Management Report

Significant developments

On 19 April 2023, Cembra launched the new business area CembraPay, bundling its subsidiaries Swissbilling and Byjuno. The launch of the new brand was a further step in the expansion of our activities in the growing buy now pay later (BNPL) market.

On 21 April 2023, Cembra held its Annual General Meeting in Zurich. The shareholders approved all proposals of the Board of Directors. Franco Morra was elected as Chairman of the Board of Directors. He succeeded Felix Weber, who after ten years in office, decided not to stand for re-election. All other members of the Board of Directors were re-elected for a further one-year term of office: Jörg Behrens, Marc Berg, Thomas Buess, Alex Finn, Susanne Klöss-Braekler and Monica Mächler.

On 17 August 2023, Cembra launched a new app function which provides greater protection for credit card customers. Cembra is the first Swiss bank to introduce a solution for the integrated digital processing of chargebacks directly in its credit card app. This allows the Bank to offer its customers a simple and fast service which contributes to consumer protection in online payments.

On 25 August 2023, Cembra announced that in collaboration with Swissbilling (part of CembraPay), the Swiss payment provider TWINT is gradually rolling out a new "pay later" feature. It is set to make payments even more flexible. Users shopping with specific merchants can choose whether they want to pay immediately or in 30 days. In this way, TWINT and Cembra reimagined the traditional invoice payment method.

On 30 October 2023, Cembra took its 10-year anniversary as an opportunity to refresh its branding. As part of its strategic transformation into a more digital business model with an expanded offering, the Bank's positioning was refined, and the brand further developed.

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 1.3% in 2023, after an increase of 2.5% in 2022. Consumer spending increased by 2.2% (2022: 4.0%)

Interest rates

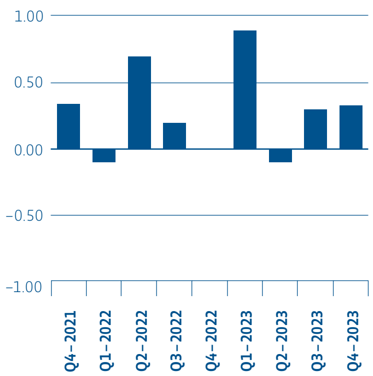
Interest rates have a major impact on the Group's funding. In 2023, Swiss-franc interest rates increased further in a volatile capital markets environment. Until June 2023 the SNB policy rate was raised by a total of 2.5 percentage points to 1.75%. Since then, it has remained unchanged.

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 increased to 2.3% in December 2023 (December 2022: 2.1%). The average unemployment rate in 2023 was 2.0% (2022: 2.2%).

GDP Switzerland

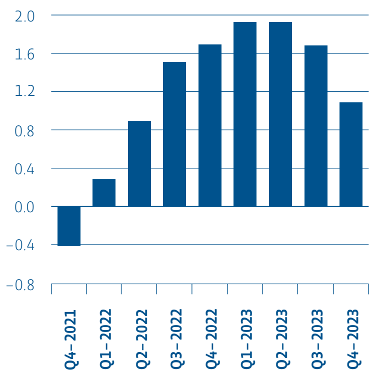
Change versus previous quarter (in %)



Source: SECO

CHF 3-year swap rate

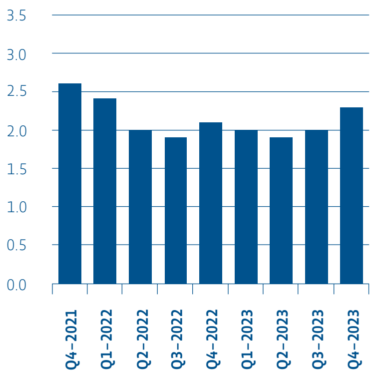
in %



Source: Bloomberg

Unemployment rate in Switzerland

in %



Source: SECO

Product markets

Consumer loan market

In 2023, the Swiss consumer loan market continued to grow. According to the Central Office for Credit Information (ZEK), the Swiss consumer loan market increased by 8%, from CHF 8.414 billion at 31 December 2022 to CHF 9.065 billion in outstanding assets at 31 December 2023. The number of loan contracts outstanding increased by 4% to 371,000 in 2023, from 358,000 in 2022. In a competitive environment, the Group had an estimated market share of approximately 38% of outstanding consumer loans.

