Your Swiss Bank

Letter to Shareholders

Dear Shareholders

It is our pleasure to inform you about another successful year for Cembra. Our net income in 2019 increased by 3% to CHF 159.2 million. All businesses contributed to this record result. This translated into a 15.7% return on shareholders' equity coupled with a solid Tier 1 capital ratio of 16.3%. A dividend per share of CHF 3.75 will be recommended to the Annual General Meeting on 16 April 2020 in Zurich.

2019 was another very successful year for Cembra. We are very pleased that we gained more than 130,000 new customers in 2019 and that we now serve over one million customers in Switzerland. We are looking forward to further digitising our businesses, developing our new partnerships in the cards business, and rolling out our new online financing product for small companies.

Profitable growth across all business lines

The Group's net financing receivables rose by 37% to a record CHF 6.6 billion as a result of the consolidation of cashgate. Despite strong competition in all businesses, Cembra's organic asset growth, excluding cashgate, stood at 6%. In the personal loans business, receivables increased by 39% to CHF 2.6 billion (+2% excluding cashgate). Interest income in the personal loans business increased by 7% to CHF 172.6 million with a yield of 7.5%. Net financing receivables in auto leases and loans grew by 48% to CHF 2.9 billion in the reporting period (+7% excluding cashgate). Interest income was 12% higher, at CHF 110.6 million, with a yield of 4.5% for the auto financing business. The solid performance in the credit cards business was driven by the higher number of cards issued (up 10% year on year to 984,000) and the further increase in transaction volumes (up 10% year on year). Net financing receivables grew by 9% to CHF 1.0 billion. Interest income in the cards business grew by 11% to CHF 79.4 million, with an 8.0% yield.

Steady revenue increase

Net revenues rose by 9% to CHF 479.7 million (+4% excluding cashgate). Interest income grew by 9% as a result of the acquisition and higher credit card volumes. Interest expense was 34% higher at CHF 27.8 million, reflecting the CHF 1.8 billion increase in funding.

Commission and fee income increased by 14% to CHF 147.7 million, influenced by the acquisition and thanks to strong credit card fee income, as well as other income relating mainly to the invoice financing provider Swissbilling. The share of net revenues generated from commissions and fees increased to 31%, compared with 30% in 2018.

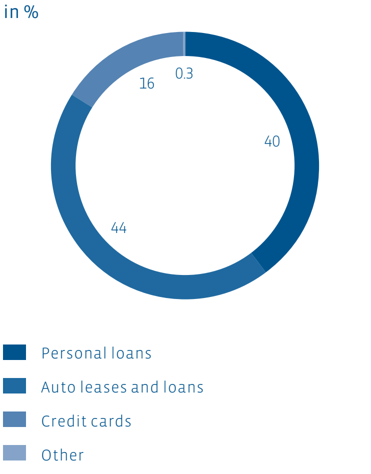
Total operating expenses increased by 20% to CHF 231.8 million. Personnel expenses came in at CHF 120.5 million, up 14% following the addition of 180 FTEs (+23%) in 2019, including 134 employees from cashgate. General and administrative expenses rose 28% to CHF 111.3 million, mainly as a result of the integration of cashgate, together with continued investments in technology and growth initiatives. The cost/income ratio increased to 48.3%. Excluding the acquisition – the cost of integrating cashgate amounted to around CHF 8 million in 2019 – the cost/income ratio was 45.5% (2018: 44.0%).

Favourable loss performance
The provision for losses decreased by CHF 5.0 million, or 10%, to CHF 45.1 million, despite the expanding loan portfolio. This decline was due to the continued favourable macro environment and a one-off effect due to better synchronisation of write-off and collection procedures. This resulted in a loss rate of 0.8% (2018: 1.1%) and a higher non-performing-loans (NPL) ratio of 0.6% (2018: 0.4%) resulting from the synchronisation process. The rate of over-30-days past due financing receivables remained stable at 1.8% (2018: 1.8%).

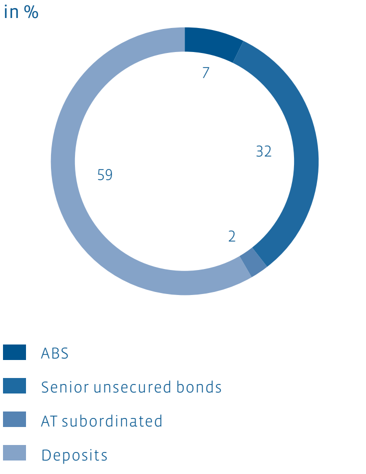
Timely integration of cashgate well on track
Since the completion of the acquisition on 2 September 2019, Cembra is executing on the integration as planned. In December 2019, all employees at cashgate's headquarters moved to their new offices at Cembra headquarters in Zurich-Altstetten. Since 1 January 2020, Cembra's auto business has been operating on a single system, and the cashgate brand will be maintained for online offering for personal loans. By April 2020, we expect to have consolidated all cashgate branches and will then be operating a network of 17 branches across Switzerland.

