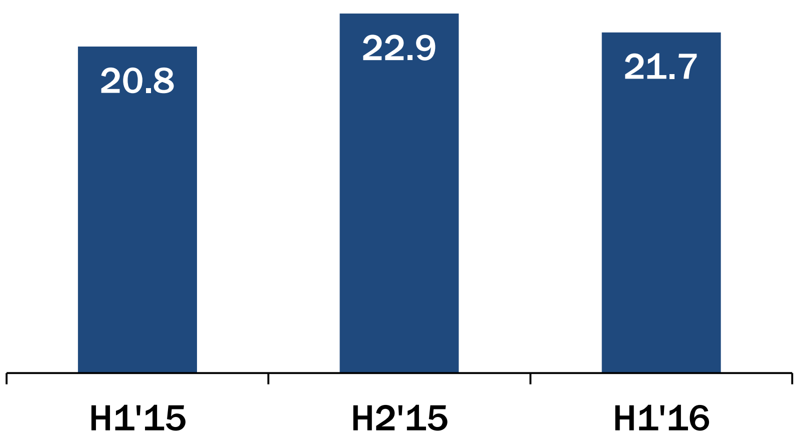
[1] Average receivables calculated on a half-yearly basis (2-point average)

[2] Excludes interest income from 'Other' of CHF (1.5)mn in H1'15 and CHF (1.0)mn in H1'16 (which is included in total interest income in the Interim Condensed Consolidated Statements of Income)

[3] 'Other' includes deferred income and excess recoveries

Provision for Losses

Provision for losses (in CHF mn)



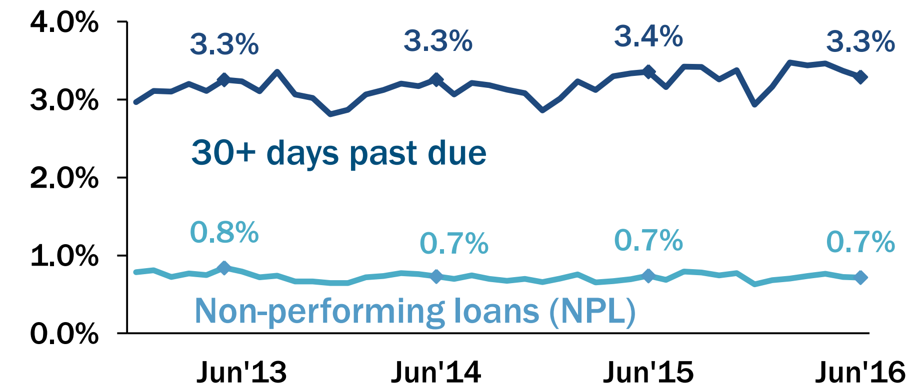
1.0%	**1.1%**	**1.1%**	**Loss rate[1]**
2.0%	1.8%	2.0%	30+ days past due
0.5%	0.4%	0.4%	Non-performing loans (NPL)[2]

Comments

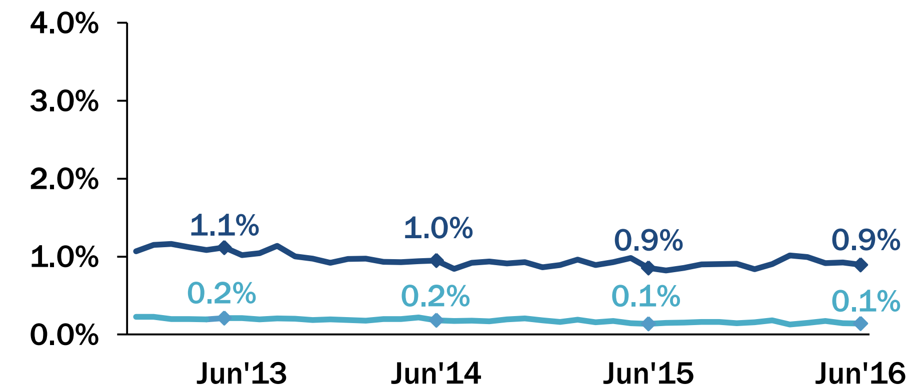
- Loss performance in line with prior periods
- Stable delinquencies on all products and in line with prior year trends, reflecting stable underlying asset quality
- Loss guidance for 2016 reaffirmed

