

Management Report

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Significant developments

On 17 January and 24 February 2022, we announced that two members of the Management Board, Emanuel Hofacker (General Counsel) and Niklaus Mannhart (Chief Operating Officer), will leave the Bank by end of June 2022 and the end of August 2022, respectively.

On 21 April 2022, Cembra held its ninth Annual General Meeting as a SIX-listed company, in Zurich. Due to Covid-19, shareholders did not attend the meeting in person. The following members of the Board of Directors were re-elected for a further one-year term of office: Felix Weber (Chairman), Thomas Buess, Susanne Klöss-Braekler and Monica Mächler. Jörg Behrens, Marc Berg and Alex Finn were newly elected to the Board of Directors. The shareholders approved an increased dividend of CHF 3.85 per share.

On 19 May 2022, we announced the extension of our credit card partnerships with Conforama and FNAC. Additionally, Cembra announced to issue a new credit card in collaboration with the retail chain SPAR as of summer 2022.

On 30 May 2022, we announced that in recognition of the Bank's recent progress in the area of sustainability, MSCI had upgraded Cembra's ESG rating to AAA, while Sustainalytics reaffirmed Cembra's "Low ESG Risk" rating.

On 1 June 2022, Cembra and Zurich Insurance Company AG entered into a cooperation agreement that will benefit customers on both sides. The two companies have simplified the vehicle insurance process, offering a new service package for car and van financing customers.

On 1 July 2022, Cembra launched Certo! – a new range of credit cards offering money back rewards and other services. The new range initially comprised two credit cards, such as Certo! One Mastercard, which is available to anyone, and the Certo! Mastercard for existing Cembra customers with a Cumulus-Mastercard.

On 6 July 2022, Cembra announced two new members to its Management Board. Alona Eiduka was appointed Chief Operating Officer per 1 July 2022. Eric Anliker joined Cembra as General Counsel on 1 September 2022.

On 23 September 2022, we announced that TWINT and Cembra's subsidiary Swissbilling agreed on a partnership. Through the collaboration, TWINT's payment options will be expanded and made more customisable. The launch is planned for summer 2023.

On 30 September 2022, Cembra reported that it had entered into an agreement with Intrum AG to acquire 100% of the shares of Byjuno AG and its sister company Intrum Finance Services AG (subsequently renamed to Byjuno Finance AG, collectively with Byjuno AG called "Byjuno"). Cembra will combine Byjuno with its subsidiary Swissbilling to create a leading provider of invoice payment solutions with the aim to establish compelling solutions for pay-by-invoice services in Switzerland.

On 25 October 2022, Cembra appointed Christian Schmitt as Chief Technology Officer and Member of the Management Board of Cembra per 1 November 2022.

On 1 November 2022, Cembra announced the completion of its acquisition of Byjuno, and that the business will be consolidated from the beginning of November 2022.

On 8 December 2022, Cembra announced that Felix Weber, Chairman of the Board of Directors since 2013, decided not to stand for re-election. The Board of Directors proposed Franco Morra as the new Chairman, subject to approval by the Annual General Meeting.

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 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 2.1% in 2022, after an increase of 3.7% in 2021. Consumer spending increased by 4.0% (2021: +2.6%).

Interest rates

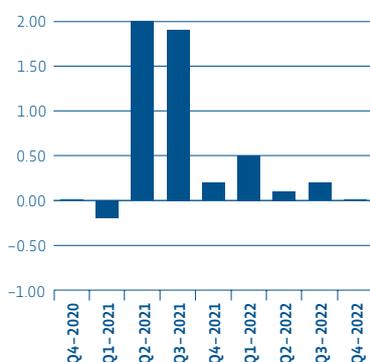
Interest rates are a key indicator for the Group’s funding. In 2022, Swiss-franc interest rates increased considerably and were volatile with large movements in a short period of time. The main reasons for higher interest rates were higher inflation and significant interest rates hikes worldwide. Between June 2022 and December 2022, the Swiss National Bank (SNB) raised its SNB policy rate by 175 basis points from -0.75% to 1.00%.