Auto market

The Swiss auto market continued to recover in the reporting period, mainly driven by strong new cars sales in the electric vehicles segment. According to "auto-schweiz" statistics (the association of official Swiss car importers), about 252,000 new cars were registered in 2023, an increase of 12% versus 2022. A total of 684,000 used cars were sold in Switzerland according to auto-i-dat AG (a provider of automotive market data); this represents a 4% decrease compared with 2022 (712,000). The Group estimated its auto leasing market share to be about 20% of total leasing assets outstanding as of December 2023.

Credit card market

In 2023, the number of credit cards issued in Switzerland remained flat at 8.5 million according to Swiss National Bank statistics. The number of transactions increased by 7% in 2023, to 735 million from 684 million in 2022, and credit card transaction volumes increased by 3% to CHF 56 billion in 2023.

The Group's number of cards decreased by about 24,000, or 2%, to about 1,027,000 compared with year-end 2022. The Group's market share, based on the number of credit cards in circulation remained stable at 12% in 2023, and the share of transactions conducted via near-field communications (NFC) amounted to 17%.

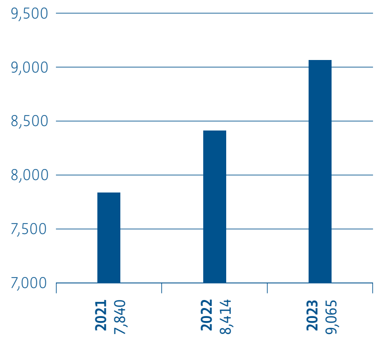
Buy now pay later market

E-commerce sales in Switzerland were estimated at CHF 15 billion in 2023 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 Cembra Pay and Swissbilling. E-commerce (online) volume more than doubled in 2023, and billing volume grew by 88% to CHF 898 million, driven by growth in both subsidiaries as well as the consolidation of Byjuno since November 2022.

Swiss consumer loan market

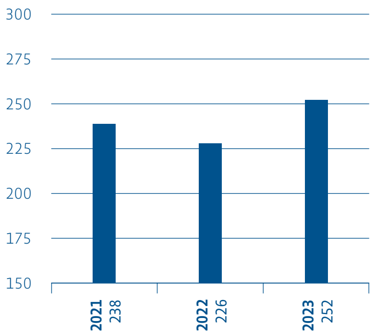
CHF in millions



Source: ZEK

New car registrations in Switzerland

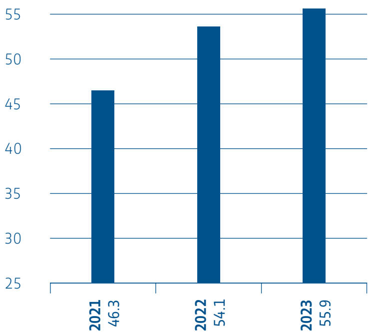
in 1,000



Source: auto-schweiz

Transaction volume Swiss credit cards

CHF in billions



Source: SNB

Balance sheet analysis

At 31 December (CHF in millions)	2023	2022	Change	as %
Assets				
Cash and cash equivalents	**922**	633	289	46
Net financing receivables	**6,687**	6,520	167	3
Personal loans	**2,370**	2,387	−16	−1
Auto leases and loans	**3,147**	2,975	172	6
Credit cards	**1,028**	1,045	−17	−2
BNPL	**141**	114	28	25
Investment securities	**98**	97	1	1
All other assets [1]	**381**	374	7	2
Total assets [1]	**8,088**	**7,624**	**464**	**6**
Liabilities and equity				
Deposits and debt	**6,595**	6,126	469	8
Deposits	**3,497**	3,513	−16	−0
Debt	**3,098**	2,613	485	19
All other liabilities [1]	**244**	223	20	9
Total liabilities [1]	**6,838**	**6,349**	**489**	**8**
Shareholders' equity	**1,250**	1,274	−25	−2
Total liabilities and shareholders' equity [1]	**8,088**	**7,624**	**464**	**6**

[1] In 2023, the Group elected to present VAT on a net basis and updated the financial year 2022 figures retrospectively. See Group Consolidated Financial Statements 2023, Note 9. Other Assets

Net financing receivables amounted to CHF 6,687 million, an increase of 3%, or CHF 167 million, compared with year-end 2022. The increase was mainly driven by continued growth in Auto leases and loans, partly offset by higher allowances for losses related to the adoption of the CECL accounting standard (see consolidated financial statements notes 2 and 4).