[1] Loss rate is defined as the ratio of provisions for losses on financing receivables to average financing receivables (net of deferred income and before allowance for losses)
[2] Non-performing loans (NPL) ratio is defined as the ratio of non-accrual financing receivables (at period-end) divided by the financing receivables

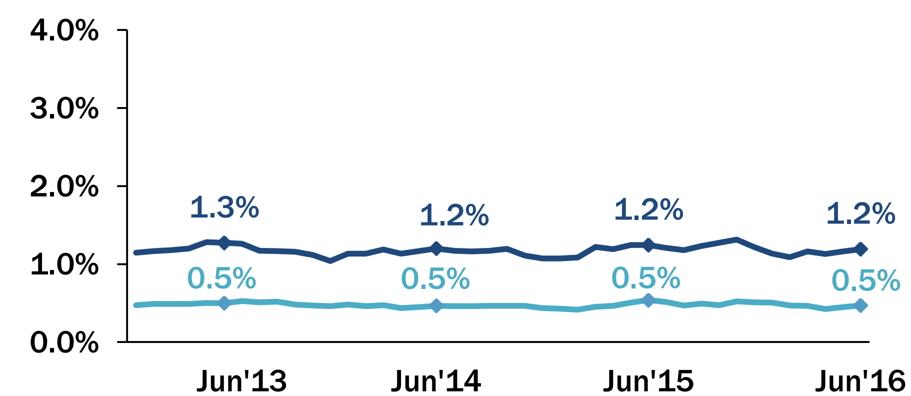
Personal loans



Auto loans and leasing



Credit cards



Operating Expenses

Income statement (in CHF mn)		H1'16	H1'15	V%
Compensation and benefits	1	49.9	48.8	*2*
GECC assessment / TSA[1]	2	-	1.2	*(100)*
Professional services	3	3.9	5.3	*(27)*
Marketing	4	5.0	4.6	*9*
Collection fees		3.1	3.3	*(6)*
Postage and stationery		4.2	3.9	*7*
Rental expenses under operating leases	5	3.1	2.8	*11*
Information technology	6	11.5	6.7	*71*
Depreciation and amortisation	7	3.9	1.8	*122*
Other		0.1	2.9	*(95)*
Total operating expenses		**84.8**	**81.4**	*4*
Cost/income ratio (reported)		**42.9%**	**42.8%**	
Full-time equivalent employees		**702**	**708**	*(1)*

Comments

1
- Increase in pension expense due to lower discount rate (CHF 1.5mn) as main driver – headcount flat

2
- TSA ended October 2015 – majority of costs disclosed as information technology expenses

3
- Decrease of IT consulting costs after go live of independent infrastructure

4
- Large-scale advertising campaign in Q2 to promote new rates in personal loans