Progress in new businesses
Swissbilling more than doubled its revenues in 2019 compared to 2018. In Q4 2019, we expanded our product portfolio as planned, with an online financing product for small companies in Switzerland under the new Cembra Business brand. The commercial roll-out of the new product started on 17 February 2020.

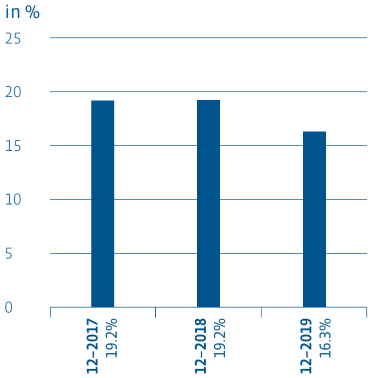
Net financing receivables



Funding structure



Tier 1 capital ratio



Bridge loan facility fully paid back

Since the announcement of the acquisition of cashgate on 1 July, we have fully paid off the transaction through various capital market instruments and deposits. The bridge loan facility amounting to CHF 1.5 billion was paid back in full by November 2019, with Cembra's funding portfolio rising by 42% to CHF 6.1 billion at year-end. The weighted average remaining maturity was 2.9 years and the period-end funding cost declined from 49 to 44 basis points.

Solid capital position and stable dividend

Cembra remains very well capitalised, with a solid Tier 1 capital ratio of 16.3%, which is within the 16–17% range indicated for 2019. The leverage ratio amounted to 12.5%. Shareholders' equity increased by 17% to CHF 1.091 billion, predominantly relating to the sale of treasury shares in July 2019.

Given Cembra's solid financial performance, the Board of Directors will recommend a dividend of CHF 3.75 per share (representing a payout ratio of 68%) at the next Annual General Meeting on 16 April 2020. Given that organic growth was stronger than expected in the second half of the year, and in order to maintain flexibility for further growth, Cembra does not propose that the remaining treasury shares be cancelled at the upcoming Annual General Meeting.

Thomas Buess proposed for election to the Board of Directors

The Board of Directors of Cembra will propose to the shareholders at the next Annual General Meeting on 16 April 2020 the election of Thomas Buess as a new member to the Board of Directors. He will replace Ben Tellings, who stepped down as of 31 December 2019. Thomas Buess, Swiss citizen, has spent over thirty years of his career in the financial services and insurance sector in several roles for companies such as Elvia, Zurich Insurance Group and Allianz Group. From 2009 until 2019 he served as Group Chief Financial Officer at Swiss Life Group. Since 2019, he is member of the Board of Directors of Swiss Life Group.

Outlook

While the recent coronavirus (Covid-19) outbreak is having an adverse impact on the global and Swiss economies, Cembra had a good start to the year. Thanks to multi-year contracts and based on our long term experience, the Group currently expects to see for the year a resilient business performance with the integration of cashgate progressing as planned. Cembra Management is continuously evaluating the situation and will update on the guidance if necessary.

On behalf of the Board of Directors and Management, we would like to thank our customers, shareholders and business partners for the trust they have placed in us. We would also like to express our particular gratitude to our employees, who shape the success of our Group with their expertise, dedication and engagement.

Dr Felix Weber
Chairman

Robert Oudmayer
Chief Executive Officer

Key facts and figures

Key figures

At 31 December (in CHF millions)	2019	2018
Net interest income	**332.0**	309.2
Commission and fee income	**147.7**	129.6
Net revenues	**479.7**	438.8
Provision for losses	**–45.1**	–50.1
Total operating expenses	**–231.8**	–193.0
Net income	**159.2**	154.1
Total assets	**7,485**	5,440
Net financing receivables	**6,586**	4,807
Personal loans	**2,625**	1,885
Auto leases and loans	**2,915**	1,974
Credit cards	**1,029**	940
Others	**17**	8
Shareholders' equity	**1,091**	933
Return on shareholders' equity (ROE)	**15.7%**	16.9%
Net interest margin	**5.8%**	6.5%
Cost/income ratio	**48.3%**	44.0%
Tier 1 capital ratio	**16.3%**	19.2%
Employees (full-time equivalents)	**963**	783
Credit rating (S&P)	**A–**	A–
Basic earnings per share (in CHF)	**5.53**	5.47
Ordinary Dividend per share (in CHF)	**3.75**	3.75
Book value per share (in CHF)	**36.35**	31.10
Share price (in CHF)	**106.00**	77.85
Market capitalisation	**3,180**	2,336

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