At the end of 2023, the Group's personal loans accounted for 36% (2022: 37%) of net financing receivables, auto leases and loans made up 47% (2022: 45%), the credit cards business accounted for 15% (2022: 16%), and the BNPL business made up 2% (2022: 2%).

As at 31 December 2023, net financing receivables from personal loans amounted to CHF 2,370 million, 1% less than at year-end 2022. Auto leases and loans expanded by 6% to CHF 3,147 million, up from CHF 2,975 million at the end of 2022. Credit cards decreased by 2%, from CHF 1,045 million to CHF 1,028 million. BNPL net financing receivables increased by 25% to CHF 141 million (2022: CHF 114 million).

Funding

The Group kept its funding diversified in 2023. The deposit base decreased from CHF 3,513 million at 31 December 2022 to CHF 3,497 million at 31 December 2023 due to a 10% decrease in the institutional deposit base and a 17% increase in the retail deposit base. The Group's non-deposit debt increased by 19% from CHF 2,613 million at 31 December 2022 to CHF 3,098 million at 31 December 2023. In May 2023, the Group paid back a CHF 250 million unsecured bond. In January, May and September 2023, the Group issued three unsecured bonds of CHF 235 million, CHF 210 million and CHF 215 million, respectively. In May 2023, Cembra issued an auto lease asset backed note (ABS) of CHF 275 million.

Equity

Total shareholders' equity decreased by CHF 25 million, from CHF 1,274 million to CHF 1,250 million at year-end 2023. The decrease was mainly driven by the CHF 116 million dividend for the 2022 financial year, which was paid in April 2023. In addition, the adoption of the CECL standard resulted in a decrease of CHF 54 million in retained earnings. The decrease was partially offset by the net income of CHF 158.0 million.

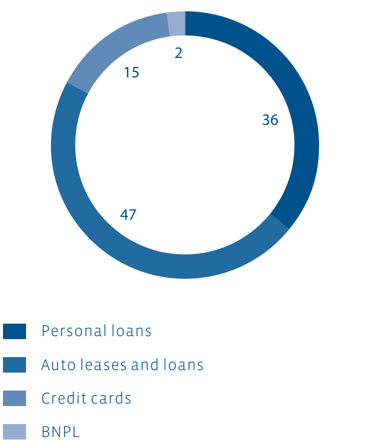
Capital position

At 31 December (CHF in millions)	2023	2022	Change	as %
Risk-weighted assets	**6,090**	5,938	152	3
Tier 1 capital	**1,046**	1,055	– 9	– 1
Tier 1 ratio	**17.2 %**	**17.8 %**		

Risk-weighted assets increased by 3% to CHF 6,090 million at 31 December 2023, compared with CHF 5,938 million at 31 December 2022. This increase was largely in line with the growth of net financing receivables. Tier 1 capital decreased by CHF 9 million to CHF 1,046 million, mainly as a result of the net income generated in 2023 and the higher equity base under US GAAP. These effects were more than offset by higher deductible goodwill and intangible assets as well as the expected dividend payment. This resulted in a Tier 1 capital ratio of 17.2% at 31 December 2023 (based on US GAAP), which is significantly above the regulatory requirement of 11.2%.