Unemployment rate

The unemployment rate serves as an important indicator for the credit risk profile of the Group’s customers. The unemployment rate in Switzerland decreased to 2.1% in December 2022 (December 2021: 2.6%), and the average unemployment rate in 2022 was 2.2% (2021: 3.0%).

GDP Switzerland

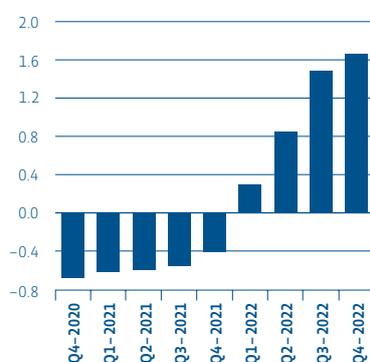
Change versus previous quarter (in %)



Source: SECO

CHF 3-year swap rate

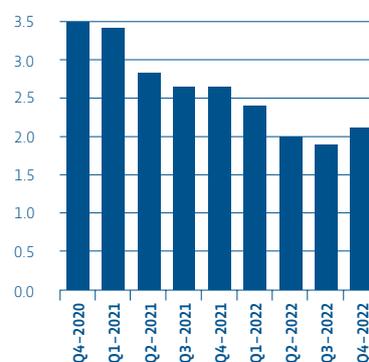
in %



Source: Bloomberg

Unemployment rate in Switzerland

in %



Source: SECO

Product markets

Consumer loan market

In 2022, the Swiss consumer loan market grew. According to the Central Office for Credit Information (ZEK), the Swiss consumer loan market increased by 7%, from CHF 7.840 billion at 31 December 2021 to CHF 8.414 billion in outstanding assets at 31 December 2022. The number of loan contracts outstanding increased by 3% to 358,000 in 2022, from 348,000 in 2021. In a competitive environment, the Group had an estimated market share of approximately 39% of outstanding consumer loans.

Auto market

The Swiss auto market recovered 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 226,000 new cars were registered in 2022, a decrease of 5% versus 2021. A total of 712,000 used cars were sold in Switzerland according to auto-i-dat AG (a provider of automotive market data); this represents a 9% decrease compared with 2021 (785,000). The Group estimated its auto leasing market share to be about 20% of total leasing assets outstanding as of December 2022.

Credit card market

The growth trend continued in the credit card market in 2022. Based on Swiss National Bank statistics, in 2022, the number of credit cards issued in Switzerland grew by 2% to 8.5 million. The number of transactions increased by 16% in 2022, to 684 million from 587 million in 2021. Overall, credit card transaction volumes increased by 17% to CHF 54.1 billion in 2022.

The Group’s number of cards decreased by about 17,000, or 2%, to about 1,051,000 compared with year-end 2021. The Group’s market share, based on the number of credit cards in circulation, was 12% in 2022 (13% in 2021), and the share of transactions conducted via near-field communications (NFC) amounted to 19%.

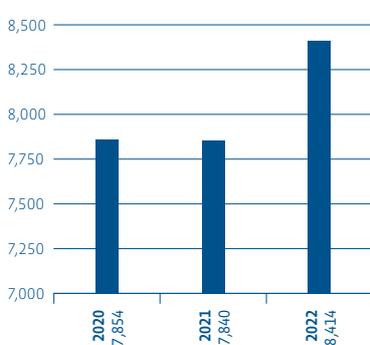
Buy now pay later market

E-commerce sales in Switzerland increased by 5% to CHF 15 billion estimated in 2022 with buy now pay later (BNPL) representing 8 - 11% of total e-commerce sales.

Cembra has a market share of 30 - 40% of the BNPL market via its subsidiaries Swissbilling and Byjuno. E-commerce (online) volume more than doubled in 2022, and billing volume grew by 51% to CHF 477 million, driven by growth both by Swissbilling and Byjuno (consolidated since November 2022).

