

Letter to Shareholders

Dear Shareholders

Cembra's solid results for 2023 reflect our continued focus on profitable growth. We continued to grow our net financing receivables and the loss performance remained robust. With our ongoing investments in the strategic transformation and our cost discipline we are on track to deliver on our mid-term targets.

Solid business performance

In 2023 Cembra continued to grow its business selectively and to implement price adaptations in response to the changing interest rate environment. The Group's total net financing receivables at 31 December 2023 amounted to CHF 6.7 billion, an increase of 3% compared with 31 December 2022.

In the personal loans business, net financing receivables decreased by 1% to CHF 2.4 billion in 2023 and interest income rose by 5% to CHF 171.5 million, with a yield of 7.0%. Net financing receivables in auto leases and loans increased by 6% to CHF 3.1 billion in the reporting period. Interest income increased by 13% to CHF 150.8 million, with a yield of 4.9%.

In the credit cards business, net financing receivables declined by 2% to CHF 1.0 billion at 31 December 2023. Interest income in the cards business declined by 1% to CHF 87.9 million, with a yield of 8.4%. The number of cards issued amounted to 1,027,000 at 31 December 2023, a decline of 2% on 31 December 2022.

In the buy now pay later (BNPL) business, billing volumes increased by 88% to CHF 898 million in 2023, driven both by the consolidation of CembraPay (formerly Byjuno) and by organic growth. As a result, commission and fee income from BNPL more than doubled to CHF 39.4 million (2022: CHF 17.6 million).

Net revenues driven by fee income – net interest margin improved in the second half of 2023

Net revenues increased by 1% to CHF 515.7 million in 2023, with commission and fee income more than offsetting lower net interest income. The share of net revenues generated from commissions and fees increased from 30% to 33% in 2023.

Stable cost/income ratio

Total operating expenses increased by 2% to CHF 262.6 million. Personnel expenses rose by 1% to CHF 137.0 million. General and administrative expenses amounted to CHF 125.6 million, an increase of 3% including investments in strategic initiatives and integration costs. This resulted in a stable cost/income ratio of 50.9% (2022: 50.6%). Cembra expects the cost/income ratio to decline in line with its strategic plan for the period up to 2026.

Continued robust loss performance

The provision for losses increased to CHF 56.9 million (2023: CHF 40.9 million) reflecting the expected normalisation of loss levels. This resulted in a loss rate of 0.8% in 2023. The non-performing loans (NPL) ratio increased to 0.8% (2022: 0.7%). Cembra expects the loss rate to be in line with the long-term historical trend and confirms its mid-term target for a loss rate at or below 1%.

Further diversified funding portfolio

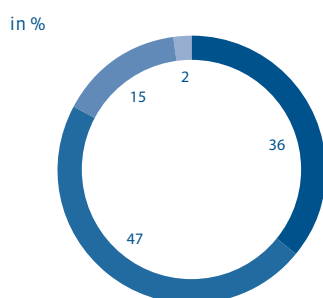
The Group's diversified funding portfolio increased by 8% to CHF 6.6 billion in 2023. In the funding mix the share of deposits increased to 53% (2022: 51%). The weighted average duration increased to 2.4 years from 2.1 years at year-end 2022. The end-of-period funding cost amounted to 1.47% (31 December 2022: 0.79%), and average funding costs in 2023 stood at 1.18%.

Dividend increase to CHF 4.00 proposed

Cembra remains very well capitalised, with a strong Tier 1 capital ratio of 17.2% (31 December 2022: 17.8%) including the expected change in the basis of accounting (US GAAP) for regulatory reporting purposes. Shareholders' equity decreased by 2% to CHF 1.250 billion, including an impact of CHF 54 million from the adoption of CECL in US GAAP.

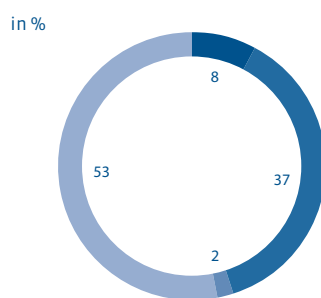
Given Cembra's solid financial performance, the Board of Directors will propose a dividend of CHF 4.00 per share (a 74% payout ratio) at the next General Meeting on 24 April 2024, representing an increase of CHF 0.05 compared to the previous year.

