Management Report

Significant developments

On 8 January 2021, Holger Laubenthal was appointed as new CEO of Cembra, effective 1 March 2021. He succeeded Robert Oudmayer as CEO.

In April 2021, Cembra and IKEA Switzerland launched the IKEA Family credit card. The launch of the joint credit card was the first step in the collaboration, which is set to offer other Cembra products and services to IKEA Switzerland customers.

On 22 April 2021, Cembra held its eighth Annual General Meeting of Shareholders as a SIX-listed company in Zurich. The following members of the Board of Directors were re-elected for a further one-year term of office: Felix Weber (Chairman), Urs Baumann, Thomas Buess, Denis Hall and Monica Mächler. Katrina Machin did not stand for re-election. Martin Blessing and Susanne Klöss-Braekler were newly elected to the Board of Directors.

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. For strategic reasons, the Federation of Migros Cooperatives (Migros-Genossenschafts-Bund) had decided to issue a proprietary credit card with another partner in the future. As of mid-2022, Cembra will offer an innovative and attractive replacement for the more than 850,000 Cumulus-Mastercard credit cards issued.

On its Investor Day on 7 December 2021, Cembra presented its updated strategy for 2022-2026. Drawing on its strengths – its proven credit factory, a customer base of over one million customers in Switzerland and decades of experience in the consumer finance business – Cembra has defined four strategic programmes to achieve its strategic and financial ambitions: 1) Operational Excellence: radical simplification and technology transformation; 2) Business Acceleration: improved value proposition and enhanced market reach; 3) New growth opportunity: 'buy now pay later' as an attractive new business and 4) Cultural Transformation: towards an agile, learning-oriented and collaborative organisation.

As part of its updated strategy, Cembra is combining its client-facing units in the newly created Sales and Distribution division. Peter Schnellmann, who already worked for Cembra in leading positions from 2009 to 2018, was appointed Chief Sales and Distribution Officer and member of the Management Board as of 1 January 2022. The members of the Management Board, Daniel Frei, Managing Director B2C, and Jörg Fohringer, Managing Director B2B, decided to leave the company by the end of 2021.

Macroeconomic environment

We operate exclusively in Switzerland and our financial position and revenues are strongly influenced by domestic macroeconomic factors, especially gross domestic product, the unemployment rate and interest rates. We have very limited exposure to foreign currencies.

Swiss gross domestic product

Growth in Switzerland's gross domestic product (GDP) is an important indicator for the Group. Swiss GDP increased by 3.3% in 2021, after declining by 2.5% in 2020. Consumer spending increased by 2.6% (2020: -3.7%).

Interest rates

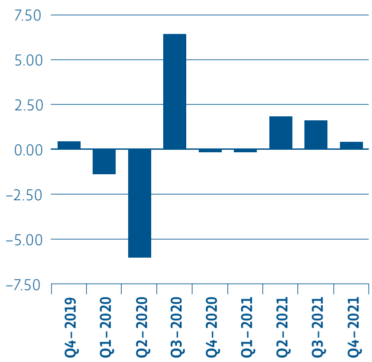
Interest rates are a key indicator for the Group's funding. In 2021, the Swiss-franc interest rate curve increased by 30-40 basis points in the longer maturities. The main reasons for higher rates were the rapid, robust economic recovery driven by huge fiscal packages and the rising inflationary pressure worldwide. The Swiss National Bank (SNB) has not yet started to reduce the balance sheet in comparison to other central banks which have started to taper and announced to increase interest rates. The SNB kept the interest rate on sight deposits at -0.75%.

Unemployment rate

The unemployment rate is an important indicator for the credit risk profile of the Group's customers. The unemployment rate in Switzerland decreased to 2.6% in December 2021 (December 2020: 3.5%), and the average unemployment rate in 2021 was 3.0% (2020: 3.1%).