Swiss consumer loan market

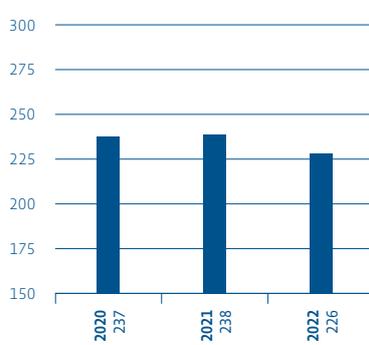
CHF in millions



Source: ZEK

New car registrations in Switzerland

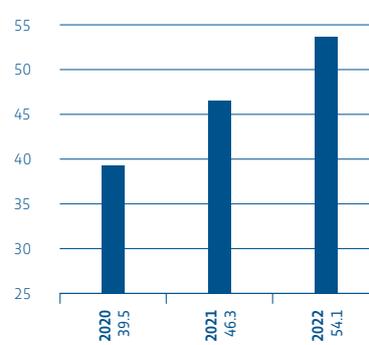
in 1,000



Source: auto-schweiz

Transaction volume Swiss credit cards

CHF in billions



Source: SNB

Balance sheet analysis

At 31 December (CHF in millions)	2022	2021	Change	as %
Assets				
Cash and cash equivalents	633	545	88	16
Net financing receivables	6,520	6,207	313	5
Personal loans	2,387	2,292	94	4
Auto leases and loans	2,975	2,820	155	6
Credit cards	1,045	1,030	15	1
BNPL	114	65	49	75
Investment securities	97	–	97	–
Other assets	403	344	60	17
Total assets	7,653	7,095	558	8
Liabilities and equity				
Deposits and debt	6,126	5,691	435	8
Deposits	3,513	3,199	314	10
Debt	2,613	2,492	121	5
Other liabilities	253	204	49	24
Total liabilities	6,379	5,895	484	8
Shareholders' equity	1,274	1,200	74	6
Total liabilities and shareholders' equity	7,653	7,095	558	8

Since November 2022, Cembra consolidated Byjuno AG and Byjuno Finance AG.

Net financing receivables amounted to CHF 6,520 million, an increase of 5%, or CHF 313 million, compared with year-end 2021. The increase was mainly driven by the lifting of pandemic restrictions and its impact on consumer financing needs.

At the end of 2022, the Group's personal loans accounted for 37% (2021: 37%) of net financing receivables, auto leases and loans made up 45% (2021: 45%), the credit cards business accounted for 16% (2021: 17%), and the BNPL business made up 2% (2021: 1%).

As at 31 December 2022, net financing receivables from personal loans amounted to CHF 2,387 million, 4% higher than at year-end 2021. Auto leases and loans expanded by 6% to CHF 2,975 million, up from CHF 2,820 million at the end of 2021. These increases were predominantly driven by increased market demand. Credit cards increased by 1%, from CHF 1,030 million to CHF 1,045 million. BNPL net financing receivables increased to CHF 114 million (2021: CHF 65 million) and included the Swissbilling and Byjuno business.

Funding

The Group kept its funding diversified in 2022. The deposit base increased from CHF 3,199 million at 31 December 2021 to CHF 3,513 million at 31 December 2022, primarily due to a 14% increase in the institutional deposit base and a decrease of 3% in the retail deposit base. The Group's non-deposit debt increased by 5% from CHF 2,492 million at 31 December 2021 to CHF 2,613 million at 31 December 2022. In March 2022 the Group paid back a CHF 250 million auto lease asset backed security ("ABS") and in October 2022 a CHF 100 million unsecured bond. In May 2022 and October 2022, the Group issued unsecured bonds amounting to CHF 250 million and CHF 220 million respectively.

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Equity

Total shareholders' equity increased by CHF 74 million, from CHF 1,200 million to CHF 1,274 million at year-end 2022. The increase was mainly driven by the net income of CHF 169.3 million. The increase was partially offset by the CHF 113 million dividend for the 2021 financial year, which was paid in April 2022.