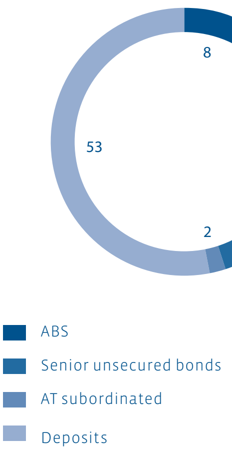
Net financing receivables

in %



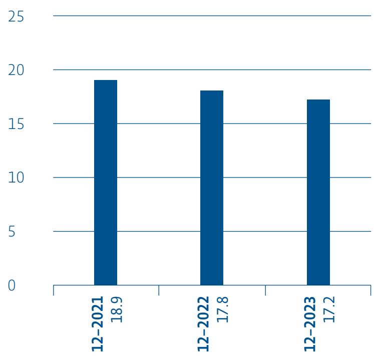
Funding structure

in %



Tier 1 capital ratio

in %

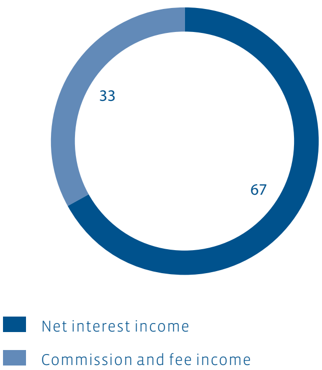


Profit and loss analysis

For the years ended 31 December (CHF in millions)	2023	2022	Change	as %
Interest income	422.1	385.6	36.6	9
Interest expense	– 74.9	– 29.4	45.5	155
Net interest income	**347.2**	**356.2**	**– 9.0**	**– 3**
Commission and fee income	168.5	152.7	15.8	10
Net revenues	**515.7**	**508.9**	**6.8**	**1**
Provision for losses on financing receivables	**– 56.9**	**– 40.9**	**16.0**	**39**
Compensation and benefits	– 137.0	– 135.5	1.5	1
General and administrative expenses	– 125.6	– 122.0	3.7	3
Total operating expenses	**– 262.6**	**– 257.5**	**5.2**	**2**
Income before income taxes	**196.2**	**210.5**	**– 14.3**	**– 7**
Income tax expense	– 38.1	– 41.2	– 3.0	– 7
Net income	**158.0**	**169.3**	**– 11.3**	**– 7**
Other comprehensive income / (loss)	– 12.6	19.7	– 32.3	– 164
Comprehensive income	**145.4**	**189.0**	**– 43.6**	**– 23**

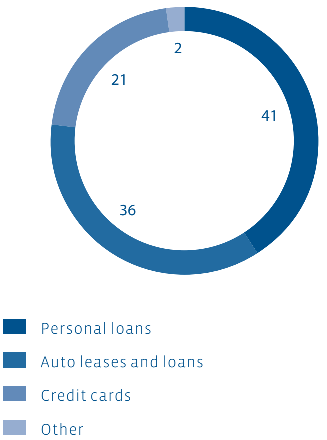
Net revenues

as %



Interest income

as %



Interest income

For the years ended 31 December (CHF in millions)	2023	2022	Change	as %
Personal loans	171.5	163.1	8.4	5
Auto leases and loans	150.8	133.1	17.7	13
Credit cards	87.9	89.1	– 1.1	– 1
Other	11.9	0.3	11.6	n/a
Total	**422.1**	**385.6**	**36.6**	**9**

Overall, the contribution of personal loans to interest income decreased to 41% from 42% in the reporting period. Auto leases and loans made up 36% (2022: 35%) and credit cards decreased to 21% from 23%, compared to the year-earlier period. The contribution of other interest income increased to 2% (2022: 0%).

Total interest income increased by 9%, or CHF 36.6 million, to CHF 422.1 million in 2023.

Interest income from personal loans increased by CHF 8.4 million, or 5%, to CHF 171.5 million, predominantly due to the higher yield, which increased from 6.8% to 7.0% over the reporting period. Interest income from auto leases and loans increased by CHF 17.7 million, or 13%, to CHF 150.8 million. The yield increased to 4.9% (2022: 4.6%). Interest income from credit cards declined by CHF 1.1 million, or 1%, to CHF 87.9 million in 2023. The yield stood at 8.4% (2022: 8.5%). Other interest income amounted to CHF 11.9 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)	2023	2022	Change	as %
Interest expense on ABS	4.9	0.6	4.3	n/a
Interest expense on deposits	39.6	13.7	25.9	189
Interest expense on debt	30.4	15.1	15.3	102
Total	**74.9**	**29.4**	**45.5**	**155**

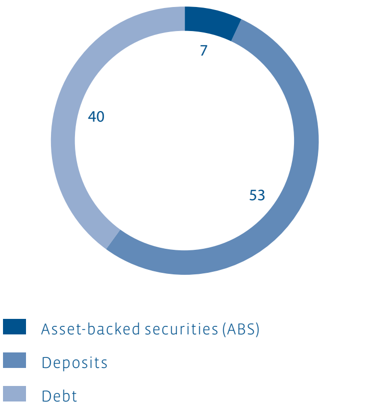
The overall cost of funds more than doubled to CHF 74.9 million in 2023 (2022: CHF 29.4 million) reflecting the changed interest rate environment. Interest expense on auto lease asset backed securities increased by CHF 4.3 million to CHF 4.9 million. Interest expense on deposits increased by CHF 25.9 million to CHF 39.6 million, compared with 2022. Total interest expense on non-deposit debt increased by CHF 15.3 million to CHF 30.4 million in 2023, driven by increased funding and the higher interest rates for the recently issued unsecured bonds and ABS.