5
- Closure of four small branches led to one-off costs

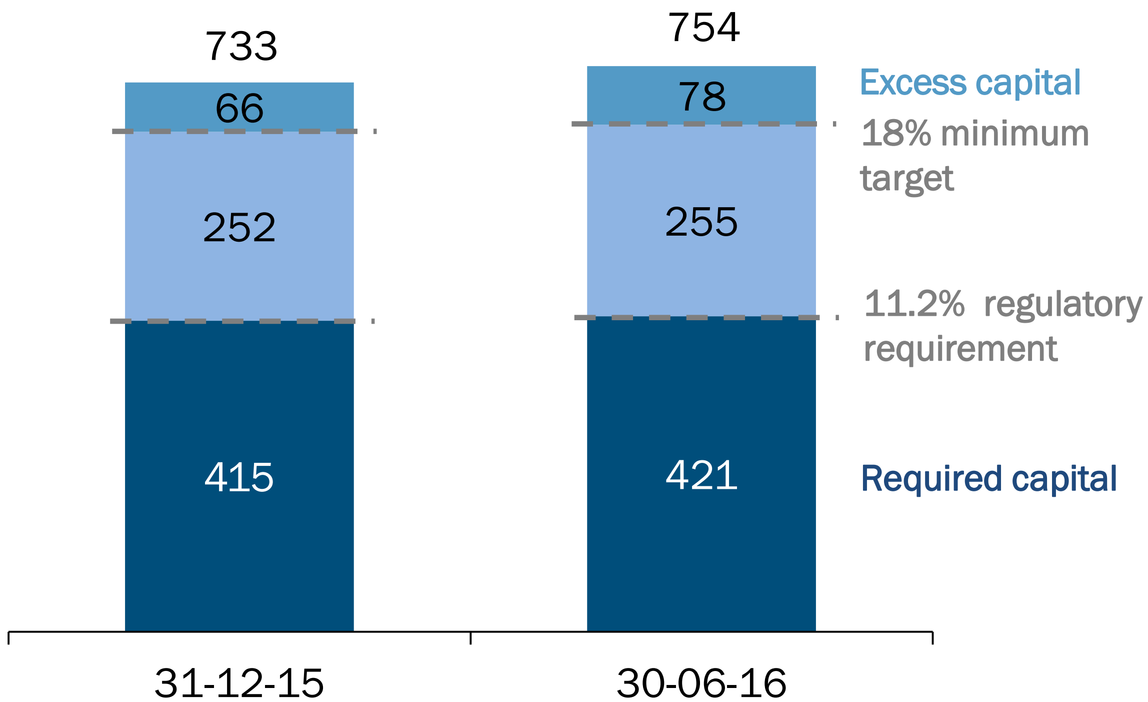
6
- Increase mainly driven by slightly higher running costs of the independent IT infrastructure, one-off items and shift from TSA and professional services

7
- Go live of fully independent Cembra IT infrastructure in October 2015 – run-rate of about 8mn going-forward

[1] Transitional Service Agreement (TSA) from November 2013 until 30 October 2015

Strong Capital Position

Required and excess capital (in CHF mn)[1]



Use of excess capital

- Excess capital stands at CHF 78mn as of 30 June 2016
- Contemplating opportunistic M&A in Swiss consumer finance space and bolt-on acquisition of portfolios to support growth trajectory of the business
- Reserves from capital contributions of CHF 182.0mn (June 2016) designated for future dividend payments (Swiss withholding tax exempt)

RWA and capital (in CHF mn)	31-12-15	30-06-16
Risk-weighted assets (RWA)	3,703	3,755
Tier 1 capital[2]	733	754
Tier 1 capital ratio	19.8%	20.1%

Per share data	H1'15	H1'16
Basic earnings per share (EPS)[3]	2.37	2.55
Number of shares	30,000,000	30,000,000
Treasury shares	1,836,579	1,803,627
Shares outstanding	28,163,421	28,196,373
Weighted-average numbers of shares outstanding	29,425,900	28,196,340

[1] Derived from the Bank's statutory consolidated financial statements which were prepared in accordance with Swiss GAAP
[2] Includes full-year net income adjusted for expected dividend distribution (70%)
[3] Based on weighted-average numbers of common shares outstanding

Outlook for 2016

Medium-term targets		H1'16	
Asset growth	Net customer loan growth to be moderate and in line with Swiss GDP growth	0.9%	✓
Profitability	RoE target of at least 15%	18.2%[1]	✓
Capitalisation	Target Tier 1 capital ratio of minimum 18%	20.1%	✓
Dividend payout	Target payout ratio between 60% and 70% of net income	70%[2]	✓

Outlook for full-year 2016

Revenues

- Adapting to new reality with lower interest income from personal loans due to rate cap
- Lower funding costs given low rate environment and continued growth in credit cards business

Cost base

- Expected continuous pension headwind, higher IT run-rate and depreciation but competitive cost/income ratio remains