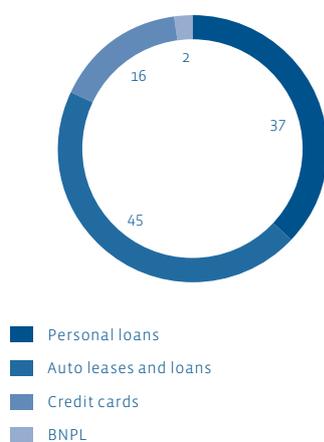
Capital position

At 31 December (CHF in millions)	2022	2021	Change	as %
Risk-weighted assets	5,938	5,600	338	6
Tier 1 capital	1,055	1,057	-2	-0
Tier 1 ratio	17.8%	18.9%		

Risk-weighted assets increased by 6% to CHF 5,938 million at 31 December 2022, compared with CHF 5,600 million at 31 December 2021. This increase was largely in line with the trend in net financing receivables. Tier 1 capital decreased by CHF 2 million to CHF 1,055 million, mainly as a result of the statutory net income generated in 2022, offset by the expected dividend payment. This resulted in a Tier 1 capital ratio of 17.8% at 31 December 2022, which is significantly above the regulatory requirement of 11.2%.

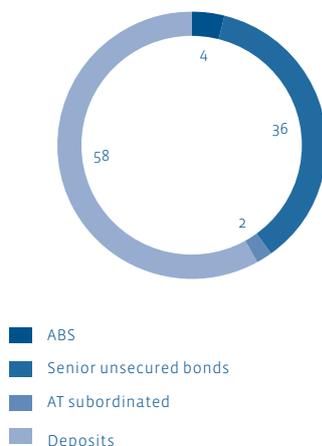
Net financing receivables

in %



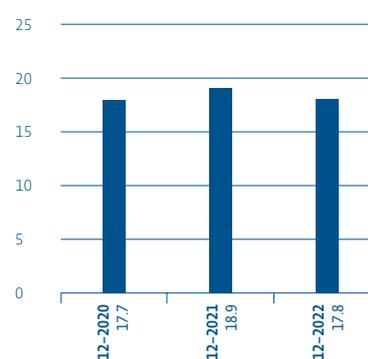
Funding structure

in %



Tier 1 capital ratio

in %

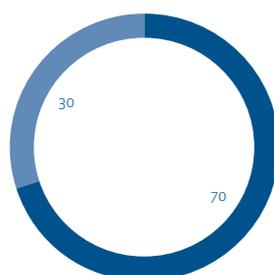


Profit and loss analysis

For the years ended 31 December (CHF in millions)	2022	2021	Change	as %
Interest income	385.6	382.7	2.9	1
Interest expense	-29.4	-26.0	3.4	13
Net interest income	356.2	356.7	-0.5	-0
Commission and fee income	152.7	130.3	22.3	17
Net revenues	508.9	487.0	21.8	4
Provision for losses on financing receivables	-40.9	-40.3	0.7	2
Compensation and benefits	-135.5	-132.2	3.3	2
General and administrative expenses	-122.0	-114.0	7.9	7
Total operating expenses	-257.5	-246.3	11.2	5
Income before income taxes	210.5	200.5	10.0	5
Income tax expense	-41.2	-39.0	2.2	6
Net income	169.3	161.5	7.8	5
Other comprehensive income/(loss)	19.7	22.2	-2.5	-11
Comprehensive income	189.0	183.7	5.3	3

Net revenues

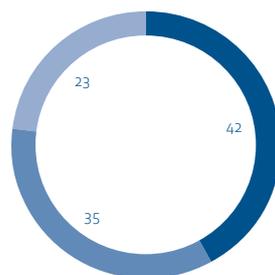
as %



- Net interest income
- Commission and fee income

Interest income

as % (excluding "Other")



- Personal loans
- Auto leases and loans
- Credit cards

Management Report

Interest income

For the years ended 31 December (CHF in millions)	2022	2021	Change	as %
Personal loans	163.1	169.4	-6.3	-4
Auto leases and loans	133.1	130.1	3.0	2
Credit cards	89.1	84.5	4.6	5
Other	0.3	-1.2	1.6	128
Total	385.6	382.7	2.9	1

In 2022, the contribution of personal loans to interest income (excluding other interest income) decreased to 42%, from 44% in 2021. The relative weight of auto leases and loans increased to 35%, from 34%, as well as the weight of credit cards increased to 23%, from 22% in the year-earlier period.