GDP Switzerland

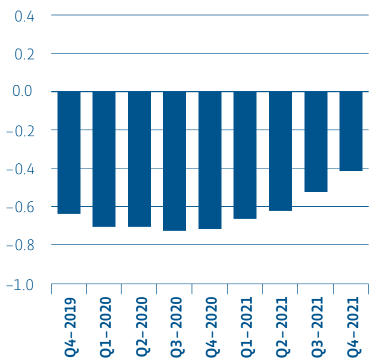
Change versus previous quarter (in %)



Source: SECO

CHF 3-year swap rate

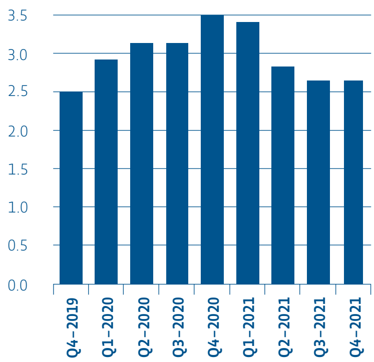
in %



Source: Bloomberg

Unemployment rate in Switzerland

in %



Source: SECO

Product markets

Consumer loan market

In 2021, the Swiss consumer loan market contracted slightly. According to the Central Office for Credit Information (ZEK), the Swiss consumer loan market decreased slightly by 0.2%, from CHF 7.854 billion at 31 December 2020 to CHF 7.840 billion in outstanding assets at 31 December 2021. The number of loan contracts outstanding decreased by 3% to 348,000 in 2021, from 360,000 in 2020. In a competitive environment, the Group had an estimated market share of approximately 41% of outstanding consumer loans.

Auto market

The Swiss auto market recovered slightly in the reporting period, with some remaining Covid-19-related effects with impact on distribution networks and a reduced availability of new cars. According to "auto-schweiz" statistics (the association of official Swiss car importers), about 238,000 new cars were registered in 2021, an increase of 1% versus 2020. A total of 785,000 used cars were sold in Switzerland according to auto-i-dat AG (a provider of automotive market data); this represents a 1% increase compared with 2020 (775,000). The Group estimated its auto leasing market share to be about 21% of total leasing assets outstanding as of December 2021.

Credit card market

The growth trend continued in the credit card market in 2021. Based on Swiss National Bank statistics, in 2021, the number of credit cards issued in Switzerland grew by 4% to 8.3 million. The number of transactions increased by 14% in 2021, to 587 million from 514 million in 2020. Overall, credit card transaction volumes increased by 17% to CHF 46.3 billion in 2021.

The Group's credit cards business grew in line with the market, with the number of cards increasing by about 38,000, or 4%, to about 1,068,000 compared with year-end 2020. The Group's market share, based on the number of credit cards in circulation, was 13% in 2021, and the share of transactions conducted via near-field communications (NFC) amounted to 20%.

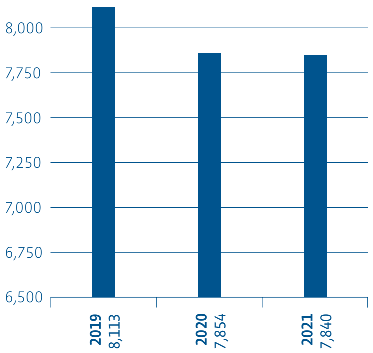
Buy now pay later market

E-commerce sales in Switzerland increased by 15% to CHF 15 billion estimated in 2021 with buy now pay later (BNPL) representing 8 - 11% of total e-commerce sales.

Via its subsidiary Swissbilling, Cembra has a share of 10 – 20% of the BNPL market. E-commerce (online) volume at Swissbilling grew by 46% in 2021. This was driven by the acquisition of new partners and the impact of Covid-19 restrictions on consumer behaviour with more people making online purchases. Accepted transactions at Swissbilling were 726,000 in 2021, an increase of +23% compared to 2020.