Guidance for full-year 2016

Earnings per share

- EPS at the higher end of the guided range of CHF 4.80 – 5.10

Provision for losses

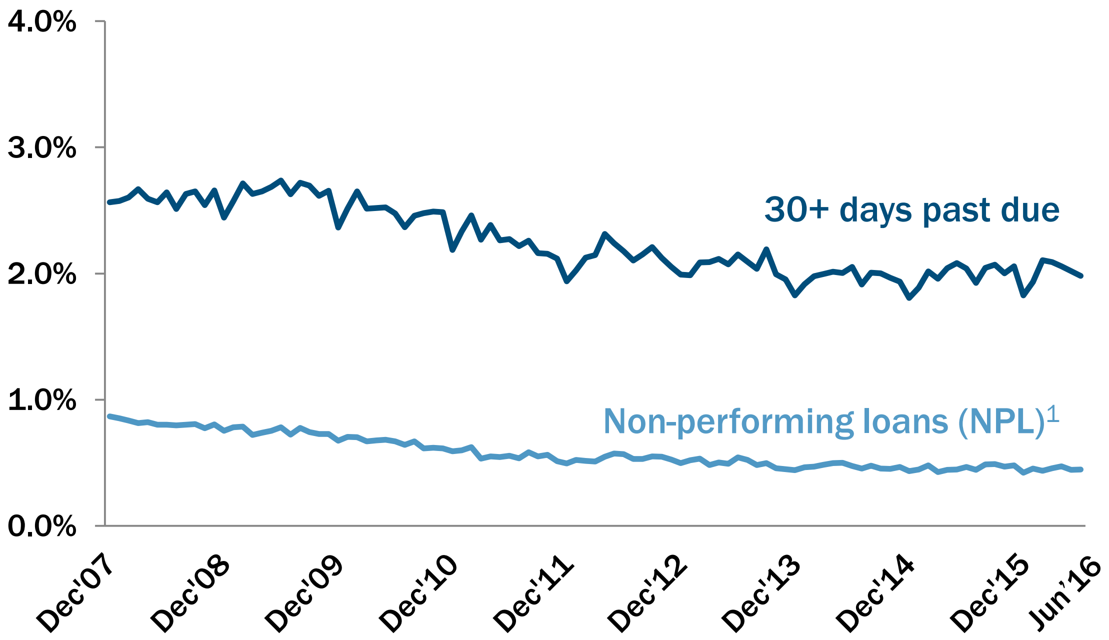
- In line with prior years' performance

[1] Annualised
[2] Assumed distribution to determine Tier 1 capital; to be revisited at year-end 2016