Commission and fee income

For the years ended 31 December (CHF in millions)	2023	2022	Change	as %
Insurance	23.8	23.4	0.4	2
Credit cards	89.2	94.8	– 5.5	– 6
Loans and leases	14.5	15.0	– 0.5	– 3
BNPL	39.4	17.6	21.7	123
Other	1.5	1.9	– 0.4	– 19
Total	**168.5**	**152.7**	**15.8**	**10**

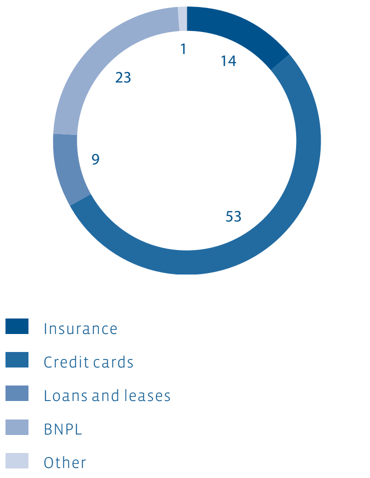
Cost of funds

as %



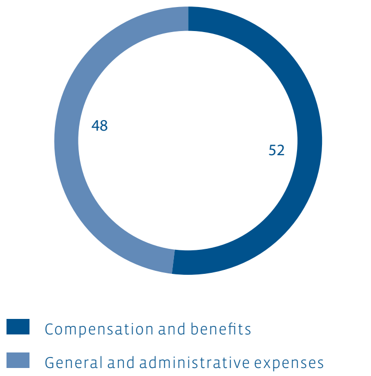
Commission and fee income

as %



Operating expenses

as %



Commission and fee income increased significantly by CHF 15.8 million, or 10%, from CHF 152.7 million to CHF 168.5 million. Insurance income, which consists mainly of revenues from payment protection insurance products, increased by CHF 0.4 million, or 2%, to CHF 23.8 million. Fee income on credit cards decreased by CHF 5.5 million, or 6%, to CHF 89.2 million, mainly driven by lower transaction volumes and lower fee income due to cost-efficient self-service offers in the mobile application. Fees from loans and leases decreased slightly by CHF 0.5 million to CHF 14.5 million. Fee income in the BNPL business increased by 123% to CHF 39.4 million in 2023. The increase was driven by organic growth in BNPL and the acquisition of Byjuno AG in 2022 (subsequently renamed CembraPay AG) . Other fees decreased to CHF 1.5 million compared to CHF 1.9 million in 2022.

Provision for losses on financing receivables

For the years ended 31 December (CHF in millions)	**2023**	2022	Change	as %
Provision for losses on personal loans	**40.8**	24.9	15.9	64
Provision for losses on auto leases and loans	**5.4**	3.0	2.4	80
Provision for losses on credit cards	**3.4**	7.3	−3.9	−54
Provision for losses on BNPL	**7.3**	5.7	1.5	27
Total	**56.9**	**40.9**	**16.0**	**39**

In 2023, the Group's provision for losses on financing receivables increased by CHF 16.0 million to CHF 56.9 million compared with CHF 40.9 million in 2022. The loss performance in 2023 reflects the ongoing normalisation in line with the communicated mid-term target. The volatility across product lines and in year-on-year comparison was affected by the adoption of the CECL accounting standard in the beginning of 2023. The provision for losses on personal loans increased by CHF 15.9 million to CHF 40.8 million. On auto leases and loans, the provision for losses increased by CHF 2.4 million to CHF 5.4 million. The provision for losses on cards declined by CHF 3.9 million to CHF 3.4 million. Provision for losses on BNPL increased by CHF 1.5 million to CHF 7.3 million, driven by the full-year consoidation of CembraPay AG in 2023.