Swiss consumer loan market

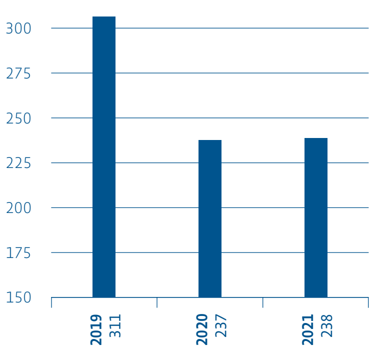
CHF in millions



Source: ZEK

New car registrations in Switzerland

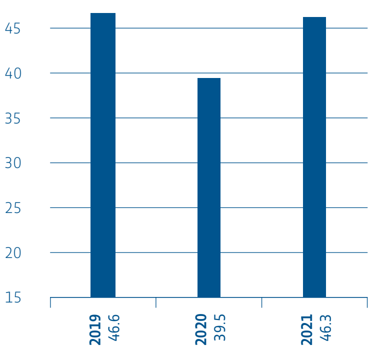
in 1,000



Source: auto-schweiz

Transaction volume Swiss credit cards

CHF in billions



Source: SNB

Balance sheet analysis

At 31 December (CHF in millions)	**2021**	2020	Change	as %
Assets				
Cash and cash equivalents	**545**	599	– 54	– 9
Net financing receivables	**6,207**	6,293	– 86	– 1
Personal loans	**2,292**	2,408	– 116	– 5
Auto leases and loans	**2,820**	2,853	– 33	– 1
Credit cards	**1,030**	970	60	6
Other	**65**	62	3	5
Other assets	**344**	353	– 9	– 3
Total assets	**7,095**	**7,244**	**– 149**	**– 2**
Liabilities and equity				
Deposits and debt	**5,691**	5,840	– 148	– 3
Deposits	**3,199**	3,275	– 75	– 2
Debt	**2,492**	2,565	– 73	– 3
Other liabilities	**204**	278	– 74	– 27
Total liabilities	**5,895**	**6,117**	**– 222**	**– 4**
Shareholders' equity	**1,200**	1,127	73	6
Total liabilities and shareholders' equity	**7,095**	**7,244**	**– 149**	**– 2**

Net financing receivables amounted to CHF 6,207 million, a decrease of 1%, or CHF 86 million, compared with year-end 2020. The decrease was mainly due to the effects of Covid-19 in Switzerland.

At the end of 2021, the Group's personal loans accounted for 37% (2020: 38%) of net financing receivables, auto leases and loans made up 45% (2020: 45%), and the credit cards business accounted for 17% (2020: 15%).

As at 31 December 2021, net financing receivables from personal loans amounted to CHF 2,292 million, 5% lower than at year-end 2020. This decline was predominantly caused by lower demand during the Covid-19 pandemic. Auto leases and loans declined by 1% to CHF 2,820 million, down from CHF 2,853 million at the end of 2020. Credit cards increased by 6%, from CHF 970 million to CHF 1,030 million. Other net financing receivables increased to CHF 65 million (2020: CHF 62 million) and included the Swissbilling business.

Funding

The Group kept funding diversified in 2021. The deposit base decreased from CHF 3,275 million at 31 December 2020 to CHF 3,199 million at 31 December 2021, primarily due to a decline in the institutional deposit base following the reduction of financing receivables. The Group's non-deposit debt decreased by 3%, from CHF 2,565 million at 31 December 2020 to CHF 2,492 million at 31 December 2021. In October 2021, the Group issued an A-rated unsecured bond amounting to CHF 200 million.

Equity

Total shareholders' equity increased by CHF 73 million, from CHF 1,127 million to CHF 1,200 million at year-end 2021. The increase was mainly driven by net income of CHF 161.5 million. The increase was partially offset by the CHF 110 million dividend for the 2020 financial year, which was paid in April 2021.

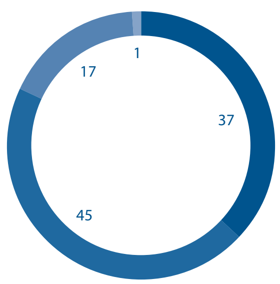
Capital position

At 31 December (CHF in millions)	2021	2020	Change	as %
Risk-weighted assets	**5,600**	5,662	– 62	– 1
Tier 1 capital	**1,057**	1,000	56	6
Tier 1 ratio	**18.9 %**	**17.7 %**		

Risk-weighted assets decreased by 1% to CHF 5,600 million at 31 December 2021, compared with CHF 5,662 million at 31 December 2020. This decrease was in line with the trend in net financing receivables. Tier 1 capital increased by CHF 56 million, or 6%, to CHF 1,057 million, mainly as a result of the statutory net income generated in 2021, adjusted for the expected dividend payment. This resulted in a Tier 1 capital ratio of 18.9% at 31 December 2021, which is significantly above the regulatory requirement of 11.2%.