Net financing receivables



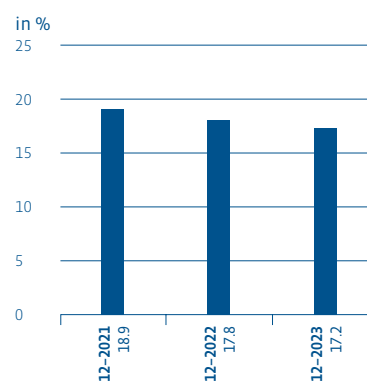
- Personal loans
- Auto leases and loans
- Credit cards
- BNPL

Funding structure



- ABS
- Senior unsecured bonds
- AT subordinated
- Deposits

Tier 1 capital ratio



Progress in strategy implementation and on track to deliver mid-term targets by 2026

In 2023, Cembra continued to execute on its key strategic initiatives. The card migration programme was concluded with more than two thirds of the transition portfolio being migrated to the new proprietary offering Certo!. The company also continued to grow its portfolio of other co-branding credit cards. In the BNPL business, Cembra completed the integration of Byjuno. The acquired company was combined with Swissbilling to launch CembraPay and thus create a leading Swiss provider of invoice payment solutions, offering significant further growth potential. In addition, a partnership with TWINT rolled out since August 2023 offers the five million TWINT app users a “pay later” feature for specific merchants. In December 2023, the new IT platform for the leasing business was launched for selected partners, laying the groundwork for further efficiency gains. In February 2024, Cembra introduced a new range of online savings products. Overall, automation and digitalisation initiatives were further advanced in order to improve the customer experience, enhance productivity and increase efficiency.

As a further step in its transformation, Cembra simplifies its organisational structure and now serves its customers through two business lines: Lending and Payments. The Lending business line comprises the personal loans and auto businesses and is led by Peter Schnellmann, previously Chief Sales and Distribution Officer. Christian Stolz, previously CEO of CembraPay (formerly Byjuno), heads the Payments business line, which includes the credit cards and BNPL businesses. In line with the new organisational structure, Cembra will introduce segment reporting on its Payments and Lending business lines from the 2024 financial year on.

In addition, Cembra further leverages the technology and services expertise of its highly qualified team in Riga, Latvia. The team will be expanded to provide services within the Group. Furthermore, Cembra is looking into outsourcing certain customer service processes.

With these measures the company plans to reduce its workforce to around 830 full-time equivalents by the end of 2024 (31 December 2023: 902). Cembra aims to implement these changes through natural attrition and early retirements as far as possible. Where redundancies are unavoidable people affected will be supported by a social plan. A customary consultation process with employee representatives is being initiated.

Outlook

For the 2024 financial year, Cembra 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 confirms its mid-term targets through 2026.¹

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.



Franco Morra
Chairman



Holger Laubenthal
CEO

¹ ROE >15% from 2025 on; dividend increasing from 2024 on based on earnings growth; Tier 1 capital ratio target >17%

Key figures

Key figures

At 31 December (in CHF millions)	2023	2022
Net interest income	347.2	356.2
Commission and fee income	168.5	152.7
Net revenues	515.7	508.9
Provision for losses	-56.9	-40.9
Total operating expenses	-262.6	-257.5
Net income	158.0	169.3
Total assets	8,088	7,624
Net financing receivables	6,687	6,520
Personal loans	2,370	2,387
Auto leases and loans	3,147	2,975
Credit cards	1,028	1,045
BNPL	141	114
Shareholders' equity	1,250	1,274
Return on shareholders' equity (ROE)	12.5%	13.7%
Net interest margin	5.2%	5.5%
Cost/income ratio	50.9%	50.6%
Tier 1 capital ratio	17.2%	17.8%
Employees (full-time equivalents)	902	929
Credit rating (S&P)	A-	A-
Basic earnings per share (in CHF)	5.39	5.77
Dividend per share (in CHF)	4.00	3.95
Book value per share (in CHF)	41.67	42.47
Share price (in CHF)	65.60	76.90
Market capitalisation	1,961	2,307

The Annual Report 2023 and Business Review 2023 are available at www.cembra.ch/investors. Subscribe to our news alert service: www.cembra.ch/newsletter-e

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