The Group's loss rate was at 0.8% compared to 0.6% in the prior-year period.

Compensation and benefits

For the years ended 31 December (CHF in millions)	2023	2022	Change	as %
Compensation and benefits	**137.0**	**135.5**	**1.5**	**1**

Compensation and benefit expenses increased by CHF 1.5 million, or 1%, to CHF 137.0 million. The increase was driven by a higher number of FTEs in the first half of the year and continuously declining FTEs in the second half of the year.

At 31 December 2023, the number of FTEs stood at 902, a decrease of 27 FTEs compared to 929 at year-end 2022. The Group's average number of FTE decreased to 915 in 2023, compared with 922 in the prior-year period. The average cost per FTE amounted to TCHF 150 in 2023, compared with TCHF 147 in 2022, and in line with the increase of compensation and benefit expenses.

General and administrative expenses

For the years ended 31 December (CHF in millions)	2023	2022	Change	as %
Professional services	**20.8**	22.0	– 1.1	– 5
Marketing	**11.7**	15.7	– 4.0	– 26
Collection fees	**15.0**	10.7	4.3	40
Postage and stationery	**10.2**	15.0	– 4.9	– 32
Rental expense under operating leases	**6.2**	6.7	– 0.5	– 8
Information technology	**50.6**	43.9	6.7	15
Depreciation and amortisation	**27.5**	26.0	1.5	6
Other	**– 16.3**	– 18.1	– 1.7	– 10
Total	**125.6**	**122.0**	**3.7**	**3**

General and administrative expenses increased by CHF 3.7 million, or 3%, from CHF 122.0 million to CHF 125.6 million in 2023.

Costs from professional services decreased by 5% to CHF 20.8 million. Marketing expenses decreased by 26%, or CHF 4.0 million, driven by less marketing compared to the credit card launches in the previous reporting period. Collection fees increased by 40% to CHF 15.0 million driven by the BNPL outsourcing collections services. Expense for postage and stationery decreased by 32% to CHF 10.2 million, as a result of continued digitisation of customer interaction and one-off costs related to the credit card launches in 2022. Rental expenses decreased by 8% due to a reduction of office rental space. Information technology costs of CHF 50.6 million increased by 15% or CHF 6.7 million, mainly due to the implementation of the new leasing business platform and expenses related to CembraPay. Depreciation and amortisation was 6% higher, mainly driven by the amortisation of CembraPay intangibles. Other expenses decreased by CHF 1.7 million largely driven by lower capitalisation related to strategic projects and pension fund costs.

The cost/income ratio remained largely stable at 50.9% in 2023 (2022: 50.6%).

Income tax expense

The Group's income tax expense decreased by CHF 3.0 million, or 7%, to CHF 38.1 million in 2023 in line with the lower income before taxes. The effective tax rate was 19.4%.

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

Business model and strategy

Business model
Cembra is a provider of financing solutions and services in Switzerland. The company operates by offering individuals in Switzerland a diverse range of secured and unsecured consumer lending, credit services and savings. The products include personal loans, credit cards, auto loans and leasing, invoice financing solutions and savings products as well as providing access to related insurance products (for details see Annual Report 2023 About us, page 5). Revenues are generated through interest income and fees on these financial products, often in collaboration with partner businesses for co-branded credit cards, vehicle leasing and other financing options. Cembra places significant emphasis on risk management, utilising credit assessments and underwriting processes to maintain a robust loan portfolio. Cembra operates within the Swiss regulatory framework, adhering to laws and regulations related to consumer lending and banking.

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, we differentiate our offerings through digital and flexible solutions and services. In the auto business, the emphasis is on dealer-partnerships, and continuously improving services and processes. In our credit card business we 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 business
With our business area CembraPay, we are 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 work with each other and how we interact with our customers.

Outlook

Assuming the Swiss economy continues to grow slightly in 2024, Cembra currently expects net revenues to moderately outpace Swiss GDP growth, along with a continued robust loss performance and a cost/income ratio below 49%.

As a result, Cembra expects an increase in net income and a ROE of 13–14% for 2024 and at or above 15% starting in 2025, to pay a dividend of at least CHF 4.00 for 2024 and thereafter increasing based on sustainable earnings growth, and will target a Tier 1 capital ratio of above 17%.