Net financing receivables

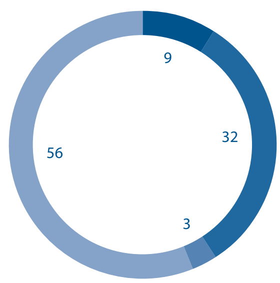
in %



Personal loans
Auto leases and loans
Credit cards
Other

Funding structure

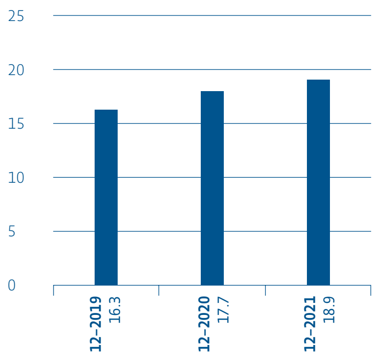
in %



ABS
Senior unsecured bonds
AT subordinated
Deposits

Tier 1 capital ratio

in %

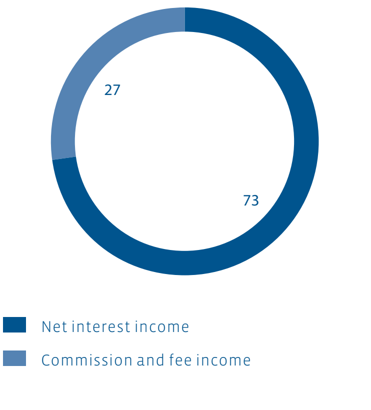


Profit and loss analysis

For the years ended 31 December (CHF in millions)	2021	2020	Change	as %
Interest income	382.7	401.8	– 19.1	– 5
Interest expense	– 26.0	– 26.9	– 0.8	– 3
Net interest income	**356.7**	**375.0**	**– 18.3**	**– 5**
Commission and fee income	130.3	122.3	8.1	7
Net revenues	**487.0**	**497.2**	**– 10.2**	**– 2**
Provision for losses on financing receivables	**– 40.3**	**– 56.4**	**– 16.1**	**– 29**
Compensation and benefits	– 132.2	– 129.5	2.7	2
General and administrative expenses	– 114.0	– 117.9	– 3.8	– 3
Total operating expenses	**– 246.3**	**– 247.4**	**– 1.2**	**– 0**
Income before income taxes	**200.5**	**193.4**	**7.1**	**4**
Income tax expense	– 39.0	– 40.5	– 1.5	– 4
Net income	**161.5**	**152.9**	**8.6**	**6**
Other comprehensive income / (loss)	22.2	– 5.2	– 27.4	n / a
Comprehensive income	**183.7**	**147.7**	**36.0**	**24**

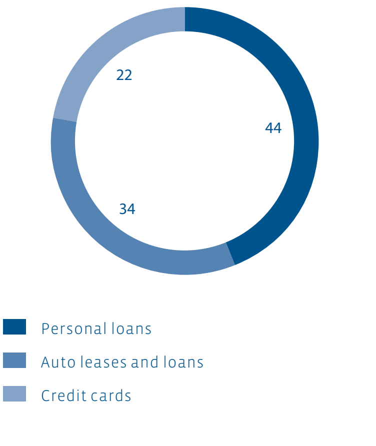
Net revenues

as %



Interest income

as % (excluding "Other")



Interest income

For the years ended 31 December (CHF in millions)	2021	2020	Change	as %
Personal loans	**169.4**	190.7	– 21.3	– 11
Auto leases and loans	**130.1**	129.4	0.7	1
Credit cards	**84.5**	83.6	0.8	1
Other	**– 1.2**	– 1.9	– 0.6	– 33
Total	**382.7**	**401.8**	**– 19.1**	**– 5**

In 2021, the contribution of personal loans to interest income (excluding other interest income) decreased to 44%, from 47% in 2020. The relative weight of auto leases and loans increased to 34%, from 32%, whilst the weight of credit cards increased to 22%, from 21% in the year-earlier period.

Total interest income declined by 5%, or CHF 19.1 million, to CHF 382.7 million in 2021.

Interest income from personal loans declined by CHF 21.3 million, or 11%, to CHF 169.4 million, predominantly due to the lower asset base. The yield declined from 7.4% to 7.0% over the reporting period. Interest income from auto leases and loans increased by CHF 0.7 million, to CHF 130.1 million. The yield increased slightly to 4.6% (2020: 4.5%) driven by a change in the upfront interest method. Interest income from credit cards rose slightly, up CHF 0.8 million, or 1%, to CHF 84.5 million in 2021. The yield stood at 8.4% (2020: 8.3%). Other interest income included CHF 1.2 million in expenses from the negative interest rate on cash held with the Swiss National Bank and other institutions.