Total interest income increased by 1%, or CHF 2.9 million, to CHF 385.6 million in 2022.

Interest income from personal loans declined by CHF 6.3 million, or 4%, to CHF 163.1 million, predominantly due to the lower yield, which declined from 7.0% to 6.8% over the reporting period. Interest income from auto leases and loans increased by CHF 3.0 million, or 2%, to CHF 133.1 million. The yield remained stable at 4.6% (2021: 4.6%). Interest income from credit cards rose, up CHF 4.6 million, or 5%, to CHF 89.1 million in 2022. The yield stood at 8.5% (2021: 8.4%). Other interest income amounted to CHF 0.3 million, which included interest from cash and financial instruments as well as income from the BNPL business.

Cost of funds

For the years ended 31 December (CHF in millions)	2022	2021	Change	as %
Interest expense on ABS	0.6	1.3	-0.7	-54
Interest expense on deposits	13.7	12.7	1.0	8
Interest expense on debt	15.1	12.0	3.1	26
Total	29.4	26.0	3.4	13

Overall, interest expense increased by CHF 3.4 million, or 13%, to CHF 29.4 million in 2022. Interest expense on auto lease asset-backed securities (ABS) decreased by 54% to CHF 0.6 million. Interest expense on deposits increased by 8% to CHF 13.7 million. Interest expense on debt rose by 26% to CHF 15.1 million, due to increased debt funding at higher interest rates.

Commission and fee income

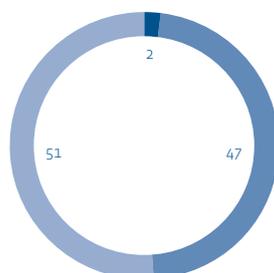
For the years ended 31 December (CHF in millions)	2022	2021	Change	as %
Insurance	23.4	23.0	0.5	2
Credit cards	94.8	80.4	14.3	18
Loans and leases	15.0	14.6	0.4	3
BNPL and other ¹	19.5	12.3	7.2	58
Total	152.7	130.3	22.3	17

¹ Primarily includes BNPL fee income related to Swissbilling SA and Byjuno AG (starting 1 November 2022)

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Cost of funds

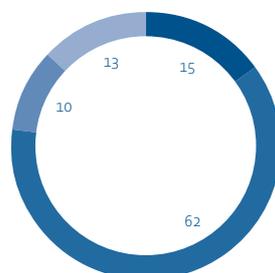
as %



- Asset-backed securities (ABS)
- Deposits
- Debt

Commission and fee income

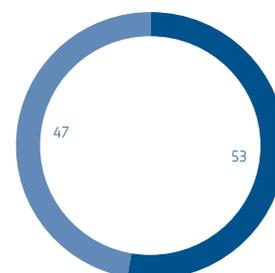
as %



- Insurance
- Credit cards
- Loans and leases
- Other

Operating expenses

as %



- Compensation and benefits
- General and administrative expenses

Commission and fee income increased significantly by CHF 22.3 million, or 17%, from CHF 130.3 million to CHF 152.7 million during the reporting period. Insurance income, which consists mainly of revenues from payment protection insurance products, increased by CHF 0.5 million, or 2%, to CHF 23.4 million. Fee income on credit cards increased by CHF 14.3 million, or 18%, to CHF 94.8 million, driven by higher consumer spending in the reporting period. Fees from loans and leases increased slightly by CHF 0.4 million to CHF 15.0 million. BNPL and other fees increased by 58% to CHF 19.5 million, mainly driven by higher fee income from Swissbilling amounting to CHF 13.9 million and income from Byjuno amounting to CHF 4.1 million.