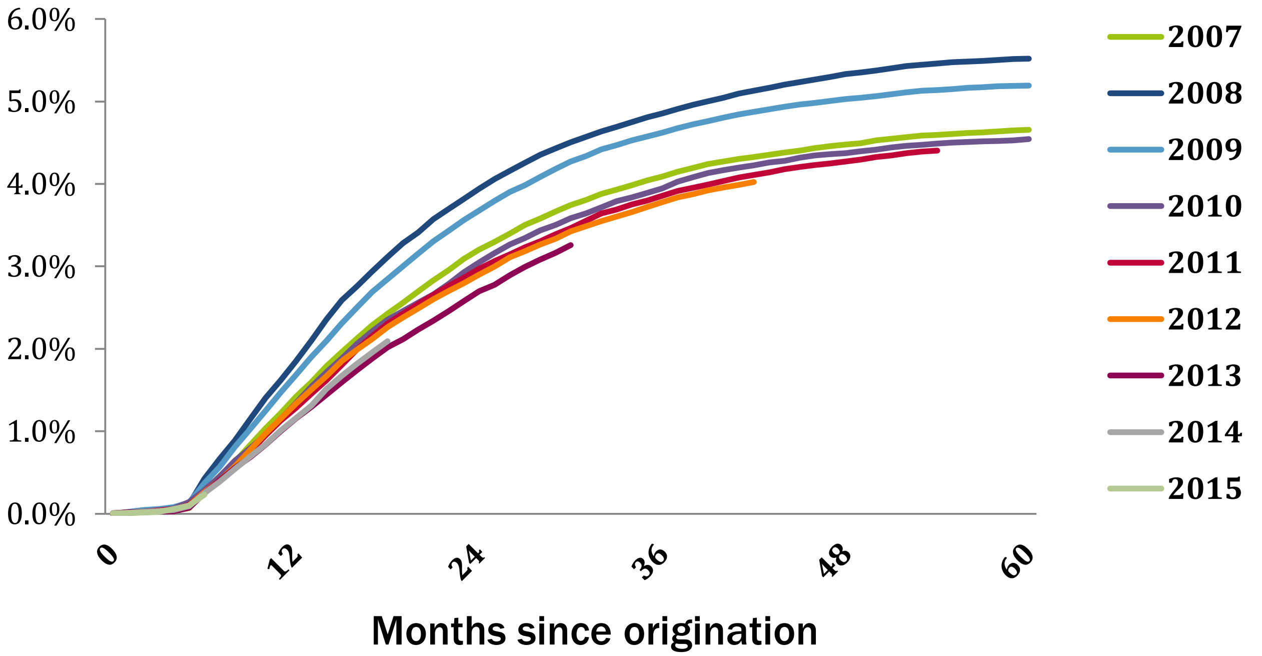
Appendix

Stable Asset Quality

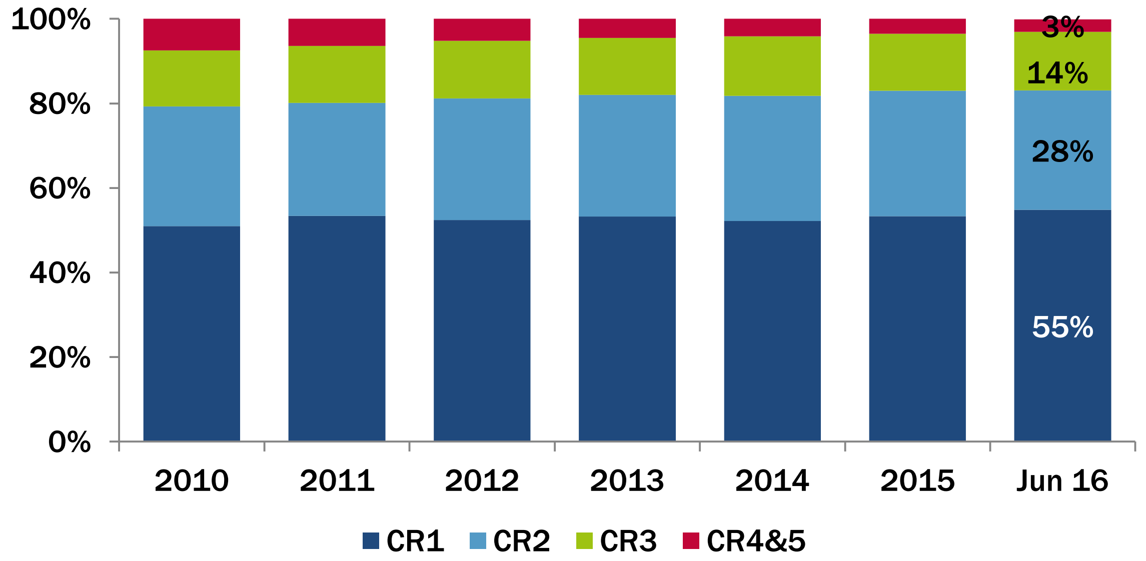
Delinquencies



Write-Off Performance by Year of Origination[2]



Credit Grade



Note: The 5 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

[1] Non-performing loans (NPL) ratio is defined as the ratio of non-accrual financing receivables (at period-end) divided by the financing receivables

[2] Based on Personal Loans and Auto Loan and Leasing portfolios

Cost of Funding Drivers

Funding balance at period end (in CHF mn)	30-06-16	30-06-15
Deposits	2,324	2,163
Bank loans	300	400
ABS	400	400
Senior unsecured	625	450
GE funding	100	500
Total funding*	3,749	3,913

Interest expense (in CHF mn)	H1'16	H1'15
Deposits	7.6	8.4
Bank loans	1.5	3.2
ABS	1.3	1.7
Senior unsecured	3.2	2.7
GE funding	0.6	3.8
Total interest expense	14.2	19.8

* Excluding deferred debt issuance costs