Cost of funds

For the years ended 31 December (CHF in millions)	2021	2020	Change	as %
Interest expense on ABS	**1.3**	1.5	– 0.1	– 10
Interest expense on deposits	**12.7**	13.1	– 0.4	– 3
Interest expense on debt	**12.0**	12.3	– 0.3	– 2
Total	**26.0**	**26.9**	**– 0.8**	**– 3**

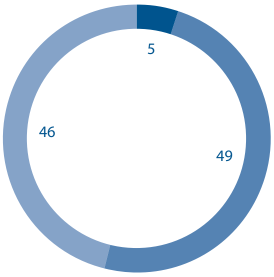
Overall, interest expense decreased by CHF 0.8 million, or 3%, to CHF 26.0 million in 2021. Interest expense on auto lease asset-backed securities (ABS) decreased by 10% to CHF 1.3 million. Interest expense on deposits decreased by 3% to CHF 12.7 million. Interest expense on debt remained flat at 12.0 million.

Commission and fee income

For the years ended 31 December (CHF in millions)	2021	2020	Change	as %
Insurance	**23.0**	24.0	– 1.0	– 4
Credit cards	**80.4**	71.4	9.0	13
Loans and leases	**14.6**	15.7	– 1.1	– 7
Other	**12.3**	11.2	1.1	10
Total	**130.3**	**122.3**	**8.1**	**7**

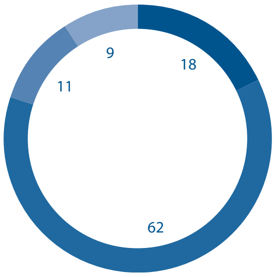
Cost of funds

as %



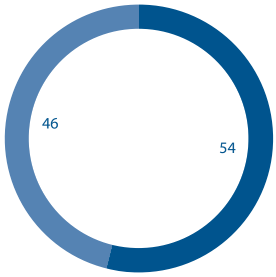
Commission and fee income

as %



Operating expenses

as %



Commission and fee income increased by CHF 8.1 million, or 7%, from CHF 122.3 million to CHF 130.3 million. The increase was mainly driven by a partial recovery of the credit card fees during the reporting period.

Insurance income, which consists mainly of revenues from payment protection insurance products, decreased by CHF 1.0 million, or 4%, to CHF 23.0 million. The 7% decrease in fees from loans and leases, to CHF 14.6 million, was mainly attributable to lower reminder fees. Other fees increased by CHF 1.1 million to CHF 12.3 million, driven mainly by fee income from Swissbilling.

Provision for losses on financing receivables

For the years ended 31 December (CHF in millions)	2021	2020	Change	as %
Provision for losses on personal loans	**18.4**	32.2	– 13.8	– 43
Provision for losses on auto leases and loans	**12.5**	14.9	– 2.5	– 17
Provision for losses on credit cards	**7.5**	7.6	– 0.1	– 1
Provision for losses on other	**1.9**	1.7	0.2	13
Total	**40.3**	**56.4**	**– 16.1**	**– 29**

In 2021, the Group's provision for losses on financing receivables decreased by CHF 16.1 million, or 29%, to CHF 40.3 million compared with CHF 56.4 million in 2020. The provision for losses on personal loans decreased by CHF 13.8 million to CHF 18.4 million, predominantly driven by a one-off effect related to the sale of previously written-off financing receivables to a third party (see Consolidated Financial Statements page 133). On auto leases and loans, the provision for losses decreased by CHF 2.5 million to CHF 12.5 million, driven by stronger recoveries. The provision for losses on cards was stable at CHF 7.5 million.

The Group's loss rate, adjusted for the above-mentioned one-off effect came to 0.8%, compared to 0.9% in 2020. Delinquency metrics of 30 days past due stood at 1.6% at 31 December 2021, an improved figure compared with prior years. Non-performing loans accounted for 0.6% of total loans (31 December 2020: 0.7%).

Compensation and benefits

For the years ended 31 December (CHF in millions)	2021	2020	Change	as %
Compensation and benefits	**132.2**	**129.5**	**2.7**	**2**

Compensation and benefit expenses increased by CHF 2.7 million, or 2%, to CHF 132.2 million. The increase was mainly due to higher average salaries and one-off organisational changes.

At 31 December 2021, the number of employees (FTEs) stood at 916, a decline of 12 FTEs, from 928 at year-end 2020. The Group's average number of FTE was 922 in 2021, compared with 946 in the prior-year period. The average cost per FTE of TCHF 143 in 2021 increased compared with TCHF 137 in 2020 in line with the increase of the compensation and benefit expenses, and the lower number of employees.