Provision for losses on financing receivables

For the years ended 31 December (CHF in millions)	2022	2021	Change	as %
Provision for losses on personal loans	24.9	18.4	6.5	35
Provision for losses on auto leases and loans	3.0	12.5	-9.5	-76
Provision for losses on credit cards	7.3	7.5	-0.2	-3
Provision for losses on BNPL	5.7	1.9	3.9	N/A
Total	40.9	40.3	0.7	2

In 2022, the Group's provision for losses on financing receivables increased by CHF 0.7 million, or 2%, to CHF 40.9 million compared with CHF 40.3 million in 2021. The provision for losses on personal loans increased by CHF 6.5 million to CHF 24.9 million, reflecting the normalisation following the one-off effect in 2021 related to the sale of previously written-off financing receivables to a third party. On auto leases and loans, the provision for losses decreased by CHF 9.5 million to CHF 3.0 million, driven by exceptional recoveries relating to prudent write-off procedures during the pandemic and the continued robust price level in the vehicle market. The provision for losses on credit cards declined by CHF 0.2 million to CHF 7.3 million. Provision for losses on BNPL increased by CHF 3.9 million to CHF 5.7 million related to the execution of the Group's strategy and accelerated growth with key partners.

The Group's loss rate was at 0.6% stable compared to prior year reporting period.

Management Report

Compensation and benefits

For the years ended 31 December (CHF in millions)	2022	2021	Change	as %
Compensation and benefits	135.5	132.2	3.3	2

Compensation and benefit expenses increased by CHF 3.3 million, or 2%, to CHF 135.5 million. The increase was driven by Byjuno acquisition and higher average salaries and incentive compensation.

At 31 December 2022, the number of employees (FTEs) stood at 929, an increase of 13 FTEs, from 916 at year-end 2021. The Group's average number of FTE remained stable at 922 in 2022, compared with 922 in the prior-year period. The average cost per FTE of TCHF 147 in 2022 increased compared with TCHF 143 in 2021, and in line with the increase of the compensation and benefit expenses.

General and administrative expenses

For the years ended 31 December (CHF in millions)	2022	2021	Change	as %
Professional services	22.0	17.8	4.2	24
Marketing	15.7	8.1	7.6	93
Collection fees	10.7	10.5	0.2	2
Postage and stationery	15.0	10.8	4.2	39
Rental expense under operating leases	6.7	6.8	-0.1	-1
Information technology	43.9	41.4	2.5	6
Depreciation and amortisation	26.0	25.0	0.9	4
Other	-18.1	-6.5	11.6	179
Total	122.0	114.0	7.9	7

General and administrative expenses increased by CHF 7.9 million, or 7%, from CHF 114.0 million to CHF 122.0 million in 2022.

Costs from professional services rose to CHF 22.0 million. Marketing expenses increased by 93%, or CHF 7.6 million, due to launch of the new card programme Certo!. Collection fees slightly increased by 2% to CHF 10.7 million. Costs for postage and stationery increased by 39% to CHF 15.0 million, mainly as a result of communication expenses related to the launch of the Certo! card programme and the mobile application. Rental expenses decreased slightly by 1%. Information technology costs of CHF 43.9 million were 6% higher than at year-end 2021; this increase was due to expenses for initiatives in the Operational Excellence programme. Depreciation and amortisation was 4% higher, mainly due to higher amortization of software and the Byjuno acquisition. This was offset by a CHF 11.6 million decrease in other expenses mainly due to lower pension employer contributions as a result of valuation effects on Cembra's pension fund.

The cost/income ratio remained stable at 50.6% in 2022.

Income tax expense

The Group's income tax expense increased by CHF 2.2 million, or 6%, to CHF 41.2 million in 2022, with a normalised tax rate following a one-time effect in the prior reporting period. The effective tax rate was 19.6%, 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 continued to execute on 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 family 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 subsidiaries Swissbilling and Byjuno, 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 is the work on our corporate culture. Above all, it involves how people interact with each other and how customers are approached.

Outlook

Assuming the Swiss economy continues to grow slightly in 2023, Cembra currently expects to deliver a resilient business performance in 2023, with net revenues expected to develop at least in line with economic growth in Switzerland. Cembra expects a continued solid loss performance for 2023.

Cembra aims to achieve an ROE of 13–14% in 2023 and above 15% starting in 2024; pay a dividend of at least CHF 3.95 for 2023 and thereafter increasing based on sustainable earnings growth; and will target a Tier 1 capital ratio of above 17%.