General and administrative expenses

For the years ended 31 December (CHF in millions)	2021	2020	Change	as %
Professional services	**17.8**	17.8	– 0.0	– 0
Marketing	**8.1**	10.9	– 2.8	– 26
Collection fees	**10.5**	11.7	– 1.1	– 10
Postage and stationery	**10.8**	10.1	0.7	7
Rental expense under operating leases	**6.8**	7.9	– 1.1	– 14
Information technology	**41.4**	39.1	2.3	6
Depreciation and amortisation	**25.0**	26.5	– 1.5	– 6
Other	**– 6.5**	– 6.1	0.4	6
Total	**114.0**	**117.9**	**– 3.8**	**– 3**

General and administrative expenses declined by CHF 3.8 million, or 3%, from CHF 117.9 million to CHF 114.0 million in 2021.

Costs from professional services were stable at CHF 17.8 million. Marketing expenses were down 26%, or CHF 2.8 million, due to product launches in the previous reporting period. Collection fees decreased by 10% to CHF 10.5 million. Costs for postage and stationery increased by 7% to CHF 10.8 million mainly as a result of higher postage for asset generation campaigns and card plastics production costs. Rental expenses declined by 11% relating to branch closures. Information technology costs of CHF 41.4 million were 6% higher; this increase was due to expenses for digitisation projects including due diligence for operational excellence. Depreciation and amortisation was 6% lower, mainly due to previous investments reaching end of life. Other costs declined by CHF 0.4 million, mainly driven by a higher capitalisation of IT projects.

The cost/income ratio was 50.6% in 2021, compared with 49.8% in 2020. The increase was predominantly driven by the impact of Covid-19 on revenues.

Income tax expense

The Group's income tax expense declined by CHF 1.5 million, or 4%, to CHF 39.0 million in 2021. The impact of the increase in income before taxes was more than offset by lowered corporate taxes and a one-off participation relief on dividend income. The effective tax rate was 19.4%, which is slightly lower than the statutory tax rate resulting from the combination of federal, cantonal and communal corporate taxes in Switzerland.

The numbers published in the tables above are in Swiss francs and rounded; therefore rounding differences may occur.

Strategy

In the reporting period, Cembra defined four programmes to achieve its strategic and financial ambitions until 2026.

Operational Excellence: radical simplification and technology transformation
As part of the Operational Excellence programme, Cembra radically simplifies its operating model and transforms its technology landscape. The aim is to deliver a seamless digital customer experience and to significantly increase efficiency through standardisation and automation. With all of our partners, we focus on integrated and tailored one-stop offerings.

Business Acceleration: improved value proposition and enhanced market reach
In personal loans, Cembra differentiates its offerings through a dual-brand positioning as well as digital and flexible solutions. In the auto business, the emphasis is on dealer-partnerships, and continuously improving services and processes. Cembra's credit card business will focus on both a proprietary card with attractive features offered to consumers directly as well as long-term co-branding partnerships.

New growth opportunity: 'buy now pay later (BNPL)' as an attractive new business
With its subsidiary Swissbilling, Cembra is serving the growing BNPL segment. The strategic focus is on the fast and versatile integration of checkout solutions with merchants, new applications and offers.

Cultural Transformation: towards an agile, learning-oriented and collaborative organisation
The strategy execution is supported by a comprehensive cultural transformation programme. The emphasis is on fostering an uncompromising customer-first mindset with interdisciplinary teams and empowered people. The aim is to create an agile and learning-oriented organisation.

Our Vision
With this strategic background in mind, Cembra has also re-defined its corporate vision for the next years: "We leverage technology to deliver the most intuitive customer solutions in consumer finance." Cembra's vision unites the strategic activities outlined above as well as our ambitions and efforts. It therefore forms the foundation on which Cembra will achieve shared goals. An important part of this will be the work on corporate culture. Above all, it will involve how people interact with each other and how customers are approached.

Outlook

Assuming the Swiss economy continues to grow in 2022, Cembra currently expects to deliver a resilient business performance in 2022, with revenues recovering in line with economic development. Cembra expects a continued solid loss performance for 2022.

Cembra aims to achieve an ROE of 13–14% in 2022/2023 and above 15% starting in 2024; pay a dividend of at least CHF 3.85 for 2022 and thereafter increasing based on sustainable earnings growth; and will target a Tier 1 capital ratio target of above 17%.